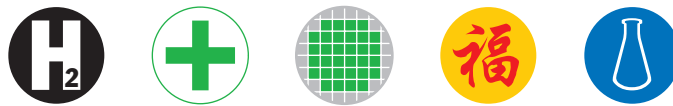


P R A X A I R 2 0 0 2 A N N U A L R E P O R T



T H E R I G H T C O M B I N A T I O N






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PRAXAIR AT A GLANCE

Praxair's products, services and technologies are used by almost 1 million customers in 40 countries. A Fortune 500 company, Praxair is the largest industrial gases supplier in North and South America, is rapidly growing in Asia, and has strong, well-established businesses in Southern Europe. Our primary products are oxygen, nitrogen, argon, helium, hydrogen, electronics gases and a wide range of specialty gases. A subsidiary, Praxair Surface Technologies, supplies high-performance coatings that protect metal parts from wear, corrosion and high heat. All together, Praxair serves approximately 25 industry segments as diverse as healthcare and petroleum refining; computer-chip manufacture and beverage carbonation; fiber-optics and steel making; and aerospace, chemicals and water treatment.

In a year when the total return on the Standard & Poor's 500 Index was down more than 22%, the total return on Praxair's stock was up 6%.

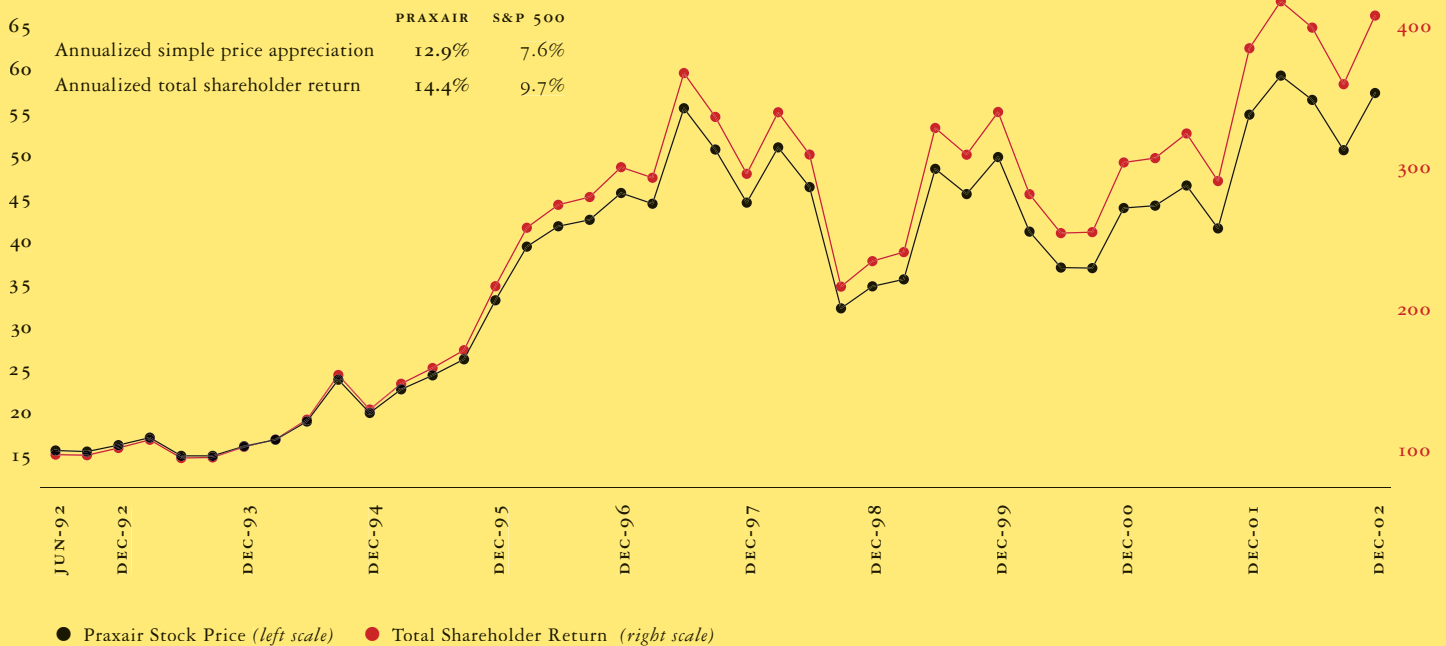
In a year when most companies hunkered down, waiting for the economy to recover, Praxair forged ahead with its growth programs, gaining new business in its target markets.

In a year when stagnant economies kept the pressure on sales growth, Praxair pressed on with its global Six Sigma productivity improvement initiative to boost customer service and streamline operations, and increased return on capital to 13.4% from 12.7% in the previous year.

In short, during 2002 Praxair demonstrated that it has the right combination of products and services, technologies and skills, local savvy and global reach, strategic vision and ability to execute to compete successfully — in spite of tough economic conditions.

The year capped Praxair's first decade as an independently-traded company on the New York Stock Exchange – a decade of growth and achievement by a team of people around the world recognized for their expertise and integrity, and who are committed to future decades of success for Praxair and its shareholders

PRAXAIR STOCK PERFORMANCE 1992-2002



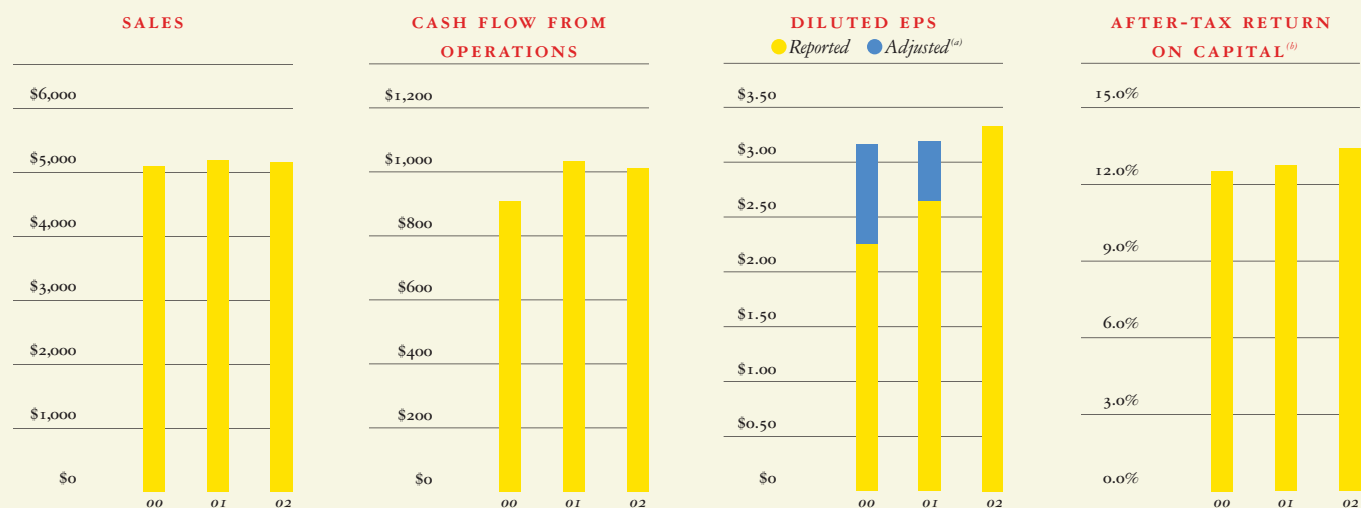
FINANCIAL HIGHLIGHTS

(Dollar amounts in millions, except per share data)

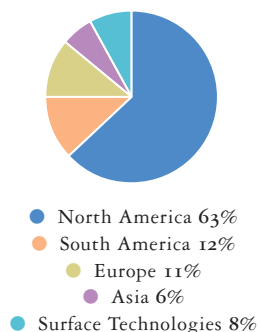
Year Ended December 31,	2002	2001	2000
FOR THE YEAR			
<i>Reported:</i>			
Sales	\$5,128	\$5,158	\$5,043
Operating Profit	\$ 923	\$ 800	\$ 707
Income before accounting changes	\$ 548	\$ 432	\$ 363
Diluted earnings per share	\$ 3.33	\$ 2.64	\$ 2.25
<i>Adjusted:^(a)</i>			
Operating profit	\$ 923	\$ 908	\$ 899
Income before accounting changes	\$ 548	\$ 522	\$ 509
Diluted earnings per share	\$ 3.33	\$ 3.19	\$ 3.16
OTHER INFORMATION AND RATIOS:			
Cash flow from operations	\$1,001	\$1,020	\$ 899
Capital expenditures	\$ 498	\$ 595	\$ 704
Cash flow from operations-to-debt ratio	36.4%	34.1%	28.6%
After-tax return on capital ^(b)	13.4%	12.7%	12.5%
Return on equity ^(b)	22.8%	21.6%	21.9%

^(a) Adjusted amounts for 2001 and 2000 exclude goodwill amortization and special items. Refer to the Appendix on page 63 for reconciliations to reported amounts.

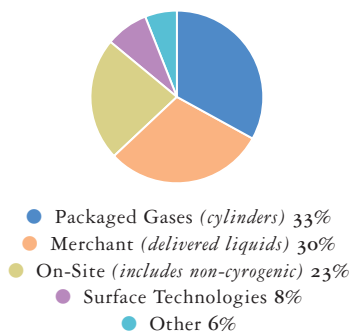
^(b) Refer to the Appendix on page 63 for definitions.



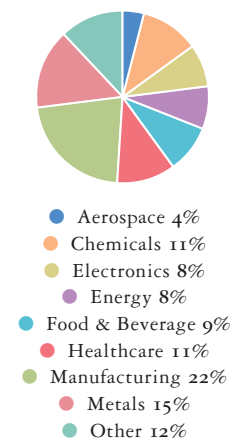
2002 SALES BY BUSINESS SEGMENT



2002 SALES BY DISTRIBUTION METHOD



2002 SALES BY MARKETS SERVED



DEAR SHAREHOLDERS

After an exciting decade of business growth, global expansion and a host of technological advances, I am pleased to report that the Praxair team quite rightly takes a great deal of pride in the strong, resourceful and innovative company it has built.

And our employees keep driving forward. It was their dedication and skill which enabled us to successfully navigate a difficult business environment during 2002. Continued sluggish economic growth worldwide tested our business acumen. The year was also marked by the well-publicized misdeeds of a number of major U.S. corporations, which encouraged us to refresh our longstanding commitment to the highest standards of business integrity.

Even though we firmly believe our existing governance guidelines had served our shareholders extremely well, Praxair's board of directors conducted an extensive benchmarking review of other corporate governance practices. Our study reaffirmed our belief. Praxair did indeed have good governance in place, but we moved quickly to implement some additional changes (see sidebar on page 6). These changes go beyond the requirements of recent legislation and regulation. Praxair has a strong, knowledgeable and active group of independent directors who have frequent interaction with the management team and provide valuable advice and counsel throughout the year. I expect these changes will further strengthen the relationship.

On the business side, I am pleased to report that during 2002 Praxair led the industrial gases industry in earnings growth and return on capital. Although sales were essentially flat with the previous year, adjusted income before accounting changes was up 5%, and return on capital was 13.4%. Total shareholder return on Praxair stock was up 6% in a year when the total return on the Standard & Poor's Index was down 22%.

The fact that we accomplished this in a difficult economic environment is testimony to the sustainability of our business strategy. The combination of profitable growth platforms, a strong base business, and rigorous financial and operational discipline has provided our shareholders with solid value in a difficult investment environment.

PROFITABLE GROWTH

We made significant strategic advances in positioning Praxair for growth, shifting more of our portfolio into faster-growing market segments. Praxair Healthcare Services continued to expand in the U.S., acquiring four homecare companies, the largest of which is Alpine Medical, LLC, which serves the Pennsylvania, Delaware and New Jersey area. Coupled with Praxair's already established hospital business in this region, these acquisitions brought us closer to our objective of becoming the premier provider of respiratory services from the hospital environment to the patient's home.

In response to the U.S. Food and Drug Administration's emphasis on the safety of medical gases, we launched the *Medipure*[™] brand of medical gases. The brand is designed to reassure our distributors and large hospital accounts that Praxair's products and services reflect a paramount level of purity, consistency and compliance with government regulations.

In the petroleum refining market, Praxair won 80% of the new hydrogen business awarded along our U.S. Gulf Coast pipeline. We signed supply agreements with BP and, shortly after year-end, with Motiva, and will build new hydrogen plants to support these and other contracts we expect to sign in the near future. The first plant is scheduled to start up in 2004. Refiners' demand for hydrogen is expected to increase by nearly 20% per year through 2006 based on the need for clean-burning, low-sulfur gasoline and diesel fuels to comply with new Environmental Protection Agency regulations.

Environmental Protection Agency regulations also are the impetus for Praxair's development of advanced, proprietary low-NOx (nitrogen oxide) burner technology for coal-fired utility and industrial boilers. We will be commercializing this technology during 2003. Utilizing oxygen-enhanced combustion, one of Praxair's core technologies, the patent-pending burner technology will provide a cost-effective means to significantly reduce harmful emissions while achieving cost savings compared to other pollution-control options.

Praxair's patented *CqJet*[®] technology represents yet another high-growth initiative: technology licensing. About 60 electric-arc-furnace steel producers around the world have licensed this technology, and test results of the first installation at an integrated steel mill exceeded our customer's expectations in terms of efficiency gains and cost reductions. Our licensing agreements are designed to allow Praxair to share in the savings achieved. We are in various stages of discussion with about a dozen integrated steel companies about licensing this technology.

To accelerate sales growth in the electronics market, Praxair Electronics will focus on four areas of support for the semiconductor industry: process consumables and services; facilities infrastructure and utilities services; chamber components; and spare parts logistics services. While the near-term outlook for electronics in general appears to be weak, our unique components businesses should allow Praxair to perform better than the overall industry.

STRONG BASE BUSINESS

Looking at our business on a geographic basis, our North American businesses performed well, although even the modest economic recovery originally predicted for 2002 did not materialize. Praxair Canada and Praxair Mexico reported strong sales and operating profit, while in the U.S. price increases and productivity improvements were able to partially offset the effect of sluggish volume demand in most markets. Our North American packaged gases business held its own in a particularly weak segment of the economy. Variable margins in this business have improved as a result of our emphasis on gases sales over hardgoods, as well as on improvements in productivity, cylinder efficiency and distribution.

Praxair is the only major, fully-integrated industrial gas company with national coverage in the U.S., the world's largest industrial gases market. To take advantage of this position, our bulk and packaged gases businesses are collaborating on a strategy to present a "single face" to customers.

Our business in South America, representing about 12% of total sales, was negatively impacted by a weak currency and economic uncertainty. Nevertheless, volumes held steady across most of our target markets and sales, excluding currency effects, increased by 16%. The management team in Brazil has done an excellent job of reducing capital expenditures and maximizing cash flow. The business is developing new sources of less capital-intensive growth, such as service offerings in wastewater treatment and recycling, site-gas management, pipeline maintenance, and metal fabrication markets.

Our European business had an excellent year, increasing sales by almost 10% and operating profit by 17%, magnified by favorable currency effects. Volumes and pricing were up. In Spain, infrastructure investments have fueled demand for on-site liquid oxygen and liquid argon from steel mini-mills and aluminum producers serving the construction industry. New business also was gained in the food and beverage and

welding markets. Consistent with our strategy to narrow our geographic focus, shortly after year-end we finalized an agreement to sell our business in Poland for \$50 million in cash.

Sales in Asia, up 27% including consolidations, reflected that region's continued growth, particularly in China. The success of our activities over the past few years has enabled Praxair to establish a leading supply position among industrial gas companies competing in China. In 2002, we started up a plant in Zhang Jiang Hi-Tech Park, a major semiconductor complex near Shanghai, and formed a joint venture to supply a new petrochemical complex in Caojing.

Praxair Surface Technologies results reflected continued weakness in the general aviation and coatings markets, but we gained important new business with GE Aircraft Engines that will enhance our product offering and

expand coatings capabilities for gas turbine airfoils in Indianapolis and Singapore.



OFFICE OF THE CHAIRMAN

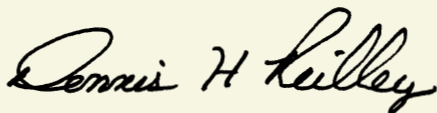
(AT RIGHT) DENNIS H. REILLEY, *Chairman, President and Chief Executive Officer*
(OTHERS, LEFT TO RIGHT) STEPHEN F. ANGEL, *Executive Vice President,*
JAMES S. SAWYER, *Vice President and Chief Financial Officer,*
PAUL J. BILEK, *Executive Vice President,*
THOMAS W. VON KRANNICHFELDT, *Executive Vice President*

SAFETY AND PRODUCTIVITY

Our continuing focus on helping employees recognize behavior that puts them at risk played a large role in the 15% improvement in Praxair's worldwide recordable injury rate compared to 2001. Sadly, three employees lost their lives in on-the-job accidents during the year, and we have redoubled our efforts to avoid such tragedies in the future. A new worldwide initiative focused on operational discipline is being launched in 2003. This approach is designed to promote rigorous adherence to policies and procedures in order to avoid even the potential for injury.

The deployment of the Six Sigma methodology in Praxair businesses around the world picked up momentum over the past year. Scores of employee teams throughout the organization are working on more than 800 projects. Savings from Six Sigma activities totaled almost \$34 million in 2002, and we expect they will contribute even more savings in the future. As an incentive, we have communicated to employees that more of our career-advancement opportunities will go to best-performing people who also demonstrate success using Six Sigma methodologies.

In closing, I believe we have in place the right combination of growth platforms and core businesses; products, services and technologies; and geographic focus and global capabilities to take Praxair to the next level of performance. We will continue to emphasize earnings growth, return on capital and cash flow. I am confident that our energized employee team and our new opportunities for growth, combined with strong performance in our base businesses, will allow Praxair to continue to prosper and bring value to our shareholders.



DENNIS H. REILLEY

Chairman, President & Chief Executive Officer

February 12, 2003

NEW GOVERNANCE PRACTICES

Effective January 3, 2003, changes in corporate governance and practices of Praxair's board of directors were adopted which exceed the requirements of the Sarbanes-Oxley legislation and proposed New York Stock Exchange rules. These changes include:

- *a new position of executive session presiding director will serve as chairman of quarterly meetings of the non-management directors;*
- *a definition of "director independence" that stresses a minimum relationship with the company (Nine of the 10 Praxair directors are independent, and all members of the audit, compensation, and governance and nominating committees are independent. Praxair's chairman, president and chief executive officer is the only non-independent member of the board);*
- *rotation of board committee members and chairpersons every three to five years;*
- *each director, within five years of election, is required to hold Praxair shares equal in value to five times the base annual cash retainer (Praxair has had stock-ownership guidelines for its executives and top 100 managers for more than 10 years);*
- *no member of the audit committee shall serve on more than two additional public company audit committees;*
- *the audit committee will limit non-audit engagements of the company's independent accountants.*

COMPLIANCE WITH LAWS AND BUSINESS INTEGRITY AND ETHICS POLICY

Praxair's board of directors also has approved an updated "Compliance with Laws and Business Integrity and Ethics Policy" which is available on the internet at www.praxair.com>CorporateResponsibility>Governance.



WITH AN EXTENSIVE PIPELINE INFRASTRUCTURE ALREADY SUPPLYING
MOST OF THE REFINERS ALONG THE U.S. COAST,
PRAXAIR IS IN A STRONG POSITION TO MEET THE INCREASED
DEMAND FOR HYDROGEN



HYDROGEN

Demand for hydrogen among refiners is expected to increase by almost 20% annually over the next three or four years in response to clean-fuel requirements of the U.S. Environmental Protection Agency. Praxair is expanding its supply capabilities along our 300 miles of hydrogen pipeline on the U.S. Gulf Coast by building new hydrogen plants, beginning in 2003. These plants will support new agreements with BP and Motiva as well as other customers along the pipeline. During the year we also doubled the capacity of our hydrogen pipeline between Houston and Texas City, Texas, by exchanging pipeline assets with Valero.

Hydrogen also plays a key role in the development of alternative fuels, and over the past decade, Praxair has worked with materials providers, device suppliers, end-use customers and the U.S. government on the development of new fuel technologies. To provide fuel for drivers of fuel-cell powered vehicles, Praxair has teamed up with BP to design, build and operate a hydrogen fueling

station at Los Angeles International Airport, scheduled to start up in late 2003. The project combines Praxair's expertise in safely producing, handling and delivering hydrogen with BP's experience with consumer retail fuel sites. Much of the funding for the project comes from a cooperative agreement with the U.S. Department of Energy and a grant from the California South Coast Air Quality Management District. In a related

activity, during 2002 Praxair was selected as the exclusive hydrogen supplier for Coleman Powermate's new *AirGen*TM fuel cell generator. The generator can be used by industrial customers as a back-up power source to keep mission-critical computer and phone systems operating during power outages.

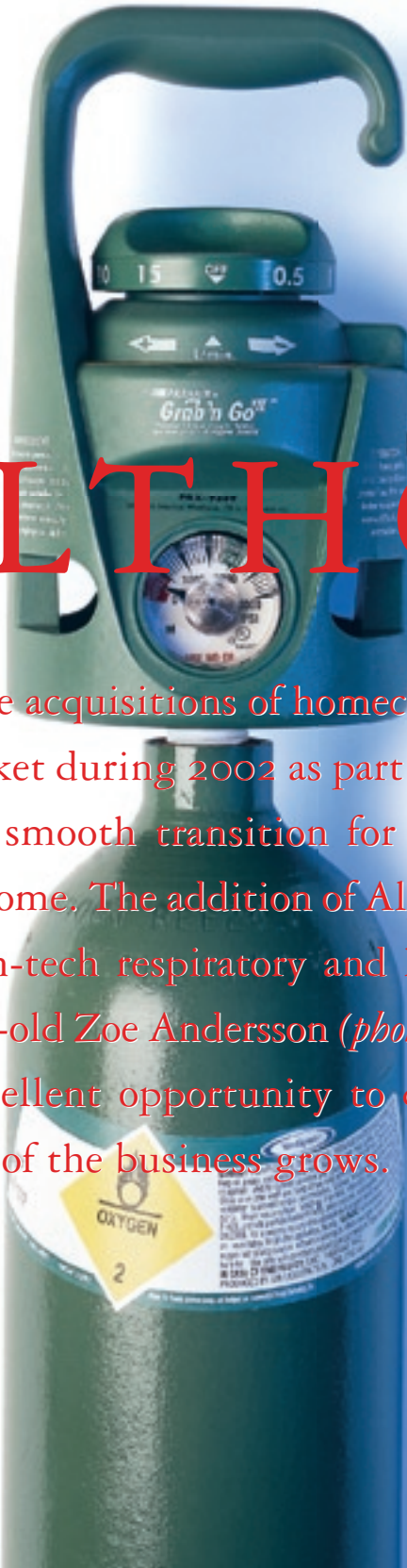





HEALTHCARE IS ONE OF THE LARGEST
GASES MARKETS WORLDWIDE, AND PRAXAIR IS FOCUSING ON
THE RAPIDLY-GROWING HOMECARE SEGMENT

HEALTHCARE

Praxair continued to make acquisitions of homecare companies in the North American healthcare market during 2002 as part of its strategy to expand its business by providing a smooth transition for patients moving from the hospital environment to home. The addition of Alpine Medical's sophisticated ventilator and other high-tech respiratory and homecare services, used by patients such as three-year-old Zoe Andersson (*photo, opposite*), to the company's portfolio provides an excellent opportunity to differentiate Praxair in the marketplace as this piece of the business grows.



A young child with brown hair, wearing a red long-sleeved shirt and purple pants, is sitting on a wooden floor, focused on playing with colorful toys. To the left is a white dresser with a vase of flowers on top. In the background, there is a window with white trim and a white door. To the right, a medical oxygen concentrator is visible, suggesting a home care environment. The room has yellow walls and a wooden floor.

At the same time, Praxair continued to enhance its strong hospital business, entering into a multi-year agreement with Novation, one of the leading supply-chain management companies in the U.S. Under this agreement, Praxair will supply bulk and cylinder *Medipure*TM medical gases, accessories, supplies and services to Novation's member hospitals across the country. Novation cited Praxair's integrated approach in both the hospital and homecare arena as a factor in awarding Praxair the business.


In addition to *Medipure* medical gases, Praxair offers hospitals services that facilitate the transfer of patients requiring ongoing respiratory care to their home environment; the *Grab 'n Go*[®] portable medical oxygen system; environmental monitoring; certification testing; medical gas evaluation; hood certification; oxygen shutdown services; turnkey gas-delivery installations and magnetic resonance imaging products.



PRAXAIR DIFFERENTIATES ITSELF IN THE ELECTRONICS MARKET
BY OFFERING PRODUCTS AND SERVICES
TO SEMICONDUCTOR MANUFACTURERS THAT GO BEYOND
ITS TRADITIONAL PORTFOLIO OF GASES

ELECTRONICS

Although gases sales in the electronics business continued to feel the pressure of the worldwide slump in semiconductor production, sales of other process materials and infrastructure services were up. We saw good demand for sputtering targets and electrostatic chucks (*photo, opposite*) used in the production of semiconductor chips. To meet the growing demand for advanced physical deposition (PVD) products, Praxair expanded its manufacturing and technical support capabilities in this area. And we acquired Madison CMP Group, Inc., a producer of polishing belts (*photo, this page*) and pads used in the chemical mechanical planarization (CMP) process, one of the fastest-growing segments of the semiconductor market.



At the same time, consistent with Praxair Electronics' strategy is to grow with its global customers, we opened an advanced filling center in Oevel, Belgium, that will supply ultra-high-purity semiconductor process gases to customers throughout Europe. And to serve the rapidly growing semiconductor industry in China, Praxair (Shanghai) Semiconductor Gases Co. started

up an air separation plant and specialty gases facility in Zhang Jiang Hi-Tech Park located in Pudong, Shanghai. These facilities will supply the first of three semiconductor fabs in the park, which is expected to expand to include more fabs over the next several years. Praxair Chemax, a joint venture, started up the first silane transfill facility in Taiwan to serve customers throughout Asia. Silane is used in the production of thin-film transistor liquid-crystal displays and in semiconductor manufacturing.



PRAXAIR ENJOYED SALES AND OPERATING-PROFIT
GROWTH IN ASIA, THANKS IN LARGE PART TO
ITS GROWING BUSINESS IN CHINA WHERE IT HAS
ESTABLISHED A LEADING POSITION



In addition to the Praxair Electronics projects mentioned on the previous pages, it was a busy year for Praxair China in other markets. Demonstrating its continuing commitment to the rapidly growing chemical market, Praxair increased its equity stake in Beijing Praxair Inc., a joint venture with Beijing Chemical Industry Group Co., from 50% to 56%. In addition, Praxair formed a 50-50 joint venture with another industrial gases company to support development of the Shanghai Chemical Industry Park, the first and largest chemical industry zone designated by the Chinese government. A number of world-class chemical companies plan to build plants in the park. Under yet another agreement, Praxair and Guangming Research & Design Institute of the Chemical Industry will develop and distribute specialty gases in China and to other markets in Southeast Asia.

For China's rapidly growing steel industry segment, Praxair will build a new air separation unit at our existing joint venture, Praxair Shaogang Co., Ltd. in Guangdong Province. The new unit will meet the increased demand generated from two new steel furnaces under construction.

A second Praxair helium trans-fill facility in China, in Kunshan, Jiangsu Province, started up. The facility will provide helium for several markets including magnetic resonance imaging, optical-fiber manufacturing, semiconductor manufacture, welding, and other applications.

Just after year-end, we announced that the regional headquarters of Praxair Asia will be relocated from Singapore to Shanghai – yet another sign of the importance of China to Praxair's future growth.





IN ITS QUEST FOR LESS CAPITAL-INTENSIVE
SOURCES OF GROWTH, PRAXAIR IS
LEVERAGING ITS VALUE-ADDED TECHNOLOGY-
DEVELOPMENT CAPABILITIES



TECHNOLOGY

Praxair has long been an industry leader in introducing new technologies that offer customers quality, efficiency, environmental and cost-reduction benefits. There are examples in virtually every market Praxair serves: emission-reducing combustion technologies for steel and glass producers; recovery and recycling of helium in fiber-optics; oxygen enrichment to recover sulfur in petroleum refining; oxygenation in wastewater treatment; oxygen to replace chlorine in paper-making. Continuing in this tradition, during 2002 we successfully demonstrated a patent-pending combustion system that reduces nitrogen oxide emissions in coal-fired utility boilers by up to 70%.

Nitrogen oxides lead to ground-based ozone and smog, and a number of federal, state and local regulations call for substantial reductions by mid-2005. This technology also provides cost savings, and is easy to retrofit. Commercial implementation is planned in 2003.

To meet the need for new materials in the electronics industry, we are in the early stages of commercializing supercritical carbon dioxide and chemical vapor deposition materials used in various stages of the next generation of semiconductor production.

Praxair's patented *CoJet*[®] gas-injection technology was successfully installed at the first integrated steel mill, at Usiminas in Brazil. Test results confirmed the significant productivity-improvement and cost-saving benefits of this system. To further enhance this technology, we formed a joint venture, Praxair-Soudobeam, which produces

unique, patented lance tips that will be integrated with the *CoJet* technology. During 2002, an additional 15 electric-arc furnace steel producers licensed the *CoJet* technology, bringing to total to 60 worldwide.

Also undergoing customer testing are proprietary electrically-driven ceramic membrane systems that produce high-pressure, high-purity oxygen for healthcare, laser welding and other industrial applications.

We will begin to commercialize electrically-driven pulse-tube refrigeration during 2003. This technology uses acoustic power to generate refrigeration at very low temperatures, without refrigerants and with few moving parts, substantially lowering manufacturing and maintenance costs and extending equipment life compared to conventional refrigeration systems.

Photo this page: Electric utilities will benefit from Praxair's new low-NOx technology.

Opposite: In 2002 Praxair introduced nitrogen-generation modules based on Praxair's patent-pending membrane process and Hankison International's pre-filtration and design technology. The modules are a cost-effective, point-of-use source of supply for small-volume users.

MARKET PROFILES

In addition to the offerings highlighted in this table, Praxair supplies customers in all markets with the full range of atmospheric, process and specialty gases. Praxair also offers a comprehensive portfolio of supply systems tailored to customers' needs. The 12% of sales not covered below is generated in a variety of smaller markets.

MARKETS	PRAXAIR OFFERINGS	CUSTOMER BENEFITS
AEROSPACE <i>4% of total sales</i>		
Spacecraft manufacture & launch	<ul style="list-style-type: none"> • Full range of cryogenics, propellants & gases; electric propulsion system gases • Cryogenic fuel-densification systems • Metal-joining technology, supplies & services • Temporary & permanent supply systems; high-pressure systems • Site-gas and utility-management services • Safety training • Investment-reducing facility leases 	<ul style="list-style-type: none"> • Single source for supply systems & products • Reduced costs
Aircraft manufacture & operation	<ul style="list-style-type: none"> • On-board oxygen membrane systems • Membrane nitrogen for fuel-tank inerting, filling tires & struts, pressurizing • Nitrogen-enriched air systems • Refrigeration systems for fuel conditioning 	<ul style="list-style-type: none"> • Single source for systems & products • Enhanced safety • Experience with FAA inerting standards • Reduced costs
Aircraft engine & airframe component overhaul and repair	<ul style="list-style-type: none"> • High-performance surface coatings • Thermal spray systems, equipment & consumables 	<ul style="list-style-type: none"> • Extended product life • Increased productivity • Reduced costs
CHEMICALS <i>11% of total sales</i>		
	<ul style="list-style-type: none"> • Site-gas management services • Environmental solutions for wastewater, VOC's & solid waste streams • Gas-based productivity solutions • Maintenance & repair gases & equipment • Clean dry-air systems • Utility management; co-generation • Pipeline & plant services - purging, blanketing, drying, cooling, heating, pressure testing, leak detection, hot stripping, pipe/furnace cleaning & inspecting • Specialty gases for process control and analytical applications 	<ul style="list-style-type: none"> • Reliable supply • Increased productivity • Environmental compliance • Lower production & maintenance costs • Consistent product quality • Improved safety • Fast, safe turnarounds • Longer equipment life
Biotechnology/ Life Sciences/ Pharmaceutical	<ul style="list-style-type: none"> • Cryogenic equipment • Low-temperature process refrigeration • Ultra-pure instrument & process gases • Supercritical extraction materials; high-accuracy traceable calibration mixtures 	<ul style="list-style-type: none"> • Sample preservation • FDA compliance
ELECTRONICS <i>8% of total sales</i>		
Semiconductor fabrication Process consumables	<ul style="list-style-type: none"> • Full line of ultra-high-purity process gases • Physical vapor deposition (PVD) sputtering targets & reclamation services • Computer disk and chemical mechanical planarization (CMP) slurries and polishing pads & belts • Chemical vapor deposition (CVP) precursors • On-site gases & chemicals management • Design & installation of advanced bulk & on-site production systems • High-flow bulk specialty-gas delivery systems 	<ul style="list-style-type: none"> • Single source for semiconductor process gases, delivery systems, materials & related services • Global distribution, local expertise • Lower total cost of ownership • Improved productivity • Reduced environmental impact • Reliable supply
Facilities infrastructure	<ul style="list-style-type: none"> • Analytical systems & services • Spare parts & consumables management • Component logistics 	
Chamber components	<ul style="list-style-type: none"> • Ceramic coatings; Anodized components; Electrostatic chucks 	
Fiber-optics	<ul style="list-style-type: none"> • Helium, rare gases, specialty gases • Total materials management • Helium-recovery technology 	<ul style="list-style-type: none"> • Global distribution; local expertise • Reliable supply • Cost reductions
ENERGY <i>8% of total sales</i>		
Petroleum Refining	<ul style="list-style-type: none"> • Extensive hydrogen, oxygen, nitrogen pipeline systems • Specialty gases for process control and analytical applications • Gas-management services • Pipeline & plant services - purging, blanketing, drying, cooling, heating, pressure testing, leak detection, hot stripping, pipe/furnace cleaning & inspecting • Maintenance & repair gases & equipment • Utility management; co-generation • Wastewater treatment gases & equipment 	<ul style="list-style-type: none"> • Reliable supply • Environmental compliance • Increased yield • Improved product quality • Lower maintenance costs • Longer equipment life
Oil & Gas Recovery	<ul style="list-style-type: none"> • Mobile nitrogen pumping services • Foam fracturing applications • Cryogenic nitrogen injection & rejection services • Portable enhanced coal bed methane recovery systems • Nitrogen injection units; carbon dioxide rejection • Clean dry air systems 	<ul style="list-style-type: none"> • Reliable supply • Environmental compliance • Increased yield • Lower maintenance costs

MARKETS	PRAXAIR OFFERINGS	CUSTOMER BENEFITS
ENERGY <i>continued</i>		
Gas turbines	<ul style="list-style-type: none"> • High-performance coatings 	<ul style="list-style-type: none"> • Longer equipment life
Coal-fired utility & industrial boilers	<ul style="list-style-type: none"> • Oxygen-enhanced combustion technology 	<ul style="list-style-type: none"> • Lower nitrogen oxide emission • Lower operating costs
FOOD & BEVERAGE <i>9% of total sales</i>		
	<ul style="list-style-type: none"> • Food laboratory offering testing services and a data resource center • Complete line of cryogenic freezers; equipment design and development • New low-temperature mechanical refrigeration technology • Produce washing and disinfection technology • Beverage carbonation services • Modified atmosphere packaging systems • Wastewater treatment gases & equipment 	<ul style="list-style-type: none"> • Improved food safety and product quality • Flavor preservation • Extended shelf life • Increased productivity • Enhanced yield savings • Improved distribution efficiencies
HEALTHCARE <i>11% of total sales</i>		
Home care	<ul style="list-style-type: none"> • Home oxygen therapy via stationary oxygen concentrators and liquid systems, with high-pressure cylinder back-up. • On-site coordinator program to facilitate transfer of patients from hospital to home • Sleep apnea equipment & treatment • Durable medical equipment – wheelchairs, hospital beds, walkers & canes, patient lift devices, bathroom aids • Home pharmacy program – respiratory medications & nebulizers • Infusion therapy – medication mixtures for intravenous treatment • High-tech respiratory ventilators and tracheostomy care 	<ul style="list-style-type: none"> • Life-saving treatment • Physical comfort • Home environment • Reduced costs (vs. hospital stay) • Highly trained healthcare professionals • Continuity of care
Hospitals	<ul style="list-style-type: none"> • <i>Medipure</i>TM gases & related equipment • Site gas-management services • Design/installation of piping & related equipment • Preparation of third-party compliance audits; compliance training & certification • Laboratory gases & environmental services • Cryogenic gases, dry ice & equipment for biological shipment & storage, dermatology & magnetic resonance imaging (MRI) 	<ul style="list-style-type: none"> • Single source for medical gases, equipment and services from hospital to home • Improved efficiency and productivity • Reduced costs • Consistent product quality
MANUFACTURING <i>22% of total sales</i>		
Metal Fabrication	<ul style="list-style-type: none"> • <i>StarSolver</i>[®] welding and productivity enhancement program • Laser, robotics & membrane technologies; automation specialties • Argon, argon blends & carbon dioxide shielding gases • Welding & cutting equipment, consumables & accessories • Safety products • Technical support & training • Site gas-management services 	<ul style="list-style-type: none"> • Increased productivity • Lower overall costs • Improved product quality • Environmental compliance • Increased safety • Reduced rework • Extended equipment life • Access to technical expertise
Heat Treating	<ul style="list-style-type: none"> • Protective atmospheres in furnaces • Automated gas-control systems • Technical support, process and safety information 	<ul style="list-style-type: none"> • Improved product quality • Reduced costs • Improved reliability
Glass	<ul style="list-style-type: none"> • Oxy-fuel combustion technologies 	<ul style="list-style-type: none"> • Environmental compliance • Lower energy consumption
Water Treatment	<ul style="list-style-type: none"> • Patented <i>I-SO</i>TM oxygenation technology to treat industrial wastewater • Gases and equipment for pH control 	<ul style="list-style-type: none"> • Higher treatment rates • Reduced volatile organic compound emissions • Improved process control and peak shaving
Pulp & Paper	<ul style="list-style-type: none"> • Brownstock washing with carbon dioxide • Oxygen delignification • Lime kiln enrichment with oxygen Protective atmospheres 	<ul style="list-style-type: none"> • Environmental compliance • Improved product quality • Increased productivity
Machine parts, printing rolls	<ul style="list-style-type: none"> • High-performance coatings • Thermal-spray-coated rolls & parts for flexographic, offset & gravure printing 	<ul style="list-style-type: none"> • Improved efficiencies • Extended equipment life • Improved product quality • Reduced costs
METALS <i>15% of total sales</i>		
	<ul style="list-style-type: none"> • Process analysis • Gas & energy-management services • <i>CoJet</i>[®] gas-injection; argon-oxygen decarburization process & other patented & proprietary technologies for steel, stainless steel & aluminum production • Nitrogen technologies for cold curing, protective atmospheres, inerting and desulfurization • Waste-management systems • Welding technologies and gases 	<ul style="list-style-type: none"> • Reliable supply • Improved efficiencies • Improved product quality • Reduced costs

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CONSOLIDATED STATEMENT OF INCOME

(Dollar amounts in millions, except per share data)

<i>Year Ended December 31,</i>	2002	2001	2000
Sales	\$5,128	\$5,158	\$5,043
Cost of sales, exclusive of depreciation and amortization	2,950	3,060	3,075
Selling, general and administrative	751	699	683
Depreciation and amortization	483	499	471
Research and development	69	66	65
Other income (expenses) – net	48	(34)	(42)
OPERATING PROFIT	923	800	707
Interest expense	206	224	224
INCOME BEFORE TAXES	717	576	483
Income taxes	158	135	103
INCOME OF CONSOLIDATED ENTITIES	559	441	380
Minority interests	(20)	(18)	(27)
Income from equity investments	9	9	10
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	548	432	363
Cumulative effect of accounting changes	(139)	(2)	—
NET INCOME	\$ 409	\$ 430	\$ 363
BASIC EARNINGS PER SHARE:			
Income before cumulative effect of accounting changes	\$ 3.36	\$ 2.68	\$ 2.28
Cumulative effect of accounting changes	(0.85)	(0.01)	—
Net income	\$ 2.51	2.67	\$ 2.28
DILUTED EARNINGS PER SHARE:			
Income before cumulative effect of accounting changes	\$ 3.33	\$ 2.64	\$ 2.25
Cumulative effect of accounting changes	(0.85)	(0.01)	—
Net income	\$ 2.48	\$ 2.63	\$ 2.25
WEIGHTED AVERAGE SHARES OUTSTANDING (000's):			
Basic shares outstanding	162,768	161,510	159,123
Diluted shares outstanding	164,745	163,507	161,092

The accompanying Notes on pages 39 to 59 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

(Millions of dollars)

December 31,	2002	2001
ASSETS		
Cash and cash equivalents	\$ 39	\$ 39
Accounts receivable	860	857
Inventories	277	287
Prepaid and other current assets	110	93
<i>Total Current Assets</i>	1,286	1,276
Property, plant and equipment – net	4,666	4,817
Equity investments	184	198
Goodwill	985	1,136
Other intangible assets	50	44
Other long-term assets	230	244
<i>Total Assets</i>	\$7,401	\$7,715
LIABILITIES AND EQUITY		
Accounts payable	\$ 378	\$ 413
Short-term debt	215	178
Current portion of long-term debt	23	86
Accrued taxes	74	80
Other current liabilities	410	437
<i>Total Current Liabilities</i>	1,100	1,194
Long-term debt	2,510	2,725
Other long-term liabilities	652	551
Deferred credits	635	607
<i>Total Liabilities</i>	4,897	5,077
Minority interests	164	141
Preferred stock	—	20
Shareholders' equity:		
Common stock \$0.01 par value, authorized 500,000,000 shares, issued 2002 – 173,950,375 shares and 2001 – 170,140,567 shares	2	2
Additional paid-in capital	1,965	1,795
Retained earnings	2,593	2,307
Accumulated other comprehensive income (loss)	(1,673)	(1,297)
Less: Treasury stock, at cost (2002 – 11,682,279 shares and 2001 – 7,997,727 shares)	(547)	(330)
<i>Total Shareholders' Equity</i>	2,340	2,477
<i>Total Liabilities and Equity</i>	\$7,401	\$7,715

The accompanying Notes on pages 39 to 59 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Millions of dollars)

Year Ended December 31,	2002	2001	2000
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
OPERATIONS			
Net income	\$ 409	\$ 430	\$ 363
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	483	499	471
Accounting change	139	—	—
Special charges	—	58	158
Deferred income taxes	37	36	35
Other non-cash charges (benefits)	3	(11)	10
Working capital:			
Accounts receivable	6	46	(36)
Inventories	4	20	(13)
Prepaid and other current assets	4	11	(22)
Payables and accruals	(41)	(22)	31
Long-term assets and liabilities	(43)	(47)	(98)
Net cash provided by operating activities	<u>1,001</u>	<u>1,020</u>	<u>899</u>
INVESTING			
Capital expenditures	(498)	(595)	(704)
Acquisitions	(113)	(213)	(290)
Divestitures and asset sales	24	45	106
Net cash used for investing activities	<u>(587)</u>	<u>(763)</u>	<u>(888)</u>
FINANCING			
Short-term debt borrowings (repayments) – net	67	21	433
Long-term borrowings	1,116	273	22
Long-term debt repayments	(1,428)	(483)	(328)
Minority transactions and other	27	(14)	(64)
Issuances of common stock	206	142	124
Purchases of common stock	(276)	(76)	(144)
Cash dividends	(123)	(110)	(98)
Net cash used for financing activities	<u>(411)</u>	<u>(247)</u>	<u>(55)</u>
Effect of exchange rate changes on cash and cash equivalents	(3)	(2)	(1)
Change in cash and cash equivalents	—	8	(45)
Cash and cash equivalents, beginning-of-year	39	31	76
Cash and cash equivalents, end-of-year	<u>\$ 39</u>	<u>\$ 39</u>	<u>\$ 31</u>
SUPPLEMENTAL DATA:			
Taxes paid	\$ 65	\$ 57	\$ 80
Interest paid	\$ 210	\$ 219	\$ 227
Debt reclassifications	\$ —	\$ —	\$ 1,029
Tax benefits from stock option exercises	\$ 23	\$ 20	\$ 5
Acquired debt from acquisitions	\$ —	\$ —	\$ 12
Debt from consolidation of equity company (Note 14)	\$ —	\$ 65	\$ —

The accompanying Notes on pages 39 to 59 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollar amounts in millions, except per share data, shares in thousands)

Activity	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained	Accumulated Other Comprehensive Income(Loss)	Total
	Shares	Amounts		Shares	Amounts	Earnings		
<i>Balance, December 31, 1999</i>	164,215	\$2	\$1,613	5,168	\$(219)	\$1,722	\$ (828)	\$2,290
Net income						363		363
Translation adjustments							(183)	(183)
Comprehensive income								180
Dividends on common stock (\$0.62 per share)						(98)		(98)
Issuances of common stock:								
For the dividend reinvestment and stock purchase plan	73		1					1
For employee savings and incentive plans	2,021		44	(2,054)	84			128
Purchases of common stock				3,816	(144)			(144)
<i>Balance, December 31, 2000</i>	166,309	\$2	\$1,658	6,930	\$(279)	\$1,987	\$(1,011)	\$2,357
Net income						430		430
Translation adjustments							(270)	(270)
Derivatives instruments, net of \$2 million taxes							(4)	(4)
Minimum pension liability, net of \$6 million tax							(12)	(12)
Comprehensive income								144
Dividends on common stock (\$0.68 per share)						(110)		(110)
Issuances of common stock:								
For the dividend reinvestment and stock purchase plan	45		1					1
For employee savings and incentive plans	3,787		136	(619)	25			161
Purchases of common stock				1,687	(76)			(76)
<i>Balance, December 31, 2001</i>	170,141	\$2	\$1,795	7,998	\$(330)	\$2,307	\$(1,297)	\$2,477
Net income						409		409
Translation adjustments							(284)	(284)
Derivatives instruments, net of \$2 million taxes							3	3
Minimum pension liability, net of \$52 million taxes							(95)	(95)
Comprehensive income								33
Dividends on common stock (\$0.76 per share)						(123)		(123)
Issuances of common stock:								
For the dividend reinvestment and stock purchase plan	46							
For employee savings and incentive plans	3,763		170	(1,292)	59			229
Purchases of common stock				4,976	(276)			(276)
<i>Balance, December 31, 2002</i>	173,950	\$2	\$1,965	11,682	\$(547)	\$2,593	\$(1,673)	\$2,340

The accompanying Notes on pages 39 to 59 are an integral part of these financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Praxair's current year financial performance was good in spite of difficult industry and economic conditions in the geographical locations in which it conducts business. Continued focus on pricing and productivity improvements, coupled with the pursuit of growth initiatives and acquisitions, resulted in income before the cumulative effect of accounting changes of \$548 million, a record year for the company. Cash flow from operations was in line with 2001; capital expenditures were reduced from 2001 levels; and debt was reduced.

CONSOLIDATED RESULTS

The following table provides summary data for 2002, 2001 and 2000:

(Dollar amounts in millions)

Year Ended December 31,	2002	2001 ^(a,b)	2000 ^(a,c)
Sales	\$5,128	\$5,158	\$5,043
Gross margin ^(d)	\$2,178	\$2,098	\$1,968
As a percent of sales	42%	41%	39%
Selling, general and administrative	\$ 751	\$ 699	\$ 683
Depreciation and amortization	\$ 483	\$ 499	\$ 471
Other income (expenses) – net	\$ 48	\$ (34)	\$ (42)
Operating profit	\$ 923	\$ 800	\$ 707
Interest expense	\$ 206	\$ 224	\$ 224
Effective tax rate	22%	23%	21%
Income before cumulative effect of accounting changes	\$ 548	\$ 432	\$ 363
Number of employees	25,010	24,271	23,430

^(a) Praxair adopted SFAS 142, which eliminated the amortization of goodwill prospectively in 2002. 2001 reported results included goodwill amortization of \$38 million pre-tax and \$33 million after-tax. 2000 reported results included goodwill amortization of \$33 million pre-tax and \$29 million after-tax.

^(b) 2001 reported results include a pre-tax special charge of \$70 million (\$57 million after-tax) related to restructuring and other actions. The charge was recorded as: \$7 million cost of sales, \$5 million in selling, general and administrative, and \$58 million in other income (expenses) – net (see Note 3 to the consolidated financial statements).

^(c) 2000 reported results include a pre-tax repositioning and other special charges totaling \$159 million and equity income charges of \$2 million (\$117 million after-tax). The charge was recorded as: \$47 million cost of sales, \$21 million in selling, general and administrative, and \$91 million in other income (expenses) – net (see Note 3 to the consolidated financial statements).

^(d) Gross margin excludes depreciation and amortization expense.

Overview – 2002 compared with 2001

Sales in 2002 decreased \$30 million, or 1%, versus 2001. Realized price increases in North and South America and acquisitions in our healthcare portfolio each increased sales by 2%, respectively. Sales in 2002 were reduced 3% from currency devaluations, principally in South America. Overall sales volume declined 1% as manufacturing activity in the United States remained sluggish, but was partially offset by volume gains in Europe and Asia, and in the North American healthcare businesses. Reduced natural gas costs, which Praxair is contractually obligated to pass on to on-site hydrogen customers, decreased sales by 1%, with no impact on operating profit.

Operating profit in 2002 increased \$123 million, or 15%, principally due to the \$70 million special charge recorded in the third quarter of 2001 and the elimination of goodwill amortization in 2002 (2001 reported results included goodwill amortization of \$38 million). Underlying operating profit increased 2% as a result of productivity improvements and benefits from the 2001 restructuring program which outpaced inflationary pressures.

Income before accounting changes increased \$116 million, or 27%, reflecting the after-tax benefits of the improvement in operating profit discussed above and lower interest expense due to debt refinancing at lower rates and debt reductions in 2002.

The number of employees at December 31, 2002 was 25,010, which reflected an increase of 739 employees from December 31, 2001. This increase related primarily to acquisitions (approximately 680 employees) and new service initiatives in Brazil, partially offset by restructuring actions.

Overview – 2001 compared with 2000

Sales increased \$115 million, or 2%, for 2001 versus 2000 due primarily to price improvements in all segments of the business; industrial gases volume growth in Europe and Asia; and acquisitions in North America and Surface Technologies. These increases were largely offset by unfavorable currency impacts in South America, Europe and Asia, and volume declines in North America, South America and in Surface Technologies.

Operating profit increased \$93 million, or 13%, for 2001 versus 2000. This was due primarily to the decrease in special charges; the sales increase described above; productivity improvements in all segments; and contributions from acquisitions in North America and Surface Technologies, largely offset by volume declines, cost inflation and currency translation impacts.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Income before accounting changes increased \$69 million, or 19%, for 2001 versus 2000. This increase was due primarily to the decrease in special charges; lower minority interests; and the slightly improved operating results noted above. The decrease in minority interests is due primarily to the impact of the increase in Praxair's ownership interest in White Martins (See Note 6 to the consolidated financial statements and the South America segment discussion).

The number of employees at December 31, 2001 was 24,271, reflecting an increase of 841 from December 31, 2000. The increase is principally the result of acquisitions (approximately 1,200) and increased service offerings, partially offset by restructuring actions.

Gross Margin

Gross margin in 2002 improved \$80 million, or 4%, versus 2001. Gross margin as a percent of sales improved 1%, to 42%, versus 2001. This improvement reflected realized pricing initiatives in the North and South American segments; worldwide productivity initiatives related to Six Sigma programs; and the benefits of the restructuring program initiated in the third quarter of 2001. A 60 basis point improvement in gross margin, as a percent of sales, was a result of natural gas cost pass-throughs, which lower reported sales, but had no impact on reported gross margins.

Gross margin in 2001 improved \$130 million, or 7%, versus 2000. Gross margin, as a percent of sales, improved 2%, to 41%, versus 2000. Gross margin included a \$7 million and a \$47 million special charge in 2001 and 2000, respectively (see Note 3 to the consolidated financial statements). Gross margin also benefited from price increases and productivity improvements.

Selling, General and Administrative Expenses

As a percent of sales, selling, general and administrative expenses for 2002 were 15% versus 14% for 2001. This increase reflects primarily North American healthcare acquisitions of \$17 million. Other factors include service growth initiatives having a higher proportion of selling, general and administrative costs; higher bad debt expense; and the effects of natural gas pass-through costs on sales.

Selling, general and administrative expenses as a percent of sales was 14% in 2001 and 2000. Increases from acquisitions during 2001 were offset by the benefits realized from productivity-improvement initiatives and lower special charges.

Other Income (Expenses) – Net

Refer to Note 6 to the consolidated financial statements for a summary of the major components of other income (expenses) – net. See Note 3 to the consolidated financial statements for more information regarding special charges.

Other income (expenses) – net in 2002 improved \$82 million versus 2001, due primarily to the \$58 million special charge recorded in 2001 which related primarily to severance and asset write-offs. 2002 included \$17 million of gains on net income hedges (primarily in Brazil) versus \$8 million of such losses in 2001 (primarily in Brazil and Mexico).

Other income (expenses) – net in 2001 improved \$8 million versus 2000. 2001 and 2000 included \$58 million and \$91 million, respectively, of special charges related primarily to severance and asset write-offs. Partially offsetting this improvement were losses on net income hedges in 2001 of \$8 million (primarily Brazil and Mexico), as compared to such gains of \$10 million in 2000 (primarily Europe).

Interest Expense

Interest expense in 2002 declined \$18 million, or 8% versus 2001. The decline in interest expense is primarily due to the refinancing of debt at lower interest rates, and the reduction of debt versus 2001 levels, partially offset by lower capitalized interest. 2002 interest expense included \$15 million of costs from the early retirement of \$300 million of bonds.

Interest expense was flat for 2001 versus 2000.

Income Taxes

The effective tax rate for 2002 was 22% versus 23% for 2001. The decrease is largely attributable to the effects of foreign tax planning and the discontinuation of goodwill amortization in 2002.

The effective tax rate for 2001 was 23% versus 21% for 2000. The increase is primarily attributable to the lower tax benefit from special charges in 2001 versus 2000.

Praxair currently expects the effective tax rate to increase to approximately 24% in 2003. The higher rate is a result of lower earnings contribution from Brazil, which has a lower effective tax rate, and lower forecasted interest expense in the U.S., which is deductible at a 35% rate.

Minority Interests

At December 31, 2002, minority interests consist of minority shareholders' investments in Europe (primarily Rivoira S. p. A. in Italy), North America (primarily within Praxair Distribution) and Asia (primarily China and India). Additionally, Praxair records the dividends on preferred stock in minority interests (\$1 million in 2002, \$2 million in 2001, and \$3 million in 2000).

The increase in minority interest of \$2 million in 2002 versus 2001, is due to the consolidation of joint ventures in Asia (as a result of our increased ownership in joint venture companies in India and China). The decrease in minority interests of \$9 million in 2001 versus 2000 was due primarily to the acquisition of minority interests in White Martins (Brazil) and the lower preferred stock dividends.

Income from Equity Investments

Our significant equity investments are in Belgium, China, Italy and Turkey. Praxair's share of net income from corporate equity investments was flat for 2002 compared to 2001, and decreased slightly to \$9 million in 2001 compared to \$10 million for 2000.

Accounting Changes

In the second quarter of 2002, Praxair completed the initial goodwill impairment tests required for the adoption of SFAS 142. These tests indicated an impairment of goodwill related to previous acquisitions. As a result, a \$139 million non-cash transition charge to earnings was recorded as a cumulative effect of an accounting change, retroactive to January 1, 2002. In the first quarter of 2001, a one-time transition charge of \$2 million was recorded for the adoption of SFAS 133, which established new accounting rules for derivatives. For more information, see Note 2 to the consolidated financial statements.

Related Party Transactions

The company's related parties are primarily unconsolidated equity affiliates. The company did not engage in any material transactions involving related parties that included terms or other aspects that differ from those which would be negotiated with independent parties.

Costs Relating to the Protection of the Environment

Praxair's principal operations relate to the production and distribution of atmospheric and other industrial gases, which historically have not had a significant impact on the environment. However, worldwide costs relating to environmental protection may continue to grow due to increasingly stringent laws and regulations, and Praxair's ongoing commitment to rigorous internal standards. Environmental protection costs in 2002 included approximately \$6 million of capital expenditures and \$14 million of expenses, including \$1 million for remediation projects. Praxair anticipates that future environmental protection expenditures will be approximately \$2 to \$3 million higher in 2003 due to the construction of new hydrogen plants, but will return to 2002 levels, thereafter. Based on historical results and current estimates, management does not believe that environmental expenditures will have a material adverse effect on the consolidated financial position or on the consolidated results of operations or cash flows in any given year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEGMENT DISCUSSION

The following summary of sales and operating profit by segment provides a basis for the discussion that follows:

(Millions of dollars)

Year Ended December 31,	2002	2001	2000
SALES:			
North America	\$3,351	\$3,434	\$3,294
South America	632	674	727
Europe	589	537	542
Asia	324	255	220
Surface Technologies	394	410	414
Eliminations	(162)	(152)	(154)
Total	\$5,128	\$5,158	\$5,043
SEGMENT OPERATING PROFIT:^(a,b)			
North America	\$ 557	\$ 545	\$ 524
South America	134	129	161
Europe	139	119	128
Asia	51	38	23
Surface Technologies	35	39	34
All Other	7	—	(4)
Total	\$ 923	\$ 870	\$ 866

^(a) Praxair recorded pre-tax charges totaling \$70 million in the third quarter of 2001 and \$159 million in the fourth quarter of 2000, which are not included in Praxair's management reporting definition of operating profit (see Note 3 to the consolidated financial statements). Following is a reconciliation of segment operating profit to reported operating profit for the years ended December 31:

(Millions of dollars)	2001	2000
Segment operating profit	\$870	\$866
Less special charges:		
North America	(26)	(60)
South America	(30)	(8)
Europe	(3)	(9)
Asia	—	(8)
Surface Technologies	(4)	(19)
All Other	(7)	(55)
Consolidated operating profit	\$800	\$707

^(b) Effective in 2002, Praxair adopted SFAS 142, which eliminated the amortization of goodwill prospectively. Goodwill amortization included in the years ended December 31, 2001 and 2000 was as follows:

(Millions of dollars)	2001	2000
North America	\$20	\$16
South America	9	9
Europe	4	3
Asia	3	3
Surface Technologies	2	2
Total	\$38	\$33

North America

The North America operating segment includes Praxair's industrial and packaged gases operations in the U.S., Canada and Mexico. Praxair's U.S. and Canadian packaged gases operations within the North American industrial gases business are collectively referred to as Praxair Distribution. North America also includes several product lines servicing the electronics and healthcare industries.

Sales for 2002 decreased \$83 million, or 2%, versus 2001. The effect of lower natural gas costs reduced sales \$58 million to hydrogen customers, as contractually obligated, with no impact on operating profit. Overall, realized price increases offset currency devaluations in Mexico and Canada.

Acquisitions in North American healthcare and packaged gases increased sales by \$64 million while lower sales volumes reduced sales by \$98 million primarily in the packaged gases business as the company focused on tactics to gain share in industrial gases versus lower margin hardgoods. Sales volumes improved in Mexico and healthcare as growth initiatives continued to be implemented. Electronics sales decreased as the slump in worldwide semiconductor markets continued.

Operating profit increased \$12 million, or 2%, versus 2001. The elimination of goodwill amortization in 2002 resulted in an improvement of \$20 million. Excluding this impact, operating profit decreased 1%. Realized price increases and cost reductions related to productivity initiatives and the restructuring in 2001 offset inflationary pressures on North American cost structures. The impact of lower sales volumes on operating profit was partially mitigated by the effect of North American healthcare organic growth and acquisitions, and good operating margin enhancement programs in Mexico.

Sales for 2001 increased \$140 million, or 4%, versus 2000. The increase was due to price increases and acquisitions in the electronics and healthcare markets; partially offset by lower volumes. The price increases, in part, reflect higher natural gas costs for the year ended December 31, 2001, which pass through to on-site hydrogen customers. These price increases were partially offset by decreases in volumes for the U.S. and Canadian industrial gas businesses and unfavorable currency translation impacts in Canada.

Operating profit increased \$21 million, or 4%, versus 2000 primarily due to price increases, cost reductions and acquisitions; partially offset by a decrease in sales volumes and cost inflation. The economic slowdown in North America is primarily responsible for the volume decrease in the industrial gas businesses of the United States and Canada, but volumes in Mexico increased for the year.

South America

Praxair's South American industrial gases operations are conducted by its subsidiary, White Martins Gases Industriais Ltda. (White Martins), which is the largest industrial gases company in Brazil. White Martins has operations throughout South America, including Argentina, Bolivia, Chile, Colombia, Paraguay, Peru, Uruguay and Venezuela.

There are significant uncertainties surrounding the economic and political stability in both Argentina and Venezuela resulting in lower economic activity in these countries and significant currency movements versus the U.S. dollar. In Brazil, concerns related to economic policies and deficit spending, and their impact on debt repayment, have impacted currency markets. Currency devaluations in 2002 adversely affected operating profit by 20%, but the benefits from net income hedges mostly offset this impact. During 2002, the devaluations of the Brazilian Real, Venezuelan Bolivar and the Argentine Peso versus the U.S. dollar resulted in a charge of approximately \$375 million to accumulated other comprehensive income in shareholders' equity.

To help understand the reported results, the following is a summary of the exchange rates used to translate the financial statements in Brazil, Argentina and Venezuela (rates of exchange expressed in units of local currency per U.S. dollar):

Currency	Income Statement			Balance Sheet	
	2002	2001	2000	2002	2001
Brazilian Real	2.92	2.36	1.98	3.53	2.32
Argentine Peso	3.16	1.00	1.00	3.37	1.70
Venezuelan Bolivar	1,162	747	680	1,401	758

Future currency movements versus the U.S. Dollar, if any, will continue to impact reported results. In 2002, Brazil represented approximately 77% of South America's sales, Venezuela represented approximately 5% and Argentina represented approximately 4%. The functional currency used for translation to the U.S. dollar for Argentina and Brazil are the Peso and Real, respectively. The company uses the U.S. dollar in Venezuela as its functional currency as it is a highly inflationary economy in accordance with SFAS 52. Praxair will continue to monitor developments in these countries and, if the cumulative inflation rate in Argentina or Brazil exceeds 100% for a consecutive three-year period, we will change the functional currency to the U.S. dollar.

Sales for 2002 decreased \$42 million, or 6%, versus 2001. In 2002, the effects of currency devaluations were substantial and adversely impacted reported sales by \$149 million, or 22%. Strong pricing initiatives were implemented resulting in a realized price increase of 12%. Sales volumes continued to grow steadily as new, less capital-intensive, opportunities were pursued in metal fabrication, pipeline management, site-gas management and recycling market places.

Operating profit for 2002 increased \$5 million, or 4%, versus 2001. The elimination of goodwill amortization in 2002 resulted in an improvement of \$9 million, or 7%. Excluding this impact, operating profit decreased 3%. The net impact of currency devaluations decreased operating profit by 5%, versus 2001, inclusive of net income hedges. Partially offsetting this decrease was favorable sales volume growth and cost reduction initiatives which outpaced inflationary impacts on cost structures. The effects of the general strike in Venezuela had a small adverse impact in 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales for 2001 decreased \$53 million, or 7%, versus 2000. The decrease is primarily due to negative impacts from currency translation (\$126 million); volume reductions; and a business divestiture in the third quarter 2000 which were only partially offset by price increases, new customer service offerings (customer integration), and a non-recurring Colombian sales adjustment in 2000.

Operating profit for 2001 decreased \$32 million, or 20%, versus 2000. This decline is primarily due to the negative impact of currency effects (\$39 million), including net income hedges, partially offset by pricing increases, productivity improvements and customer integration initiatives.

Europe

Praxair's European industrial gases business is primarily in Italy and Spain with additional operations in Benelux, Germany, France, Israel and Poland. On January 31, 2003 Praxair completed the sale of its Polish business to the BOC Group for approximately \$50 million. Praxair Polska had \$26 million in sales for 2002.

Sales increased \$52 million, or 10%, versus 2001. Fueled by infrastructure investments in Spain and market share gains in the food and beverage and welding markets, volumes increased strongly in Europe by 5%. Favorable currency movements impacted sales growth by an additional 4%.

Operating profit increased \$20 million, or 17%, versus 2001. Currency favorably increased operating profit by 7%. Productivity programs offset inflationary pressures on the underlying cost structure. The favorable sales volume impact resulted in an improvement of 8% on operating profit. The elimination of goodwill amortization in 2002 had a favorable impact of 3% on 2002 results.

Sales for 2001 decreased \$5 million, or 1%, versus 2000, due primarily to unfavorable currency translation effects of 3%, partially offset by volume growth, acquisitions and price increases. These sales increases reflect strong results in Spain and Italy.

Operating profit for 2001 decreased \$9 million, or 7%, versus 2000, reflecting unfavorable currency effects of 12%. The remaining 5% improvement was due to the impact of acquisitions and productivity improvement initiatives, partly offset by cost inflation.

Asia

The Asia segment includes Praxair's industrial gases operations primarily in China, India, Korea and Thailand, with smaller operations in Japan, Malaysia and Taiwan. Operations in China are also conducted through non-consolidated joint venture companies accounted for as equity investments.

Sales for 2002 increased \$69 million, or 27%, versus 2001. During the 2001 third quarter, and the first quarter of 2002, Praxair increased its ownership and began consolidating joint venture companies in India and China, respectively, increasing 2002 sales by \$51 million or 20%. The remaining sales increase is due to strong volume growth and price increases.

Operating profit for 2002 increased \$13 million, or 34%, versus 2001. The consolidation of the India and China joint venture companies increased operating profit by \$12 million or 32%. The remaining increase was a result of sales volume growth, productivity initiatives and the elimination of goodwill amortization; partially offset by cost inflation.

Sales for 2001 increased \$35 million, or 16%, versus 2000. Effective in the 2001 third quarter, Praxair increased its ownership in a joint venture company in India from 50% to 74% and began consolidating the company. This increased 2001 sales by \$28 million, or 13%. The remaining increase was due primarily to strong volume growth partially offset by adverse currency impacts.

Operating profit for 2001 increased \$15 million, or 65%, compared to 2000. The consolidation of the India joint venture company increased operating profit by \$8 million, while volume growth contributed \$7 million.

Surface Technologies

Praxair's worldwide Surface Technologies business includes operations primarily in the U.S. and Europe, with smaller operations in Asia and Brazil.

Sales for 2002 decreased \$16 million, or 4%, versus 2001 due primarily to lower sales volumes. The lower volumes reflect weakness in the global coatings and aviation services businesses.

Operating profit decreased \$4 million, or 10%, versus 2001. A 5% improvement in operating profit from the discontinuation of goodwill amortization in 2002 was more than offset by volume declines.

Sales for 2001 decreased \$4 million, or 1%, versus 2000 due to lower volumes and unfavorable currency effects, which were partially offset by price increases. The lower volumes reflected weakness in the aviation services business which was partially offset by an improvement in the global coatings business.

Operating profit for 2001 increased \$5 million, or 15%, due primarily to the \$5 million charge for severance and other exit costs, which occurred in 2000. The contribution from productivity improvement initiatives offset the declining sales volume impact on operating profit.

All Other

The 2002 operating income of \$7 million represents a net gain related to the settlement of litigation with Airgas, Inc. The 2000 operating loss of \$4 million is primarily the operating loss of MetFabCity, Inc., an e-business investment that was terminated in the fourth quarter of 2000, partially offset by a gain from the sale of assets.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL DATA

(Millions of dollars)

Year Ended December 31,	2002	2001	2000
NET CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES:			
Net income plus depreciation and amortization, accounting change and special charges	\$1,031	\$ 987	\$ 992
Working capital	(27)	55	(40)
Other – net	(3)	(22)	(53)
Total provided by operating activities	\$1,001	\$1,020	\$ 899
INVESTING ACTIVITIES:			
Capital expenditures	\$ (498)	\$ (595)	\$(704)
Acquisitions	(113)	(213)	(290)
Divestitures and asset sales	24	45	106
Total used for investing	\$ (587)	\$ (763)	\$(888)
FINANCING ACTIVITIES:			
Debt increases (reductions)	\$ (245)	\$ (189)	\$ 127
Minority transactions and other	27	(14)	(64)
Issuances (purchases) of stock	(70)	66	(20)
Cash dividends	(123)	(110)	(98)
Total used for financing	\$ (411)	\$ (247)	\$ (55)
DEBT-TO-CAPITAL RATIO, AT DECEMBER 31:			
Debt	\$2,748	\$2,989	\$3,141
Capital ^(a)	\$5,252	\$5,627	\$5,656
Debt-to-capital ratio	52.3%	53.1%	55.5%

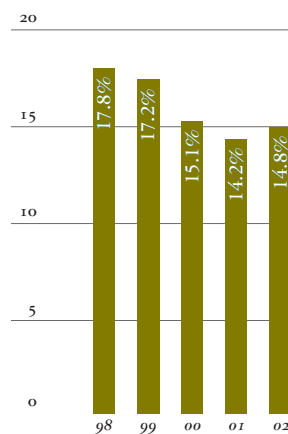
^(a) Includes debt, minority interests, preferred stock and shareholders' equity.

Cash Flow from Operations

Cash flow from operations decreased \$19 million to \$1,001 million in 2002 from \$1,020 million in 2001.

This marginal decrease is related primarily to working capital, which reflects continued improvement in receivable and inventory management, more than offset by reductions in accounts payable.

WORKING CAPITAL AS A PERCENT OF SALES

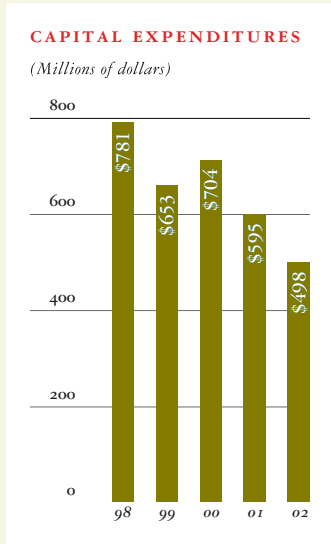


*Working capital includes accounts receivable, inventories and accounts payable.

Cash flow from operations increased \$121 million to \$1,020 million in 2001 from \$899 million in 2000. This increase is due to substantial improvements in working capital in 2001, principally from reductions in accounts receivable, inventory, and accounts payable, including the tax benefits from exercised stock options.

Investing

Cash flow used for investing in 2002 totaled \$587 million, a decrease of \$176 million from 2001. This decrease was due to lower capital expenditures in most business units and



decreased healthcare acquisitions versus 2001. Cash flow used for investing in 2001 totaled \$763 million, a decrease of \$125 million from 2000. This decrease was due to lower capital expenditures and acquisitions, partially offset by lower divestitures and asset sales versus 2000.

Capital expenditures for 2002, 2001 and 2000 totaled \$498 million, \$595 million and \$704 million, respectively. The reduction of capital expenditures

is in response to the economic slowdown in several markets, and increased financial rigor in Praxair's capital appropriation process.

Acquisition expenditures for 2002 totaled \$113 million, a decrease of \$100 million from 2001. The decrease is due to the smaller number of and amounts paid for acquisitions related to the North American healthcare and electronics businesses. Acquisition expenditures for 2001 totaled \$213 million, a decrease of \$77 million from 2000. The decrease is due primarily to the absence of the 2000 buyout of minority interests in Praxair's South American subsidiary, partially offset by targeted healthcare and technology acquisitions in 2001.

Divestitures and asset sales in 2002 totaled \$24 million, a decrease of \$21 million from 2001. The decrease is due largely to the absence of \$17 million of sale proceeds in 2001 for the sale of an investment in Asia. Divestitures and asset sales in 2001 totaled \$45 million, a decrease of \$61 million from 2000. The 2001 decrease in asset sales is due to the absence of the 2000 disposal of the precipitated calcium carbonate business in South America.

On a worldwide basis, capital expenditures for the full year 2003 are expected to be around \$600 million, of which \$234 million has been approved and committed. Acquisition expenditures will depend on the availability of opportunities

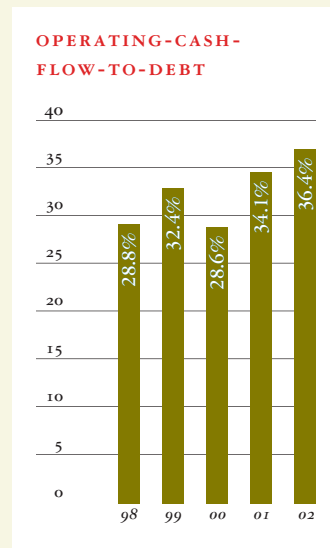
at attractive prices. Also, on January 31, 2003, Praxair completed the sale of its Polish business to the BOC Group for approximately \$50 million.

Financing

Praxair's financing strategy is to secure sufficient funds to support its operations in the U.S. and around the world using a combination of local borrowing and intercompany funding to minimize the total cost of funds and to manage and centralize currency exchange exposures. Praxair manages its exposure to interest rate changes through the use of financial derivatives (see Note 15 to the consolidated financial statements and the section herein titled "Market Risks and Sensitivity Analyses").

At December 31, 2002, the company's total debt outstanding was \$2,748 million, a decrease of \$241 million from 2001. The December 31, 2002 debt balance is comprised of \$2,333 million in public notes, \$86 million in commercial paper, and the remaining \$329 million represents primarily bank borrowings from around the world. As of December 31, 2002, there were no borrowings under Praxair's \$1.5 billion U.S. bank credit facilities and Praxair's investment grade credit

rating for long-term debt was maintained at A3 by Moody's and BBB+ by Standard & Poor's. Commercial paper was rated P2 by Moody's and A2 by Standard & Poor's.



During 2002, Praxair issued \$500 million 6.375% notes maturing April 1, 2012 and \$250 million of 4.75% notes maturing July 15, 2007 and used these proceeds to repay outstanding commercial paper. In July 2002, Praxair redeemed the 8.7% debentures due 2022 for \$313

million resulting in a \$15 million charge to interest expense for the year ended December 31, 2002. Minority transactions and other in the financing section in the consolidated statement of cash flows for 2002 includes \$47 million related to the early termination of an interest rate swap reduced by a \$20 million payment for the retirement of preferred stock. Also in 2001, the company repaid subsidiary preferred stock totaling \$10 million.

In July 2002, Praxair renewed the \$500 million, 364-day revolving credit agreement, which was maturing. At December 31, 2002 and 2001, \$711 million and \$716 million, respectively, of short-term borrowings have been classified as long-term debt under the terms of the existing credit agreements, and based upon Praxair's ability and intent to roll over the short-term borrowings on a long-term basis (see Note 14 to the consolidated financial statements).

During 2002, proceeds from stock option exercises were high due to the expiration of options granted in 1992 when Praxair became a public company. Praxair increased treasury stock purchases to partially offset the dilution effects of the stock option exercises. In 2002, cash dividends were increased to \$0.76 per share from \$0.68 per share for 2001.

Our debt-to-capital ratio decreased to 52.3% at December 31, 2002 from 53.1% at December 31, 2001. This decrease is due to the reduction in debt outstanding and is partially offset by a decrease in the shareholders' equity component of capital (see the "Five-Year Financial Summary" on page 62 for a definition of debt-to-capital).

During the first half of 2003, our 6.625% \$75 million, 6.75% \$300 million and 6.15% \$250 million notes mature. It is our intention to refinance these notes in the public market. We will also continue to review our commercial paper and bank borrowing levels that provide funding at alternative short-term rates.

As noted in Note 5 to the consolidated financial statements, two operating leases related to liquid storage and distribution equipment terminate in September 2003 and March 2004, respectively. Management is currently evaluating whether to exercise the purchase option or to sell the related equipment at the termination of each lease. In the event a purchase option is exercised, the company currently plans to finance the purchase through sources of long-term borrowing that are expected to be available. If the company elects to sell the equipment, cash requirements will be limited to the guarantee payment, if any, which is not expected to be significant.

Off-Balance Sheet Arrangements and Contractual Obligations

The following table sets forth Praxair's material contractual obligations and other commercial commitments as of December 31, 2002 (see Notes 5, 14 and 20). In addition, see Note 9 to the consolidated financial statements for a summary of long-term liabilities which consist primarily of pension and other post-retirement benefit costs (OPEB). Also, see the "Pension Benefits" section that follows for a discussion of funding obligations.

<i>(Millions of dollars)</i>	<i>Contractual Obligations</i>				<i>Other Commercial Commitments</i>			
	<i>Debt and Capitalized Lease Maturities</i>	<i>Obligations under Operating Leases</i>	<i>Unconditional Purchase Obligations</i>	<i>Total</i>	<i>Construction Commitments</i>	<i>Standby Letters of Credit</i>	<i>Guarantees</i>	<i>Total</i>
<i>Due or expiring by December 31,</i>								
2003	\$ 949	\$ 82	\$ 73	\$1,104	\$187	\$36	\$148	\$371
2004	32	68	39	139	46	—	68	114
2005	171	56	31	258	1	—	1	2
2006	276	46	28	350	—	13	—	13
2007	511	24	25	560	—	—	—	—
Thereafter	809	102	146	1,057	—	—	—	—
	\$2,748	\$378	\$342	\$3,468	\$234	\$49	\$217	\$500

MANAGEMENT'S DISCUSSION AND ANALYSIS

Note 14 to the consolidated financial statements provides additional details related to the company's debt obligations, including capitalized lease obligations.

Off-balance-sheet obligations at December 31, 2002 are primarily in the form of operating lease obligations totaling \$378 million (see Note 5 to the consolidated financial statements). Two sale and leaseback transactions totaling \$230 million were completed in 1998 and 1999 that include a combined \$196 million residual value guarantee. Other major lease obligations include a production facility along the U.S. Gulf coast and the corporate headquarters in Danbury, Connecticut. The present value of all operating lease obligations is approximately \$347 million. No lease obligations have termination or default provisions based on our stock price or credit ratings.

Praxair enters into various take-or-pay arrangements primarily for the supply of feedstock used to produce carbon dioxide and power used to produce atmospheric gases and hydrogen. Much of these risks are passed on to customers through similar take-or-pay contractual arrangements. Remaining purchase obligations require Praxair to satisfy its customer obligations and do not represent a significant risk. In addition, Praxair enters into contracts to purchase products and services which do not have minimum purchase provisions.

The company spends in the range of \$500 to \$700 million annually in new capital expenditures. A significant portion of these expenditures are related to the construction of new production facilities to satisfy customer commitments which may take a year or more to complete. Therefore, at any point in time, the company has outstanding commitments with suppliers to complete authorized construction projects. At December 31, 2002, such commitments totaled \$234 million.

Praxair is contingently liable on standby letters of credit totaling \$49 million that include approximately \$34 million related to insurance programs.

Guarantees primarily include \$196 million of residual value guarantees on operating leases as described above. Certain of Praxair's unconsolidated affiliates have debt on their balance sheets totaling approximately \$110 million, all non-recourse to Praxair except for approximately \$10 million. Praxair has no financing arrangements with closely-held related parties.

See Note 20 to the consolidated financial statements for more information concerning commitments and contingencies.

Pension Benefits

The company completed its year-end pension plan calculations in early January 2003 based on December 31, 2002 interest rates and asset values. As a result, an additional non-cash minimum pension liability of \$147 million (\$95 million after-tax) was recorded at December 31, 2002 with an offsetting charge to accumulated other comprehensive income within shareholders' equity. Pension contributions were \$7 million in 2002 and estimates of required 2003 contributions are in the range of \$20 million, of which \$16 million was paid in February 2003. For 2003, Praxair will reduce its expected return on plan assets in the U.S. to 8.5% from 9.25% in 2002. This reduction, along with other impacts, is expected to increase 2003 consolidated pension expense to approximately \$25 million to \$30 million versus \$15 million in 2002.

RAW MATERIALS AND ENERGY COSTS

Energy is the single largest cost item in the production and distribution of industrial gases. Most of Praxair's energy requirements are in the form of electricity. Other important elements are natural gas, waste hydrogen (for hydrogen) and diesel fuel (for distribution). A shortage or interruption of energy, or increase in energy costs that cannot be passed through to customers, are risks to Praxair's business and financial performance. Because many of Praxair's contracts with customers are long term, with pass-through provisions, Praxair has not historically experienced significant difficulties related to recovery of higher energy costs. The supply of energy also has not been a significant issue. However, during 2000 and 2001, there was unprecedented volatility in the cost and supply of electricity and natural gas prices in the United States, particularly California, and energy supply curtailments in Brazil. Praxair has been able to substantially mitigate the financial impact of such costs by passing them on to customers. In anticipation of continued

volatility, the company has taken aggressive pricing actions, is strengthening its energy management program for purchased power, including the use of derivative instruments to reduce risk associated with purchases of natural gas and electricity (see Notes 1 and 15 to the consolidated financial statements), and is implementing new customer contract terms and conditions. However, the potential outcome of energy situations is unpredictable and may pose unforeseen future risks.

For carbon dioxide, carbon monoxide, helium, hydrogen, specialty gases and surface technologies, raw materials are largely purchased from outside sources. Praxair has contracts or commitments for, or readily available sources of, most of these raw materials; however, their long-term availability and prices are subject to market conditions.

CUSTOMER MARKETS

Praxair's industrial gases are used by a diverse group of customers in a variety of industries including manufacturing, metals, chemicals, food & beverage, electronics, healthcare, energy, aerospace and numerous other markets. By using the gases Praxair produces and the proprietary processes that it invents, customers benefit through improved product quality, increased productivity, lower operating costs, conservation of energy and the attainment of environmental improvement objectives. Praxair has a large number of customers and no single customer accounts for a significant portion of Praxair's annual sales. Aircraft engines are Surface Technologies' primary market, but it also serves the printing, textile, chemical and primary metals markets and airline component overhaul services.

CRITICAL ACCOUNTING POLICIES

The policies discussed below are considered by management to be critical to understanding Praxair's financial statements and accompanying notes prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Their application places significant importance on management's judgment as a result of the need to make estimates of matters that are inherently uncertain. Praxair's financial

position, results of operations and cash flows could be materially affected if actual results differ from estimates made. These policies is determined by management and have been reviewed by Praxair's Audit Committee.

Depreciable Lives of Property, Plant and Equipment

Praxair's net property, plant and equipment at December 31, 2002 was \$4,666 million, representing 63% of the company's consolidated total assets. Depreciation expense for the year ended December 31, 2002 was \$473 million, or 11% of total operating costs. Management judgement is required in the determination of the estimated depreciable lives that are used to calculate the annual depreciation expense and accumulated depreciation.

Property, plant and equipment are recorded at cost and depreciated over the assets' estimated useful lives on a straight-line basis for financial reporting purposes. The estimated useful life represents the projected period of time that the asset will be productively employed by the company and is determined by management based on many factors, including historical experience with similar assets, technological life cycles, geographic locations and contractual supply relationships with on-site customers. Circumstances and events relating to these assets, such as on-site contract modifications, are monitored to ensure that changes in asset lives or impairments (see "Asset Impairments" below) are identified and prospective depreciation expense or impairment expense is adjusted accordingly. Praxair's largest asset values relate to cryogenic air separation production plants with average depreciable lives of 15 years.

Based upon the assets as of December 31, 2002, if depreciable lives of machinery and equipment, on average, were increased or decreased by one year, annual depreciation expense would be decreased by approximately \$26 million or increased by approximately \$31 million, respectively.

Pension Benefits

Pension benefits represent financial obligations that will be ultimately settled in the future with employees who meet eligibility requirements. Because of the uncertainties involved in estimating the timing and amount of future payments, significant estimates are required to calculate pension expense and liabilities related to the company's plans. The company utilizes the services of several independent actuaries, whose models are used to facilitate these calculations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Several key assumptions are used in actuarial models to calculate pension expense and liability amounts recorded in the financial statements. Management believes the three most significant variables in the models are the expected long-term rate of return on plan assets, the discount rate, and the expected rate of compensation increase. The actuarial models also use assumptions for various other factors including employee turnover, retirement age, and mortality. Praxair management believes the assumptions used in the actuarial calculations are reasonable and are within accepted practices in each of the respective geographic locations in which we operate.

The expected long-term rates of return on pension plan assets were 9.25% for U.S. plans and 2.0% to 10.0% for international plans at December 31, 2002. These rates are determined annually by management based on a weighted average of current and historical market trends, historical portfolio performance and the portfolio mix of investments. A 0.50% change in these expected long-term rates of return, with all other variables held constant, would change Praxair's pension expense by approximately \$4 million.

The discount rates for pension plan liabilities were 6.75% for U.S. plans and 4.0% to 9.0% for international plans at December 31, 2002. These rates are used to calculate the present value of plan liabilities and are determined annually by management based on market yields for high-quality fixed income investments on the measurement date. A 0.50% change in these discount rates, with all other variables held constant, would change Praxair's pension expense by approximately \$3 million and would impact the projected benefit obligation (PBO) by approximately \$76 million.

The expected rates of compensation increase for Praxair's pensions plans were 3.75% for U.S. plans and 2.25% to 5.0% for international plans at December 31, 2002. These estimated annual compensation increases are determined by management

every year and are based on historical trends and market indices. A 0.50% change in the expected rate of compensation increase, with all other variables held constant, would change Praxair's pension expense by approximately \$3 million and would impact the projected benefit obligation (PBO) by approximately \$21 million. A change in this assumption is usually consistent with a change in the discount rate assumption, and the earnings impacts generally offset one another.

Asset Impairment

At December 31, 2002 the company had goodwill of \$985 million which represented excess purchase price for acquired businesses over the fair value of the net assets acquired. Management reviews goodwill for impairment annually or when events or circumstances indicate that its value may have declined. In order to evaluate impairment of goodwill, assumptions about the future condition and operations of the business unit to which the goodwill asset relates are made. These assumptions are applied to complex models in which we estimate the fair value of the business unit utilizing projected future cash flows, multiples of earnings and sales and other factors. Using these models, management determines whether an impairment charge is required to reduce goodwill to its estimated fair value.

This evaluation process is complex and involves subjective assumptions about future events and discount factors to be applied to projected cash flows. Estimated values can be affected by many factors beyond the company's control such as business and economic trends, government regulation, and technological changes. Management believes that the assumptions made to evaluate goodwill impairment are appropriate and reasonable. However, changes in circumstances or conditions affecting these assumptions could result in impairment charges in future periods that may be material. At January 1, 2002, the company adopted SFAS 142 and employing the methodologies noted, determined that goodwill for six reporting units was impaired, which resulted in a pre-tax impairment charge of \$146 million. At December 31, 2002, the remaining goodwill has been assigned to 8 reporting units in amounts ranging from \$1 million to \$719 million.

The impairment evaluation process for property, plant and equipment also uses projected future cash flows (undiscounted). This test is performed when circumstances and events indicate that the carrying amount of an individual asset or grouping of assets may not be recoverable. Should undiscounted cash flows be less than the carrying amount of the assets, an impairment charge reducing the carrying amount to fair value is required. Fair value is determined based on the most appropriate valuation technique, including discounted cash flows.

Income Taxes

At December 31, 2002 Praxair had deferred tax assets of \$497 million (net of valuation allowances of \$124 million), and deferred tax liabilities of \$901 million. Income tax expense was \$158 million for the year ended December 31, 2002.

In the preparation of consolidated financial statements, Praxair estimates income taxes based on diverse and complex regulations that exist in various jurisdictions where we conduct business. Deferred income tax assets and liabilities represent tax benefits or obligations that arise from temporary timing differences due to differing treatment of certain items for accounting and income tax purposes. Praxair evaluates deferred tax assets each period to ensure that estimated future taxable income will be sufficient in character (e.g. capital gain versus ordinary income treatment), amount and timing to result in their recovery. To the extent we estimate recovery is not likely, we establish a valuation allowance to reduce the assets to their realizable value. Considerable judgements are required in establishing deferred tax valuation allowances and in assessing possible exposures related to tax matters. Our tax returns are subject to audit and local taxing authorities could challenge our tax positions. The company's practice is to review tax-filing positions by jurisdiction and to record provisions for probable tax assessments, including interest and penalties, if applicable.

Praxair believes it records and/or discloses such potential tax liabilities as appropriate and has reasonably estimated its income tax liabilities and recoverable tax assets.

NEW ACCOUNTING STANDARDS

See Notes 1 and 2 to the consolidated financial statements for information concerning new accounting standards and for information regarding accounting changes, respectively.

MARKET RISKS AND SENSITIVITY ANALYSES

Like other global companies, Praxair is exposed to market risks relating to fluctuations in interest rates and currency exchange rates. The objective of financial risk management at Praxair is to minimize the negative impact of interest rate and foreign exchange rate fluctuations on the company's earnings, cash flows and equity.

To manage these risks, Praxair uses various derivative financial instruments, including interest rate swaps, currency swaps, forward contracts and commodity contracts. Praxair only uses commonly traded and non-leveraged instruments. These contracts are entered into primarily with major banking institutions thereby minimizing the risk of credit loss. Also, refer to Notes 2 and 15 to the consolidated financial statements for a more complete description of Praxair's accounting policies and use of such instruments.

The following discussion presents the sensitivity of the market value, earnings and cash flows of Praxair's financial instruments to hypothetical changes in interest and exchange rates assuming these changes occurred at December 31, 2002. The range of changes chosen for these discussions reflect Praxair's view of changes which are reasonably possible over a one-year period. Market values are the present values of projected future cash flows based on interest rate and exchange rate assumptions. These forward-looking disclosures are selective in nature and only address the potential impacts from financial instruments. They do not include other potential effects, which could impact Praxair's business as a result of changes in interest and exchange rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interest Rate and Debt Sensitivity Analysis

At December 31, 2002, Praxair has debt totaling \$2,748 million (\$2,989 million at December 31, 2001) and an interest rate swap with a notional value of \$100 million maturing in the first quarter of 2003 (\$850 million in 2001). Interest rate swaps are entered into as hedges of underlying financial instruments to effectively change the characteristics of the interest rate without actually changing the underlying financial instrument. At December 31, 2002, an interest rate swap agreement converted outstanding floating rate operating lease payments to fixed rate payments for the period of the swap agreement. At December 31, 2001, interest rate swap agreements converted outstanding floating rate debt and lease payments to fixed rate payments for the period of the swap agreement. For fixed rate instruments, interest rate changes affect the fair market value but do not impact earnings or cash flows. Conversely, for floating rate instruments, interest rate changes generally do not affect the fair market value but impact future earnings and cash flows, assuming other factors are held constant.

At December 31, 2002, Praxair has fixed rate debt of \$2,447 million and floating rate debt of \$301 million, representing 89% and 11%, respectively, of total debt. At December 31, 2001, after adjusting for the effect of interest rate swap agreements, Praxair had fixed rate debt of \$2,615 million and floating rate debt of \$374 million, representing 87% and 13%, respectively, of total debt. Holding other variables constant (such as foreign exchange rates, swaps and debt levels), a one percentage point decrease in interest rates would increase the unrealized fair market value of the fixed rate debt by approximately \$94 million (\$85 million in 2001). At December 31, 2002 and 2001, the after-tax earnings and cash flows impact for next year resulting from a one percentage point increase in interest rates would be approximately \$2 million, holding other variables constant.

Exchange Rate Sensitivity Analysis

Praxair's exchange rate exposures result primarily from its investments and ongoing operations in South America (primarily Brazil, Argentina and Venezuela), Europe (primarily Spain and Italy), Canada, Mexico, Asia (primarily China, India, Korea and Thailand) and other business transactions such as the procurement of equipment from foreign sources. Among other techniques, Praxair utilizes foreign exchange forward contracts to hedge these exposures. At December 31, 2002 Praxair has \$433 million notional amount (\$271 million at December 31, 2001) of foreign exchange contracts of which \$223 million (\$161 million in 2001) are to hedge recorded balance sheet exposures or firm commitments, \$210 million (\$97 million in 2001) are to hedge anticipated future net income and no hedges for net investments in foreign subsidiaries (\$13 million at December 31, 2001). At December 31, 2002 Praxair's net income hedges relate to anticipated 2003 net income for the full year in China, Peru, Colombia, India, Thailand and Korea; for nine months in Brazil, and; for six months in Europe.

Holding other variables constant, if there were a 10% adverse change in foreign currency exchange rates for the portfolio, the fair market value of foreign currency contracts outstanding at December 31, 2002 would decrease by approximately \$28 million (\$30 million at December 31, 2001). Of this decrease, about \$14 million (\$11 million at December 31, 2001) would impact earnings, none would impact the cumulative translation adjustment component of accumulated other comprehensive income (\$1 million at December 31, 2001) and the remainder would be offset by an equal but offsetting (gain) loss on the underlying exposure being hedged.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations – Praxair, Inc. (Praxair or company) was founded in 1907 and became an independent publicly traded company in 1992. Praxair is one of the largest industrial gases companies worldwide, the largest in North and South America and the world's largest supplier of carbon dioxide. Praxair produces, sells and distributes atmospheric, process and specialty gases, and high-performance surface coatings to a diverse group of industries including aerospace, chemicals, electronics, energy, food and beverage, healthcare, manufacturing and metals.

Principles of Consolidation – The consolidated financial statements include the accounts of all significant subsidiaries where control exists. Equity investments generally consist of 20-50% owned operations where the company exercises significant influence. Operations less than 20% owned, where the company does not exercise significant influence, are generally carried at cost. Pre-tax income from equity investments, which are partnerships or limited liability corporations (LLC), is included in other income (expenses) – net with related taxes included in income taxes. Partnership and LLC net assets are reported as equity investments in the balance sheet. Praxair does not allocate corporate costs to its equity investments. Significant intercompany transactions are eliminated and any significant related party transactions have been disclosed.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and to disclose contingent assets and liabilities at the date of the financial statements during the reporting period. While actual results could differ, management believes such estimates to be reasonable.

Revenue Recognition – Revenue is recognized when: a firm sales agreement exists; product is shipped or services are provided to customers; and collectibility of the fixed or determinable sales price is reasonably assured. Revenues from long-term construction contracts are recognized using the percentage-of-completion method. Under this method, revenues for sales of major equipment, such as large air separation facilities, are recognized primarily based on cost incurred to date compared with total estimated cost. Changes to total estimated cost and anticipated losses, if any, are recognized in the period determined. For contracts that contain multiple products and/or services, amounts assigned to each component are based on its objectively determined fair value, such as the sales price for the component when it is sold separately or competitor prices for similar components. Sales returns and allowances are not a normal practice in the industry and are de minimis.

Amounts billed for shipping and handling fees are recorded as sales, generally on FOB destination terms, and costs incurred for shipping and handling are recorded as cost of sales.

Cash Equivalents – Cash equivalents are considered to be highly liquid securities with original maturities of three months or less.

Inventories – Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for certain U.S. operations and the average cost method for most other operations.

Property, Plant and Equipment – Net – Property, plant and equipment are carried at cost, net of accumulated depreciation. The company capitalizes interest as part of the cost of constructing major facilities (see Note 6). Depreciation is calculated on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 40 years. Praxair uses accelerated depreciation methods for tax purposes where appropriate.

The company performs a test for impairment whenever circumstances and events indicate that the carrying amount of an individual asset or grouping of assets may not be recoverable. Should projected undiscounted cash flows be less than the carrying amount of the asset, an impairment charge reducing the carrying amount to fair value is required. Fair value is determined based on the most appropriate valuation technique including discounted cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Foreign Currency Translation – For international subsidiaries where the local currency is the functional currency, translation gains and losses are reported as part of the accumulated other comprehensive income (loss) component of shareholders' equity as a cumulative translation adjustment (see Note 9). For international subsidiaries operating in hyperinflationary economies, the U.S. dollar is the functional currency and translation gains and losses are included in income.

Financial Instruments – Praxair enters into various derivative financial instruments to manage its exposure to fluctuating interest and currency exchange rates, and energy costs. Such instruments primarily include interest rate swap agreements; currency swap, forward contracts; and commodity swap agreements. These instruments are not entered into for trading purposes. Praxair only uses commonly traded and non-leveraged instruments.

Effective January 1, 2001, Praxair adopted Statement of Financial Accounting Standards (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 137 and 138. SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value. Prior years' financial statements have not been restated for this change. There are two types of derivatives the company enters into: hedges of fair value exposures and hedges of cash flow exposures. Fair value exposures relate to recognized assets or liabilities, and firm commitments; while cash flow exposures relate to the variability of future cash flows associated with recognized assets or liabilities, or forecasted transactions.

When a derivative is executed and hedge accounting is desired, it is designated as either a fair value hedge or a cash flow hedge, and appropriate documentation is prepared. Currently, Praxair designates all interest rate and commodity swap agreements as hedges; however, currency contracts are generally not designated as hedges for accounting purposes. All derivatives are linked to an appropriate underlying exposure. On an on-going basis, the company assesses the hedge effectiveness of all derivatives designated as hedges to determine if they continue to be highly effective in offsetting changes in fair values or cash flows of the underlying hedged items. If it is determined that the hedge is not highly effective, hedge accounting will be discontinued prospectively.

Changes in the fair value of derivatives designated as fair value hedges are recognized in earnings as an offset to the change in the fair values of the exposures being hedged. The changes in fair value of derivatives that are designated as cash flow hedges are deferred in accumulated other comprehensive income (loss) and are recognized in earnings as the underlying hedged transaction occurs. Any ineffectiveness is recognized in earnings immediately. Derivatives that are entered into for risk management purposes and are not designated as hedges, (primarily related to projected net income and currency derivatives other than for firm commitments) are recorded at their fair market values and recognized in current earnings.

Praxair records hedging activity related to debt instruments in interest expense and hedging related to lease obligations and commodity contracts in operating profit. The company recognizes the changes in the fair value associated with currency contracts as follows: hedges of balance sheet exposures, firm commitments and anticipated future net income are recognized in other income (expense) – net and generally offset the underlying hedged items; hedges of net investments in foreign subsidiaries are recognized in the cumulative translation adjustment component of accumulated other comprehensive income (loss) on the consolidated balance sheet to offset translation gains and losses associated with the hedged net investment.

Praxair uses the following methods and assumptions to estimate the fair value of each class of financial instrument. The fair value of interest rate swaps and currency exchange contracts are estimated based on market prices obtained from independent dealer or market quotes. Such quotes represent the estimated amount the company would receive or pay to terminate the agreements taking into consideration current rates and the credit worthiness of the counterparties (see Note 15). The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues. Due to their nature, the carrying value of cash, short-term investments and short-term debt, receivables and payables approximates fair value.

Previous Accounting Policy through December 31, 2000

Interest rate swap and forward rate agreements involve the exchange of fixed and floating interest payments without the exchange of the underlying principal amounts. The differential to be paid or received was recognized as an adjustment to interest expense and operating profit for lease obligations. The notional amounts of interest rate swap and forward rate agreements did not exceed the underlying debt principal amounts. If an interest rate swap or forward rate agreement

was terminated before its maturity, any gain or loss was deferred and amortized as interest expense over the remaining life of the underlying debt or the remaining life of the swap, if shorter.

Currency swap and forward contracts were generally entered into to hedge recorded balance sheet amounts related to international operations, firm commitments that create currency exposures and projected net income. Gains and losses on hedges of assets and liabilities were recorded in other income (expenses) – net as offsets to the gains and losses from the underlying hedged amounts; gains and losses on hedges of net investments were reported on the balance sheet as part of the cumulative translation adjustment component of accumulated other comprehensive income (loss) within shareholders' equity; and gains and losses on hedges of firm commitments were recorded on the balance sheet and included in the basis of the underlying transaction. Forward exchange contracts that cover exposures which did not qualify for hedge accounting (e.g., net income hedges) were recorded in other income (expenses) – net on a fair market value basis.

Goodwill – When a business is acquired, the excess of the purchase price over the fair value of the assets and liabilities acquired is recorded as goodwill (see note 12). In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS 142, which eliminated the amortization of goodwill effective January 1, 2002. Goodwill is reviewed annually in April and when circumstances or other events indicate that impairment may have occurred. Also, in accordance with SFAS 141, goodwill related to acquisitions after June 30, 2001 has not been amortized.

Prior to SFAS 142, previous accounting standards required goodwill to be amortized over the estimated period of benefit up to 40 years.

Other Intangible Assets – Patents are recorded at historical cost and are amortized over their remaining useful lives. Trademarks and other intangibles are amortized over the estimated period of benefit. Praxair periodically evaluates the recoverability of patents, trademarks and other intangibles by assessing whether the unamortized balance can be recovered over its remaining life through cash flows generated by the related assets. When expected undiscounted cash flows are less than the carrying value of the intangible asset, an impairment loss will be recognized.

Income Taxes – Deferred income taxes are recorded for the temporary differences between the financial statement and tax bases of assets and liabilities using current tax rates. Valuation allowances are established against deferred tax assets whenever circumstances indicate that it is more likely than not that such assets will not be realized in future periods.

Retirement Programs – Most Praxair employees worldwide are covered by various pension plans. The cost of pension benefits under these plans is determined using the “projected unit credit” actuarial cost method. Funding of pension plans varies and is in accordance with local laws and practices.

Praxair accrues the cost of retiree life and health insurance benefits during the employees' service period when such benefits are earned.

Post-employment Benefits – Praxair recognizes the estimated cost of future benefits provided to former and inactive employees after employment but before retirement on the accrual basis.

Stock-based Compensation – Praxair accounts for incentive plans and stock options using the provisions of Accounting Principles Board Opinion 25, “Accounting for Stock Issued to Employees.” Pro forma information required by SFAS No. 123, “Accounting for Stock-Based Compensation,” as amended by SFAS 148, requires Praxair to disclose pro forma net income and pro forma earnings per share amounts as if compensation expense was recognized for options granted after 1994. Pro forma net income and the related basic and diluted earnings per share amounts would be as follows:

(Dollar amounts in millions, except per share data)

Year Ended December 31,	2002	2001	2000
NET INCOME:			
As reported	\$ 409	\$ 430	\$ 363
Less: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(25)	(32)	(28)
Pro forma net income	\$ 384	\$ 398	\$ 335
BASIC EARNINGS PER SHARE:			
As reported	\$2.51	\$2.67	\$2.28
Pro forma	\$2.36	\$2.46	\$2.11
DILUTED EARNINGS PER SHARE:			
As reported	\$2.48	\$2.63	\$2.25
Pro forma	\$2.33	\$2.43	\$2.08

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average fair value of options granted during 2002 was \$21.37 (\$16.15 in 2001 and \$15.46 in 2000). These values, which were used as a basis for the pro forma disclosures, were estimated using the Black-Scholes Options-Pricing Model with the following weighted average assumptions used for grants in 2002, 2001, and 2000:

Year Ended December 31,	2002	2001	2000
Dividend yield	1.2%	1.15%	1.0%
Volatility	35.8%	35.6%	33.0%
Risk-free interest rate	4.5%	4.7%	6.4%
Expected term – years	6.0	5.0	5.0

These pro forma disclosures may not be representative of the effects for future years as options vest over several years and additional awards generally are made each year.

Recently Issued Accounting Standards – In June 2001, the FASB issued SFAS 143, “Accounting for Asset Retirement Obligations,” to be effective for Praxair on January 1, 2003. SFAS 143 requires that all entities recognize a liability for the fair value of retirement obligations associated with tangible long-lived assets when a legal obligation is associated with an asset’s retirement. The adoption of this statement is not expected to have a material impact on the company’s financial position or results of operations.

Effective January 1, 2002, Praxair adopted SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS 144 did not materially change the methods used by the Company to measure impairment losses on long-lived assets, but may result in more transactions being reported as discontinued operations and assets held for sale in the future.

In April 2002, the FASB issued SFAS 145, “Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections.” Among other things, the Statement rescinded SFAS 4 which required all gains and losses from extinguishment of debt to be aggregated and, when material, classified as an extraordinary item net of related income tax effect. Praxair adopted this standard for transactions

occurring after April 1, 2002 and accordingly, \$15 million of costs associated with early extinguishment of debt in the third quarter of 2002 was recorded as interest expense (see Note 14).

In July 2002, the FASB issued SFAS 146, “Accounting for Costs Associated with Exit or Disposal Activities.” The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS 146 was effective for disposal activities initiated after December 31, 2002 and Praxair does not expect a material effect on its financial position or results of operations, except as to the timing of recognition of such costs.

During December 2002, the FASB issued Interpretation (FIN) 45 “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” This interpretation expands the disclosures to be made by about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of the guarantee, a liability for the fair value of the obligation underlying the guarantee. Praxair is required to disclose its issued guarantees at December 31, 2002 (see Note 20) and, on a prospective basis, is required to record the fair value of certain guarantees that it may issue beginning in 2003. This interpretation is not expected to have a material impact on Praxair’s financial position or results of operations.

Also in December 2002, the FASB issued SFAS 148, “Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement 123.” This standard provides alternative methods of transition for a voluntary change to the fair value based method (expense treatment) of accounting for stock-based employee compensation. It amends the existing disclosure requirements of Statement 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Praxair adopted this statement as it pertains to the new disclosure requirements effective December 31, 2002 (see “Stock-Based Compensation” above and Note 18). Should Praxair elect to utilize the fair value based method for its stock-based compensation in the future, it must adopt the remaining provisions of SFAS 148.

During January 2003 the FASB issued FIN 46, “Consolidation of Variable Interest Entities” which is effective for Praxair in its quarter ending September 30, 2003 for any existing entities and to any variable interest entities created after January 31, 2003. A variable interest entity (VIE) is a corporation, partnership, trust or other legal entity that does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its own activities. This interpretation requires a company to consolidate a VIE when the company has a majority of the risk of loss from the VIE’s activities or is entitled to receive a majority of the entity’s residual returns or both. We do not expect this interpretation to have a material effect on our financial position or results of operations, but it may impact how future transactions are accounted for.

Reclassifications – Certain prior years’ amounts have been reclassified to conform to the current year’s presentation.

NOTE 2. ACCOUNTING CHANGES

2002 Goodwill Impairment – Praxair adopted SFAS 142, “Goodwill and Other Intangible Assets,” effective January 1, 2002. Under the new rule, companies no longer amortize goodwill or indefinite-lived intangible assets (see Note 12). The rule required the company to perform an initial assessment of whether there is an indication that the carrying value of goodwill is impaired. During the second quarter Praxair completed the initial impairment test and concluded that certain of its goodwill was impaired, resulting in a non-cash after-tax charge of \$139 million or \$0.85 per share on a diluted basis. The charge includes the \$144 million goodwill write-down, a \$2 million charge for goodwill held on an equity investment, which was recorded as a write-down of the investment, and is also net of a \$7 million tax benefit. The charge was recorded as a cumulative effect of an accounting change, retroactive to January 1, 2002.

The following is a summary of the impairment charge by business segment, net of a \$7 million tax benefit:

(Millions of dollars)

<i>Segment</i>	<i>Reporting Unit</i>	<i>Charge</i>
South America	Southern Cone, Andean Region	\$ 80
Europe*	Poland, Israel	20
Asia	India	17
Surface Technologies	Aviation Services	22
		<u>\$139</u>

* Includes \$2 million related to a non-consolidated equity investment.

In determining this charge, the process was the following: First, Praxair determined that it had 15 reporting units, which are sub-units of its reporting segments, for which goodwill should be tested for impairment. Second, the fair value of each reporting unit was calculated using a combination of several valuation approaches including discounted cash flows; multiples of sales and earnings before interest, taxes, depreciation, and amortization (EBITDA); and, comparisons of historical transactions where appropriate. The valuation approaches were weighted based on the individual characteristics of the reporting unit. Third, the fair value of each reporting unit was compared to its respective book value. For nine of the reporting units, the calculated fair values exceeded the book values, and no impairment was indicated. For six reporting units, where the fair values were less than the book values, the current fair value of goodwill was calculated. Goodwill is defined as the excess of the cost of an acquired entity over the fair value of all identifiable tangible and intangible assets acquired and liabilities assumed. The current fair value of such assets and liabilities for the six reporting units was calculated and the amount of goodwill that was impaired for each reporting unit was determined.

The goodwill in Poland, and the majority of goodwill in the Southern Cone (primarily Argentina) and the Andean Region (Venezuela, Colombia and Peru) of South America was related to the 1996 acquisition of CBI Industries. Market and economic conditions have resulted in an impairment to the goodwill allocated to these reporting units. Local market and economic conditions have also affected the value of acquisitions made in Israel and India primarily in 1996 through 1998. Goodwill for Surface Technologies Aviation Services business was related to several acquisitions made in 1995 through 1998 in the aviation coatings and repair business. This business has been significantly impacted by the general downturn in the aviation industry, especially due to the events of September 11, 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In future years, this assessment must be conducted at least annually at the reporting unit level, and any such impairment must be recorded as a charge to operating earnings. The annual impairment test for 2002 was performed and no additional impairments were indicated.

2001 *Derivatives* – Effective January 1, 2001, Praxair adopted SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS 137 and 138. SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value. At January 1, 2001, Praxair recorded a one-time after tax charge as a cumulative effect adjustment for the initial adoption of SFAS 133 totaling \$2 million in its consolidated statement of operations, and a deferred loss of \$4 million in the accumulated other comprehensive income (loss) component of shareholders’ equity in the condensed consolidated balance sheet (see Notes 1, 14 and 15).

NOTE 3. SPECIAL CHARGES

Praxair recorded \$70 million in 2001 and \$159 million in 2000 of pre-tax special charges including the planned termination of approximately 1,800 employees. The programs underlying the charges did not have any material effect on revenues. As of December 31, 2002, all personnel reductions related to these charges have been completed. Of the original planned terminations identified, approximately 1,600 employees have been terminated. The remaining 200 employees identified were not terminated and the related original severance estimate was adjusted to reflect actual costs incurred. All charges were determined based on formal plans approved by management using the best information available at the time and all differences have been adjusted as determined.

The following is a summary of the charges:

<i>(Millions of dollars)</i>	2001	2000
Severance & related	\$40	\$ 48
Asset write-offs, plant closings and other costs – net	30	111
	<u>\$70</u>	<u>\$159</u>

The charges were recorded as follows (see Note 4 for amounts by segment):

<i>(Millions of dollars, except per share data)</i>	2001	2000
Cost of goods sold	\$ 7	\$ 47
Selling, general and administrative	5	21
Other income (expenses) – net	(58)	(91)
Operating profit impact	(70)	(159)
Income tax benefit impact	13	44
Equity income impact	—	(2)
Net income impact	<u>\$ (57)</u>	<u>\$(117)</u>
Impact on diluted earnings per share	<u>\$(0.35)</u>	<u>\$(0.73)</u>

2001 *Restructuring and Other Actions*

In the third quarter of 2001, Praxair recorded pre-tax charges totaling \$70 million for severance and other costs. Severance and certain other costs were associated with a restructuring program that responded to weaker economic conditions, an expected further slowdown in the aviation industry and new business strategies in South America. The charge also included other actions related to asset sales and write-downs and a benefit plan change made in the third quarter of 2001.

The severance costs, totaling \$40 million, were for the elimination of approximately 950 positions in all segments. Other costs totaling \$30 million included asset write-offs and plant closings, partially offset by gains on sales of assets and investments totaling \$9 million.

The North America actions related primarily to the elimination of 280 positions in the U.S. industrial and packaged gases business, with smaller reductions in Canada and Mexico. The actions also included certain asset write-offs, partially offset by a benefit policy change.

In South America, the implementation of new business strategies eliminated about 130 positions and certain assets were written-down. The Company placed greater emphasis on cash flow generation and focused sales growth on less capital-intensive technology and service initiatives.

Surface Technologies is a leading supplier of high-performance coatings and repair services for aircraft engines and parts. As a result of certain events during 2001, Surface Technologies anticipated a decline in commercial aircraft engine production and servicing, which expected to be only partially offset by an increase in military orders. As a result, Praxair downsized its aviation business by reducing its workforce by about 310 positions and consolidated its service locations.

Corporate actions included the elimination of approximately 140 positions in plant engineering and construction, and corporate staff groups, consolidating and focusing its industrial gases research and development programs, including closing a research location, and certain asset write-offs. Asia actions included the elimination of approximately 50 positions and a gain on the sale of an equity investment. Partially offsetting these costs was a gain on a property sale. The charge also included the termination of about 40 positions in Europe.

The cash requirements of the restructuring charge and other actions are estimated to be approximately \$35 million (net of cash received from asset sales) in total of which approximately \$28 million has been paid through December 31, 2002, and the remaining severance costs will be paid over the next year.

2000 Repositioning Programs and Special Charges

In the fourth quarter of 2000, Praxair recorded pre-tax charges totaling \$159 million comprised of \$48 million for severance-related costs, \$67 million of write-downs of non-strategic assets, \$44 million of other costs; and \$2 million of equity income charges. These charges were associated with a repositioning program that realigned Praxair's resources with its target markets. The charge also included costs related to asset write-downs associated with non-strategic activities and related working capital.

The severance costs of \$48 million were for the termination of 811 employees in North and South America, Northern Europe, Surface Technologies, Asia, Global Supply Systems, and Corporate. These initiatives involved a number of actions to reorganize Praxair's marketing, business support and administrative functions around the world to better align the organization with its customer base and improve productivity. In North America, the U.S. business consolidated its operations into four geographic regions and took other actions to streamline processes and increase productivity. The South America and Europe charges related to ongoing productivity improvements. Surface Technologies took actions in the U.S., Europe and Asia to close or consolidate various operations and facilities to improve productivity. In Asia and all other, several actions included: (i) consolidation of packaged gases operations and facilities in India; (ii) the shutdown and write-off of investment in MetFabCity and e-business support activities in India; (iii) reduction of Corporate and global supply system staff as a result of continued productivity initiatives. In 2000 MetFabCity losses recorded in consolidated operating profit were \$12 million.

Other costs included plant closures, consolidations, or cancellations (primarily in Asia and Global Supply Systems), and product-line termination costs totaling \$44 million; and, the write-off of non-strategic assets totaling an additional \$67 million. Non-strategic assets included Praxair's investment in MetFabCity and other e-commerce initiatives (\$22 million), future lease obligations for space that will no longer be used (\$16 million), and various other assets and working capital write-offs or write-downs.

The cash requirements of the repositioning program are estimated to be approximately \$67 million in total of which approximately \$50 million has been paid through December 31, 2002. The estimated payments required in 2003 are \$7 million, and the remaining amounts will be paid through 2006, primarily for long-term lease obligations.

Additionally, in the first quarter of 2000 Praxair initiated a program to reposition the Surface Technologies operations as a result of adverse market conditions in the aerospace original equipment and computer disk drive markets. Praxair recorded a \$5 million pre-tax charge to other income (expenses) – net, including approximately \$4 million for employee severance costs and \$1 million related to other exit costs. The program included the closure of two U.S. facilities and headcount reductions of 150 employees located at these facilities and others. As of December 31, 2000, the program was completed.

The table below summarizes the activity in the accrual for special charges. The remaining accrual at December 31, 2002 is related to the 2001 and 2000 restructuring and repositioning programs and future lease payments from earlier programs (primarily the 1996 charge related to the integration of the Liquid Carbonic business of CBI and Praxair).

<i>(Millions of dollars)</i>	<i>Severance</i>	<i>Other Charges</i>	<i>Total Accrual</i>
Balance, December 31, 1999	\$ —	\$ 12	\$ 12
Surface Technologies repositioning	4	1	5
Repositioning and special charges	48	111	159
2000 activity	(7)	(91)	(98)
Balance, December 31, 2000	45	33	78
Restructuring and other actions	40	30	70
Adjustments	(4)	4	—
2001 activity	(36)	(41)	(77)
Balance, December 31, 2001	45	26	71
Adjustments	(7)	(1)	(8)
2002 activity	(29)	(4)	(33)
Balance, December 31, 2002	\$ 9	\$ 21	\$ 30

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. SEGMENT INFORMATION

Praxair operates principally in the industrial gases business through four operating segments: North America, South America, Europe and Asia. In addition, Praxair operates its worldwide Surface Technologies business through its wholly owned subsidiary, Praxair Surface Technologies, Inc. The All Other category is composed of unallocated and/or one-time corporate items.

Praxair evaluates the performance of its operating segments based primarily on operating profit, excluding intercompany royalties and special charges. Sales are determined based on the country in which the legal subsidiary is domiciled. Corporate and globally managed expenses, and research and development costs relating to Praxair's global industrial gases business, are allocated to operating segments based on sales. Long-lived assets include property, plant and equipment, and patents, trademarks and goodwill.

The table below presents information about reported segments for the years ended December 31, 2002, 2001, and 2000:

<i>(Millions of dollars)</i>	2002	2001	2000
SALES:			
North America	\$3,351	\$3,434	\$3,294
South America	632	674	727
Europe	589	537	542
Asia	324	255	220
Surface Technologies	394	410	414
Eliminations	(162)	(152)	(154)
Total sales	\$5,128	\$5,158	\$5,043
SEGMENT OPERATING PROFIT:^(a)			
North America	\$ 557	\$ 545	\$ 524
South America	134	129	161
Europe	139	119	128
Asia	51	38	23
Surface Technologies	35	39	34
All Other	7	—	(4)
Total segment operating profit	\$ 923	\$ 870	\$ 866
TOTAL ASSETS:^(b)			
North America	\$4,366	\$4,382	\$4,297
South America	1,016	1,464	1,676
Europe	852	737	741
Asia	653	617	508
Surface Technologies	514	515	540
Total assets	\$7,401	\$7,715	\$7,762

(continued)

<i>(Millions of dollars)</i>	2002	2001	2000
DEPRECIATION AND AMORTIZATION:^(c)			
North America	\$ 296	\$ 306	\$ 280
South America	61	79	89
Europe	49	46	44
Asia	43	33	26
Surface Technologies	34	35	32
Total depreciation and amortization	\$ 483	\$ 499	\$ 471
CAPITAL EXPENDITURES AND ACQUISITIONS:			
North America	\$ 359	\$ 491	\$ 368
South America ^(d)	98	142	399
Europe	69	62	62
Asia	59	82	87
Surface Technologies	26	31	59
All Other ^(e)	—	—	19
Total capital expenditures and acquisitions	\$611	\$ 808	\$ 994
SALES BY MAJOR COUNTRY:			
United States	\$2,709	\$2,848	\$2,737
Brazil	487	484	543
All Other – foreign	1,932	1,826	1,763
Total sales	\$5,128	\$5,158	\$5,043
LONG-LIVED ASSETS BY MAJOR COUNTRY:			
United States	\$3,020	\$2,924	\$2,823
Brazil	592	855	941
All Other – foreign	2,089	2,218	2,104
Total long-lived assets	\$5,701	\$5,997	\$5,868

^(a) Praxair recorded pre-tax charges totaling \$70 million in the third quarter of 2001 and \$159 million in the fourth quarter of 2000, which are not included in Praxair's management reporting definition of operating profit (see Note 3 to the consolidated financial statements). Following is a reconciliation of segment operating profit to reported operating profit for the years ended December 31:

<i>(Millions of dollars)</i>	2001	2000
Segment operating profit	\$870	\$866
Less special charges:		
North America	(26)	(60)
South America	(30)	(8)
Europe	(3)	(9)
Asia	—	(8)
Surface Technologies	(4)	(19)
All Other	(7)	(55)
Consolidated operating profit	\$800	\$707

^(b) Includes equity investments as of December 31:

<i>(Millions of dollars)</i>	2002	2001	2000
North America	\$ 70	\$ 82	\$ 73
Europe	92	76	75
Surface Technologies	(2)	—	—
Asia	24	40	94
Total	\$184	\$198	\$242

^(c) Effective in 2002, Praxair adopted SFAS 142, which eliminated the amortization of goodwill prospectively. Goodwill amortization included in the years ended December 31, 2001 and 2000 was as follows:

(Millions of dollars)	2001	2000
North America	\$20	\$16
South America	9	9
Europe	4	3
Asia	3	3
Surface Technologies	2	2
Total	\$38	\$33

^(d) Includes \$5 million in 2002, \$2 million in 2001, and \$242 million in 2000 related to the acquisition of additional minority interests of White Martins Gases Industriais Ltda. (White Martins) in Brazil (see Note 6).

^(e) 2000 includes \$19 million for MetFABCity Inc., an e-business investment, which was written-off at the end of 2000.

NOTE 5. LEASES

For operating leases, primarily involving manufacturing and distribution equipment and office space, noncancelable commitments extending for more than one year will require the following future minimum payments at December 31, 2002:

(Millions of dollars)		Lease Payments*	
2003	\$82	2006	\$ 46
2004	\$68	2007	\$ 24
2005	\$56	after 2007	\$102

* Includes \$11 million related to the 2000 repositioning and special charges (see Note 3).

Included in these totals are \$30 million of lease commitments to Praxair's former parent company, principally for office space. Total lease and rental expenses under operating leases were \$96 million in 2002, \$110 million in 2001 and \$95 million in 2000, excluding \$16 million related to the 2000 repositioning and special charges (see Note 3). The present value of the future lease payments under operating leases is approximately \$347 million at December 31, 2002.

In 1998 Praxair sold certain U.S. liquid storage equipment for \$150 million and in 1999 sold certain U.S. distribution equipment for \$80 million and simultaneously leased the equipment back. Each lease was for an initial two-year term which can be extended by three one-year renewal options and further provides that at each renewal date or at lease termination the company may purchase the equipment for \$150 million and \$80 million, respectively. At these dates, the company may also elect to sell the equipment on behalf of the lessors and has guaranteed proceeds to the lessors equal to \$128 million for the liquid storage equipment and \$68 million for the distribution equipment. The leases for the liquid storage and distribution equipment terminate in September 2003 and March 2004, respectively.

The leases have been treated as operating leases, as at inception and each renewal date the exercise of the purchase option was not reasonably assured. Gains of \$89 million from the sale of

the liquid storage equipment and of \$63 million from the sale of the distribution equipment have been deferred subject to the final guaranteed proceeds to the lessors (see Note 20). If the Company elects to sell the equipment, these gains will be recognized in income to the extent that they exceed any guarantee payment. Management considers the probability of a guarantee payment in excess of either deferred gain to be remote. If the Company elects to purchase the equipment, the purchase price will be reduced by the deferred gain in determining the carrying value of the equipment.

NOTE 6. SUPPLEMENTARY INCOME STATEMENT INFORMATION

(Millions of dollars)	2002	2001	2000
Year Ended December 31,			
COST OF SALES			
Cost of sales	\$2,950	\$3,053	\$3,028
Special charges (Note 3)	—	7	47
	\$2,950	\$3,060	\$3,075
SELLING, GENERAL AND ADMINISTRATIVE			
Selling	\$ 356	\$ 334	\$ 329
General and administrative	395	360	333
Special charges (Note 3)	—	5	21
	\$ 751	\$ 699	\$ 683
DEPRECIATION AND AMORTIZATION			
Depreciation and other	\$ 478	\$ 457	\$ 435
Goodwill amortization	—	38	33
Amortization of other intangibles	5	4	3
	\$ 483	\$ 499	\$ 471
OTHER INCOME (EXPENSES) — NET			
Investment income	\$ 9	\$ 10	\$ 10
Net income hedges ^(a)	17	(8)	10
Other currency	1	5	—
Partnership income	9	13	9
Special charges (Note 3)	8	(58)	(91)
Other	4	4	20
	\$ 48	\$ (34)	\$ (42)
INTEREST EXPENSE			
Interest incurred on debt	\$ 202	\$ 241	\$ 248
Bond call premium	15	—	—
Interest capitalized	(9)	(17)	(24)
Amortization of swap termination costs (Note 15)	(2)	—	—
	\$ 206	\$ 224	\$ 224
MINORITY INTERESTS			
Minority interests ^(b)	\$ (19)	\$ (16)	\$ (24)
Preferred stock dividends	(1)	(2)	(3)
	\$ (20)	\$ (18)	\$ (27)

^(a) Represents net gains from hedges in 2002 which are primarily in Brazil. Net losses in 2001 and net gains in 2000, are primarily in Brazil and Mexico.

^(b) As a result of a tender offer in 2000, Praxair increased its ownership interest in its South American subsidiary, White Martins, from 76.6% at December 31, 1999 to 98.6% at December 31, 2000, 99.2% at December 31, 2001 and 100% at December 31, 2002. Praxair paid \$5 million, \$2 million and \$242 million in connection with the tender offers in 2002, 2001 and 2000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. PROVISION FOR INCOME TAXES

Pre-tax income applicable to U.S. and foreign operations is as follows:

(Millions of dollars)

Year Ended December 31,	2002	2001	2000
United States	\$233	\$210	\$114
Foreign	484	366	369
Total income before income taxes	\$717	\$576	\$483

The following is an analysis of the provision (benefit) for income taxes:

(Millions of dollars)

Year Ended December 31,	2002	2001	2000
Current tax expense (benefit)			
U.S. Federal	\$ 25	\$ 38	\$ (2)
State and local	5	3	4
Foreign	91	58	66
Total current	121	99	68
Deferred tax expense (benefit)			
U.S. Federal	50	30	20
Foreign	(13)	6	15
Total deferred	37	36	35
Total income taxes	\$158	\$135	\$103

An analysis of the difference between the provision for income taxes and the amount computed by applying the U.S. statutory income tax rate to pre-tax income follows:

(Dollar amounts in millions)

Year Ended December 31,	2002		2001		2000	
	\$	%	\$	%	\$	%
U.S. statutory income tax rate	251	35.0	202	35.0	169	35.0
State and local taxes	3	0.4	2	0.3	3	0.6
U.S. tax credits	(3)	(0.4)	(6)	(1.0)	(6)	(1.2)
Foreign taxes	(92)	(12.8)	(47)	(8.2)	(49)	(10.2)
Other – net	(1)	(0.2)	(16)	(2.7)	(14)	(2.9)
Provision for income taxes	158	22.0	135	23.4	103	21.3

The company recognized \$15 million, \$23 million and \$5 million during 2002, 2001, and 2000, respectively, of tax benefits related to current-year foreign net operating losses.

During 2002, taxing authorities in Belgium, Canada, France and Italy decreased their top marginal tax rates. During 2001, Canada and Mexico decreased their top marginal tax rates. During 2000, Italy decreased its top marginal tax rate. The effects of these tax rate changes were immaterial.

Provision has not been made for additional federal or foreign taxes at December 31, 2002 on \$1,145 million of undistributed earnings of foreign subsidiaries planned to be reinvested indefinitely. These earnings could become subject to additional tax if they are remitted as dividends, loaned to Praxair, or upon sale of the subsidiary's stock. It is not practicable to estimate the amount or timing of the additional tax, if any, that might eventually be paid on the foreign earnings.

NOTE 8. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income for the period by the weighted average number of Praxair common shares outstanding. Diluted earnings per share is computed by dividing net income for the period by the weighted average number of Praxair common shares outstanding and dilutive common stock equivalents, as follows:

(Dollar amounts in millions, except per share data)	2002	2001	2000
NUMERATOR (MILLIONS OF DOLLARS)			
Income before cumulative effect of accounting changes	\$548	\$432	\$363
Cumulative effect of accounting changes	(139)	(2)	—
Net income	\$409	\$430	\$363
DENOMINATOR (THOUSANDS OF SHARES)			
Weighted average shares outstanding	162,155	160,891	158,425
Shares earned and issuable under compensation plans	613	619	698
Weighted average shares used in basic earnings per share	162,768	161,510	159,123
Effect of dilutive securities:			
Convertible debt	27	45	61
Employee stock options	1,950	1,952	1,908
Weighted average shares used in diluted earnings per share	164,745	163,507	161,092
BASIC EARNINGS PER COMMON SHARE			
Income before cumulative effect of accounting changes	\$3.36	\$2.68	\$2.28
Net income	\$2.51	\$2.67	\$2.28
DILUTED EARNINGS PER COMMON SHARE			
Income before cumulative effect of accounting changes	\$3.33	\$2.64	\$2.25
Net income	\$2.48	\$2.63	\$2.25

Stock options for 1,210,100; 2,453,895; and 6,662,005 shares were not included in the computation of diluted earnings per share for the years ended December 31, 2002, 2001, and 2000, respectively, because the exercise prices were greater than the average market price of the common stock.

NOTE 9. SUPPLEMENTARY BALANCE SHEET INFORMATION

(Millions of dollars)

December 31,	2002	2001
ACCOUNTS RECEIVABLE		
Trade	\$889	\$889
Other	29	27
	918	916
Less: allowance for doubtful accounts ^(a)	58	59
	\$860	\$857
INVENTORIES^(b)		
Raw materials and supplies	\$ 78	\$ 87
Work in process	31	36
Finished goods	168	164
	\$277	\$287
PREPAID AND OTHER CURRENT ASSETS		
Deferred income taxes (Note 11)	\$ 63	\$ 42
Other	47	51
	\$110	\$ 93
OTHER LONG-TERM ASSETS		
Deposits ^(c)	\$ 21	\$ 23
Other	209	221
	\$230	\$244
OTHER CURRENT LIABILITIES		
Accrued expenses	\$128	\$132
Payrolls	68	74
Pension and postretirement costs	37	33
Special charges	14	45
Accrued interest payable	41	45
Other	122	108
	\$410	\$437
OTHER LONG-TERM LIABILITIES		
Pension and postretirement costs	\$516	\$351
Special charges	16	26
Other ^(c)	120	174
	\$652	\$551
DEFERRED CREDITS		
Deferred income taxes (Note 11)	\$467	\$442
Deferred gain on sale leaseback (Note 5)	152	152
Other	16	13
	\$635	\$607

(continued)

(Millions of dollars)

December 31,	2002	2001
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Cumulative translation adjustment:		
North America	\$ (190)	\$(170)
South America ^(d)	(1,189)	(822)
Europe	(106)	(189)
Asia	(69)	(77)
Surface Technologies	(11)	(23)
	(1,565)	(1,281)
Derivatives (net of \$– and \$2 million taxes in 2002 and 2001, respectively) ^(e)	(1)	(4)
Minimum pension liability (net of \$58 and \$6 million taxes in 2002 and 2001, respectively)	(107)	(12)
	\$ (1,673)	\$(1,297)

^(a) Provisions to the allowance for doubtful accounts were \$40 million, \$35 million and \$19 million in 2002, 2001, and 2000, respectively.

^(b) Approximately 26% of total inventories were valued using the LIFO method at December 31, 2002 and 2001. If inventories had been valued at current costs, they would have been approximately \$26 million and \$28 million higher than reported at December 31, 2002 and 2001, respectively.

^(c) \$12 million and \$31 million of other long-term assets and other long-term liabilities in Brazil have been netted in 2002 and 2001, respectively, because a legal right of offset exists.

^(d) Consists primarily of currency translation adjustments in Brazil and Argentina.

^(e) The derivatives component of accumulated other comprehensive income (loss) relates to the adoption of SFAS 133 (see Notes 2 and 15). The table below summarizes the 2001 and 2002 activity:

(Millions of dollars)

Transition Adjustment, January 1, 2001	\$ (4)
Change in fair value	(25)
Reclassified to earnings – interest expense	17
Reclassified to earnings – operating profit	8
Balance, December 31, 2001	(4)
Change in fair value	(4)
Reclassified to earnings – interest expense	5
Reclassified to earnings – operating profit	2
Balance, December 31, 2002	\$(1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. PROPERTY, PLANT AND EQUIPMENT – NET

Significant classes of property, plant and equipment are as follows:

(Millions of dollars)

December 31,	2002	2001
Machinery and equipment	\$8,273	\$8,047
Buildings	575	579
Construction in progress and other	338	383
Land and land improvements	241	233
	9,427	9,242
Less: accumulated depreciation	(4,761)	(4,425)
	<u>\$4,666</u>	<u>\$4,817</u>

Machinery and equipment includes production plants, tanks, cylinders, transportation equipment and other assets that have useful lives of 3 to 30 years. Buildings have useful lives of 25 to 40 years and land improvements have useful lives up to 20 years.

NOTE 11. DEFERRED INCOME TAXES

Net deferred tax liabilities are comprised of the following:

(Millions of dollars)

December 31,	2002	2001
DEFERRED TAX LIABILITIES		
Fixed assets	\$724	\$716
State and local	11	11
Other	166	161
Total deferred tax liabilities	<u>901</u>	<u>888</u>
DEFERRED TAX ASSETS		
Benefit plans and related	164	170
Inventory	13	19
Alternative minimum tax and other credits	69	85
Carryforwards – gross	218	202
Minimum pension liability	58	6
Other	99	93
	621	575
Less: Valuation allowances	(124)	(87)
Total deferred tax assets	<u>497</u>	<u>488</u>
Net deferred tax liabilities	<u>\$404</u>	<u>\$400</u>
Recorded as:		
Current deferred tax assets (Note 9)	\$ 63	\$ 42
Long-term deferred tax liabilities (Note 9)	<u>\$467</u>	<u>\$442</u>

The valuation allowances increased \$37 million in 2002 primarily relating to foreign net operating loss and other tax credit carryforward activity. At December 31, 2002, Praxair has \$218 million of deferred tax assets relating to net operating loss and other tax credit carryforwards (primarily foreign) that either expire through 2011 or never expire but are subject to annual usage limitations. A valuation allowance of \$124 million has been established related to these carryforwards.

NOTE 12. GOODWILL

As described in Note 2, the Company adopted SFAS 142 as of January 1, 2002, which eliminates goodwill amortization expense prospectively. The following table reconciles the prior years' reported net income and earnings per share amounts to their respective amounts adjusted to exclude goodwill amortization expense. Current period results are presented for comparative purposes.

(Millions of dollars, except per share data)

Year Ended December 31,	2002	2001	2000
NET INCOME:			
Reported net income	\$409	\$430	\$363
Add back: goodwill amortization after-tax	—	33	29
Net income excluding goodwill amortization	<u>\$409</u>	<u>\$463</u>	<u>\$392</u>
PER SHARE DATA			
Basic earnings per Share:			
Reported net income	\$2.51	\$2.67	\$2.28
Add back: goodwill amortization after-tax	—	0.20	0.18
Net income excluding goodwill amortization	<u>\$2.51</u>	<u>\$2.87</u>	<u>\$2.46</u>
Diluted earnings per share:			
Reported net income	\$2.48	\$2.63	\$2.25
Add back: goodwill amortization after-tax	—	0.20	0.18
Net income excluding goodwill amortization	<u>\$2.48</u>	<u>\$2.83</u>	<u>\$2.43</u>

Changes in the carrying amount of goodwill for the year ended December 31, 2002, were as follows:

<i>(Millions of dollars)</i>	<i>North America</i>	<i>South America</i>	<i>Europe</i>	<i>Asia</i>	<i>Surface Technologies</i>	<i>Total</i>
Balance, December 31, 2001	\$712	\$253	\$48	\$35	\$88	\$1,136
Acquisitions	53	2	3	—	—	58
Cumulative effect of an accounting change (Note 2)	—	(84)	(18)	(17)	(25)	(144)
Foreign currency translation	(6)	(72)	6	2	5	(65)
Balance, December 31, 2002	\$759	\$99	\$39	\$20	\$68	\$985

NOTE 13. OTHER INTANGIBLE ASSETS

(Millions of dollars)

<i>December 31,</i>	2002	<i>2001</i>
License/use agreements	\$33	\$29
Non-compete agreements	29	28
Patents	15	9
	77	66
Less: accumulated amortization	(27)	(22)
	\$50	\$44

There are no expected residual values related to these intangible assets. Estimated annual amortization expense is as follows:

(Millions of dollars)

<i>Year Ended December 31,</i>	
2003	\$5
2004	5
2005	5
2006	7
2007	6
Thereafter	22
	\$50

The weighted average amortization period for intangible assets is approximately 11 years. Additions to other intangible assets for the year ended December 31, 2002 were approximately \$11 million, and amortization expense for the years ended December 31, 2002, 2001 and 2000 was \$5 million, \$4 million and \$3 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. DEBT

The following is a summary of Praxair's outstanding debt at December 31, 2002 and 2001:

<i>(Millions of dollars)</i>	2002	2001
SHORT-TERM		
Canadian borrowings	\$ 65	\$ —
U.S. borrowings	7	—
South American borrowings	64	90
Asian borrowings	74	58
Other international borrowings	5	30
Total short-term debt	215	178
LONG-TERM		
U.S.:		
Commercial paper and U.S. borrowings	86	716
6.625% Notes due 2003	75	75
6.75% Notes due 2003	300	300
6.15% Notes due 2003	250	250
6.85% Notes due 2005	150	150
6.90% Notes due 2006	250	250
4.75% Notes due 2007 ^(b)	249	—
6.625% Notes due 2007	250	250
6.50% Notes due 2008	250	250
6.375% Notes due 2012 ^(a, b)	543	—
8.70% Debentures due 2022 (redeemed in 2002)	—	300
Other borrowings	40	41
Canadian borrowings	—	113
South American borrowings	28	35
Asian borrowings	52	71
Other international borrowings	3	3
Obligations under capital lease	7	7
	2,533	2,811
Less: current portion of long-term debt	23	86
Total long-term debt	2,510	2,725
Total debt	\$2,748	\$2,989

^(a) December 31, 2002 includes a \$45 million fair value increase related to SFAS 133 hedge accounting (see Note 15).

^(b) Amounts are net of unamortized discounts.

On March 19, 2002, Praxair issued \$500 million 6.375% notes maturing April 1, 2012, and on June 19, 2002 Praxair issued \$250 million 4.75% notes maturing July 15, 2007. The proceeds were used to repay outstanding commercial paper.

On July 15, 2002, Praxair redeemed the 8.7% debentures due 2022 resulting in an additional \$15 million charge recorded within interest expense for the year ended December 31, 2002.

In July 2001, \$65 million of long-term debt was assumed through the consolidation of an equity investment in India.

At December 31, 2002 and 2001, Praxair held two credit agreements totaling \$1.5 billion, of which \$500 million is renewable annually, with the remainder expiring in 2005. At December 31, 2002, \$711 million of notes due in 2003 and commercial paper have been classified as long-term (\$716 million of short-term borrowings at December 31, 2001) because of the company's intent to refinance this debt on a long-term basis and the availability of such financing under the terms of its credit agreements. No borrowings were outstanding under the credit agreements at December 31, 2002 or 2001, and associated fees were not significant in each of the past three years.

At December 31, 2002 and 2001, the weighted-average interest rate on commercial paper and U.S. bank borrowings was 2.0% and 4.4%, respectively.

Praxair's major bank credit and long-term debt agreements contain various covenants which may, among other things, restrict the ability of Praxair to merge with another entity, incur or guarantee debt, sell or transfer certain assets, create liens against assets, enter into sale and leaseback agreements, or pay dividends and make other distributions beyond certain limits. These agreements also require Praxair to meet leverage and net worth ratios. At December 31, 2002, Praxair was in compliance with all such covenants.

Excluding commercial paper and U.S. bank borrowings, scheduled maturities on long-term debt are: 2003, \$734 million; 2004, \$32 million; 2005, \$171 million; 2006, \$276 million; 2007, \$511 million and \$809 million thereafter. At December 31, 2002, \$136 million of Praxair's assets (principally international fixed assets) were pledged as security for long-term debt including the current portion of long-term debt.

At December 31, 2002, the estimated fair value of Praxair's long-term debt portfolio was \$2,636 million versus a carrying value of \$2,533 million. At December 31, 2001, the estimated fair value of long-term debt was \$2,886 million versus a carrying value of \$2,811 million. These differences are attributable to interest rate changes subsequent to when the debt was issued.

NOTE 15. FINANCIAL INSTRUMENTS

The following table is a summary of the notional amount of interest rate and currency derivatives outstanding at December 31, 2002 and December 31, 2001:

<i>(Millions of dollars)</i>	<i>Maturity</i>	2002	2001
Interest rate swaps:			
Floating to fixed	<i>< 1 Year</i>	\$100	\$750
Floating to fixed	<i>1-2 years</i>	—	100
Total interest rate swaps		\$100	\$850
Currency contracts:			
Balance sheet items	<i>< 1 Year</i>	\$222	\$160
Firm commitments	<i>< 1 Year</i>	1	1
Anticipated net income	<i>< 1 Year</i>	210	97
Net investments	<i>< 1 Year</i>	—	13
Total currency contracts		\$433	\$271

Interest Rate Swaps

At December 31, 2002 Praxair had a \$100 million notional amount interest rate swap agreement that effectively converted variable rate lease payments to fixed rate lease payments (\$850 million at December 31, 2001 that converted variable rate interest and lease payments to fixed rate interest and lease payments) with a scheduled maturity in the first quarter of 2003. At December 31, 2002, the fair value of this swap was an immaterial loss. At December 31, 2001, the fair value of the swaps was a loss of \$6 million. These swap agreements have been designated as, and are effective as, cash flow hedges of outstanding lease obligations or debt instruments. During 2002, Praxair recorded the change in fair value to accumulated other comprehensive income (loss) and reclassified to earnings a portion of the deferred loss from accumulated other comprehensive income (loss) as underlying hedged transactions occurred and were recognized in earnings. Any hedging ineffectiveness was also recorded and was not significant. Praxair expects to reclassify the deferred losses from accumulated other comprehensive income (loss) to earnings (operating profit) in the next year as the underlying hedged transaction settles.

During 2002, Praxair entered into and terminated \$500 million notional amount of interest rate swap agreements that effectively converted fixed rate interest to variable rate interest on the \$500 million 6.375% notes that mature in April 2012. The termination resulted in a cash gain of \$47 million, which Praxair recognized in earnings and was equally offset with a charge to earnings for the changes in fair value of the underlying debt instrument. The fair value increase to the \$500 million 6.375% notes of \$47 million is being recognized in earnings as a reduction to interest expense over the remaining original term of the underlying debt, or about ten years. For the year ended December 31, 2002, \$2 million was recognized in earnings as a reduction to interest expense and \$45 million remains unrecognized (see Note 14). The \$47 million cash payment received upon termination of the swap are shown in minority transactions and other in the financing section in the consolidated statement of cash flows.

Currency Contracts

Praxair is a party to currency exchange forward contracts, to manage its exposure to changing currency exchange rates, that mature within one year. At December 31, 2002 and 2001, respectively, Praxair had \$433 million and \$271 million notional amount of currency exchange forward contracts outstanding: \$222 million to hedge recorded balance sheet exposures (\$160 million in 2001), \$1 million, in 2002 and 2001, to hedge firm commitments for the purchase of equipment related to construction projects, \$210 million to hedge anticipated future net income (\$97 million in 2001) and no contracts to hedge net investments in foreign subsidiaries (\$13 million in 2001). Additionally, there was \$39 million notional value of currency exchange contracts that effectively offset each other (\$7 million in 2001). At December 31, 2002, there were no net investment contracts outstanding and the amount recorded in the cumulative translation adjustment component of accumulated other comprehensive income (loss) was an insignificant loss (\$1 million in 2001).

The net income hedges outstanding at December 31, 2002, are related to anticipated 2003 net income for the full year in China, Peru, Colombia, India, Thailand and Korea; for nine months in Brazil, and; for six months in Europe. The net income hedges outstanding at December 31, 2001, were related to anticipated 2002 net income for the full year in Mexico, Korea and Thailand, and for six months in Brazil. The amount recorded in other income (expenses) – net as a result of net income hedging contracts (realized and unrealized) was a gain of \$17 million in 2002, a loss of \$8 million in 2001 and a gain of \$10 million in 2000.

Commodity Swaps

At December 31, 2002 and 2001, Praxair had three outstanding commodity swap agreements to hedge its exposure to the variability in future cash flows for forecasted purchases of natural gas. The 2002 outstanding commodity swap agreements settle in the first half of 2003, and their impact is not significant.

At December 31, 2002 the fair value of all derivative instruments has been recorded in the consolidated balance sheet as follows: \$4 million in current assets and \$2 million in current liabilities (\$1 million in current assets and \$12 million in current liabilities at December 31, 2001).

Counterparties to interest rate derivative contracts and currency exchange forward contracts are primarily major banking institutions with credit ratings of investment grade or better and no collateral is required. There are no significant risk concentrations. Management believes the risk of incurring losses on derivative contracts, including commodity swaps, related to credit risk is remote and any losses would be immaterial.

NOTE 16. SHAREHOLDERS' EQUITY

At December 31, 2002, there were 500,000,000 shares of common stock authorized (par value \$0.01 per share) of which 173,950,375 shares were issued and 162,268,096 were outstanding.

In 2002, the board of directors of Praxair declared a dividend of one purchase right (a "Right") for each share of Praxair's common stock held of record at the close of business on June 28, 2002; and that dividend was paid on July 1, 2002.

On June 30, 2002, all prior Rights then outstanding expired. In addition, one Right is deemed to be delivered with and attached to each share of Praxair's common stock issued after June 28, 2002 and before the redemption or expiration of the Rights. Each Right entitles its registered holder, when exercised under certain circumstances, to purchase for \$300.00 (subject to adjustment and referred to as the "Exercise Price") certain securities or assets of Praxair or a surviving entity.

The Rights may not be exercised until at least 10 days after a person or group acquires 15 percent or more of Praxair's common stock, or commences a tender offer that, if consummated, would result in 15 percent or more ownership of Praxair's common stock. Separate Rights certificates will not be issued and the Rights will not be traded separately from the stock until then. At no time will a Right confer any voting power to its holder.

Should an acquirer become the beneficial owner of 15 percent or more of Praxair's common stock (other than as approved by Praxair's board of directors) and under certain additional circumstances, Praxair Right-holders (other than the acquirer) would have the right to buy common stock in Praxair, or in the surviving entity if Praxair is acquired, having a value of two times the exercise price then in effect. Alternatively, Praxair's board of directors may elect to exchange all of the Rights (other than the acquirer's Rights which will have become void) at an exchange ratio of one share of Praxair common stock (and/or other securities, cash or other assets having equal value) per Right (subject to adjustment). Also, under certain circumstances, each Right may entitle the holder to purchase one one-hundredth share of preferred stock or such amount of preferred stock may be substituted for each share of common stock issuable upon the exercise or exchange of a Right.

The Rights will expire on June 30, 2012, unless exchanged or redeemed prior to that date. The redemption price is \$0.001 per Right. Praxair's board of directors may redeem the Rights by a majority vote at any time prior to the 10th day following public announcement that a person or group has acquired 15 percent of Praxair's common stock. Under certain circumstances, the decision to redeem requires the concurrence of a majority of the independent directors.

NOTE 17. PREFERRED STOCK

At December 31, 2002 and 2001, there were 25,000,000 shares of preferred stock (par value \$0.01 per share) authorized, of which, 200,000 shares were issued and outstanding at December 31, 2001. No shares were outstanding at December 31, 2002. No dividends may be paid on Praxair common stock unless preferred stock dividends have been paid, and the preferred stock has limited voting rights. Dividends are included in minority interests on the consolidated statement of income.

In September 2002, the company redeemed all 200,000 outstanding shares of its Series B 6.75% cumulative preferred stock at \$100 per share, or \$20 million. This is shown in the financing section of the consolidated statement of cash flows in the caption minority transactions and other.

NOTE 18. INCENTIVE PLANS AND STOCK OPTIONS

As of March 1, 2001, the 1996 Praxair, Inc. Performance Incentive Plan (the "1996 Plan") was terminated, and at December 31, 2001, the 1992 Praxair Long-Term Incentive Plan (the "1992 Plan") expired. Stock option and other incentive compensation awards granted by the company through December 31, 2001 were made under these plans. Both plans provided for granting nonqualified or incentive stock options, stock grants, performance awards, and other stock-related incentives for key employees. The exercise price for incentive stock options was equal to the closing price of Praxair's common stock on the date of the grant. Options that were granted under both plans became exercisable only after one or more years and the option term could be no more than ten years.

On February 28, 2001, the board of directors of the company adopted the 2002 Praxair, Inc. Long-Term Incentive Plan (the "2002 Plan"), which became effective on January 1, 2002. The shareholders then approved the Plan at Praxair's annual meeting in April 2001. Under the 2002 Plan, the number of shares available for option or stock grants is limited to a total of 7,900,000 shares for the ten-year term of the Plan. As of December 31, 2002, 6,944,500 shares were available for option or stock grants. The 2002 Plan provides for the granting of only nonqualified and incentive stock options, stock grants and performance awards and further provides that the aggregate number of shares granted as restricted stock or pursuant to performance awards may not exceed 20% of the total shares available under the Plan. The 2002 Plan also provides calendar year per-participant limits on grants of options, restricted stock

and performance awards. Exercise prices for options granted under the 2002 Plan may not be less than the closing market price of the company's common stock on the date of grant and granted options may not be repriced or exchanged without shareholder approval. Options granted under the 2002 Plan become exercisable after a minimum of one year and have a maximum duration of ten years. Both officer and non-officer employees are eligible for awards under the 2002 Plan.

The following table summarizes the changes in outstanding shares under option and performance share equivalents for 2002, 2001, and 2000 (options are expressed in thousands):

<i>Activity</i>	<i>Options</i>	<i>Weighted Average Exercise Price</i>
Outstanding at December 31, 1999	12,676	\$32.47
Granted	3,050	\$42.40
Exercised	(1,001)	\$15.19
Vested	—	—
Cancelled or expired	(179)	\$43.72
Outstanding at December 31, 2000	14,546	\$35.60
Granted	4,522	\$47.05
Exercised	(3,443)	\$26.00
Cancelled or expired	(123)	\$44.38
Outstanding at December 31, 2001	15,502	\$41.01
Granted	1,324	\$56.75
Exercised	(3,813)	\$34.94
Cancelled or expired	(118)	\$47.71
Outstanding at December 31, 2002	12,895	\$44.36
Exercisable at		
December 31, 2000	8,684	\$31.48
December 31, 2001	8,052	\$37.12
December 31, 2002	8,620	\$41.55

The following table summarizes information about options outstanding and exercisable at December 31, 2002 (options are expressed in thousands, averages are calculated on a weighted basis, life in years):

<i>Range of Exercise Prices</i>	<i>Outstanding</i>			<i>Exercisable</i>	
	<i>Average Remaining Life</i>	<i>Number of Options</i>	<i>Average Exercise Price</i>	<i>Number of Options</i>	<i>Average Exercise Price</i>
\$15.75 - \$24.38	1.7	748	\$19.99	748	\$19.99
\$26.25 - \$36.25	5.5	1,166	\$33.87	1,166	\$33.87
\$36.50 - \$46.00	7.4	6,115	\$42.98	4,074	\$42.47
\$46.13 - \$58.65	7.2	4,866	\$52.34	2,632	\$49.65
\$15.75 - \$58.65	6.8	12,895	\$44.36	8,620	\$41.55

NOTE 19. RETIREMENT PROGRAMS

Pensions – Praxair has two main U.S. retirement programs which are non-contributory defined benefit plans, the Praxair Retirement Program and the CBI Retirement Program. The latter program primarily benefits former employees of CBI Industries, Inc. which Praxair acquired in 1996. Effective July 1, 2002, the Praxair Retirement Program was amended to give participating employees a one-time choice to remain covered by the old formula or to elect coverage under a new formula. The old formula is based predominantly on years of service, age and compensation levels prior to retirement, while the new formula provides for an annual contribution to an individual account which grows with interest each year at a predetermined rate. Also, this new formula will apply to all new employees hired into businesses adopting this plan. U.S. pension plan assets are comprised of a diversified mix of assets including domestic and international corporate equities, government securities and corporate debt securities. Pension coverage for employees of certain of Praxair’s international subsidiaries generally is provided by those companies through separate plans. Obligations under such plans are primarily provided for through diversified investment portfolios, with some smaller plans provided for under insurance policies or by book reserves.

Praxair’s U.S. packaged gases business has a defined contribution plan. Company contributions to this plan are calculated as a percentage of salary based on age plus service. Praxair’s U.S. Healthcare business also sponsors a defined contribution plan. It provides for a matching contribution as well as a company contribution that is not dependent on employee contributions. In both plans, U.S. employees may supplement the company contributions up to the maximum allowable by IRS regulations. Certain international subsidiaries of the company also sponsor defined contribution plans where contributions are determined under various formulas. The cost for all contribution plans was \$7 million in 2002, 2001 and 2000 (not included in the tables that follow).

U.S. employees other than those in the packaged gases business are eligible to participate in a defined contribution savings plan. Employees may contribute up to 18% of their compensation, subject to the maximum allowable by IRS regulations. Company contributions to this plan are calculated on a graduated scale based on employee contributions to the plan. As discussed above, as part of the election made for July 1, 2002, current employees were given the choice of maintaining coverage under the matching formula then in effect, or if so chosen, to move to an enhanced matching formula. Effective July 1, 2002, this enhanced matching program applies to all employees hired into businesses adopting this plan. The cost for this plan was \$11 million in 2002 and \$10 million in 2001 and 2000 (not included in the tables that follow).

Postretirement Benefits Other Than Pensions (OPEB) – Praxair provides health care and life insurance benefits to certain eligible retired employees. These benefits are provided through various insurance companies and health care providers. Praxair is also obligated to make payments for a portion of postretirement benefits related to retirees of Praxair’s former parent. Additionally, as part of the CBI acquisition in 1996, Praxair assumed responsibility for health care and life insurance benefit obligations for CBI’s retired employees. All postretirement health care programs have cost caps that limit the Company’s exposure to future cost increases. In addition, as part of the choice election made for July 1, 2002, all current employees were given the choice of maintaining coverage in retirement under the current plan, or to move to a plan whereby coverage would be provided, but with no Praxair subsidy whatsoever. Praxair does not currently fund its postretirement benefits obligations. Praxair retiree plans may be changed or terminated by Praxair at any time for any reason with no liability to current or future retirees.

Pension and Postretirement Benefit Costs

The components of net pension and OPEB costs for 2002, 2001, and 2000 are shown below:

(Millions of dollars)	Pensions			OPEB		
	2002	2001	2000	2002	2001	2000
NET BENEFIT COST						
Service cost	\$30	\$26	\$30	\$4	\$5	\$6
Interest cost	73	67	64	16	14	15
Expected return on assets	(86)	(81)	(78)	—	—	—
Curtailed / settlement (gains)	—	—	(6)	—	—	—
Net amortization and deferral	(2)	(3)	(3)	(3)	(4)	(5)
Net periodic benefit cost	\$15	\$9	\$7	\$17	\$15	\$16

The changes in benefit obligation and plan assets and the funded status reconciliation as of December 31, 2002 and 2001 for Praxair's significant pension and OPEB programs are shown below:

(Millions of dollars)	Pensions				OPEB	
	2002		2001		2002	2001
Year End December 31,	US	INTL	US	INTL		
CHANGE IN BENEFIT OBLIGATION						
Benefit obligation, January 1	\$759	\$236	\$705	\$243	\$224	\$230
Service cost	21	9	19	8	4	4
Interest cost	58	15	53	14	16	15
Participant contributions	—	1	—	—	7	11
Plan amendments	—	—	—	—	—	8
Actuarial loss (gain)	85	—	19	—	26	(14)
Benefits paid	(40)	(15)	(37)	(18)	(26)	(28)
Curtailed / settlement (gains)	—	(1)	—	—	—	—
Currency translation	—	1	—	(11)	(4)	(2)
Other changes*	18	—	—	—	7	—
Benefit obligation, December 31	\$901	\$246	\$759	\$236	\$254	\$224
CHANGE IN PLAN ASSETS						
Fair value of plan assets, January 1	\$605	\$241	\$666	\$259	\$—	\$—
Actual return on plan assets	(54)	(5)	(30)	8	—	—
Company contributions	—	7	—	3	—	—
Participant contributions	—	1	—	—	—	—
Benefits paid	(33)	(15)	(31)	(18)	—	—
Currency translation	—	1	—	(11)	—	—
Fair value of plan assets, December 31	\$518	\$230	\$605	\$241	\$—	\$—
FUNDED STATUS RECONCILIATION						
Funded status, December 31	\$(383)	\$(16)	\$(154)	\$5	\$(254)	\$(224)
Unrecognized (gains) losses – net	247	11	45	(17)	24	2
Unrecognized prior service cost	(6)	2	(5)	2	(9)	(14)
Unrecognized transition amount	—	1	—	(1)	—	—
Net amount recognized, December 31	\$(142)	\$(2)	\$(114)	\$(11)	\$(239)	\$(236)
AMOUNTS IN THE BALANCE SHEET:						
Prepaid benefit cost	\$—	\$4	\$—	\$2	\$—	\$—
Accrued benefit liability	(305)	(9)	(132)	(16)	(239)	(236)
Intangible assets	—	1	—	3	—	—
Accumulated other comprehensive income (loss)	163	2	18	—	—	—
Net amount recognized, December 31	\$(142)	\$(2)	\$(114)	\$(11)	\$(239)	\$(236)

* Other changes in 2002 represent the CBI non-qualified pension and OPEB obligations included in the table beginning in 2002 and accrued for in 2002, 2001 and 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$1,062 million, \$961 million, and \$604 million, respectively, as of December 31, 2002 (\$911 million, \$821 million and \$695 million, respectively, as of December 31, 2001).

The weighted average or range of assumptions for the Company's pension and OPEB benefit plans were as follows:

December 31,	U.S. Plans		International Plans	
	2002	2001	2002	2001
Discount rate	6.75%	7.25%	4.00 – 9%	3.25 – 11%
Rate of increase in Compensation levels	3.75%	4.25%	2.25 – 5%	2.25 – 8%
Expected long-term rate of Return on plan assets*	9.25%	9.50%	2.00 – 10%	5.5 – 12%

* For 2003, the expected long-term rate of return on plan assets will be 8.5% for the U.S. plans. Expected returns for international plans will vary. These rates are determined annually by management based on a weighted average of current and historical market trends, historical portfolio performance and the portfolio mix of investments.

For OPEB measurement purposes, a 11.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003, gradually reducing to 5.0% in 2008 and thereafter. These health care cost trend rate assumptions have an impact on the amounts reported; however, cost caps limit the impact on the net OPEB benefit cost. To illustrate the effect, a one-percentage point change in assumed health care cost trend rates would have the following effects:

(Millions of dollars)	One-Percentage	One-Percentage
	Point Increase	Point Decrease
Effect on the total of service and interest cost components of net OPEB benefit cost	\$ —	\$ —
Effect on OPEB benefit obligation	\$ 4	\$ (4)

NOTE 20. COMMITMENTS AND CONTINGENCIES

In the normal course of business, Praxair is involved in legal proceedings and claims with both private and governmental parties. These cover a variety of items, including product liability and environmental matters. In some of these cases, the remedies that may be sought or damages claimed are substantial. While it is impossible at this time to determine with certainty the ultimate outcome of any of these cases, in the opinion of management, they will not have a material adverse effect on the consolidated financial position of Praxair or on the consolidated results of operations or cash flows in a given year. The company accrues for contingencies when management believes that it is probable that a liability has been incurred and its amount is reasonably estimable. In the event any losses are sustained in excess of these accruals, they will be charged to income at that time.

The following table sets forth Praxair's material commitments and contractual obligations excluding debt and leases (see Notes 14 and 5) as of December 31, 2002:

Expiring through December 31,	(Millions of dollars)			
	Unconditional Purchase Obligations ^(a)	Construction Commitments ^(b)	Standby Letters of Credit ^(c)	Guarantees ^(d)
2003	\$73	\$187	\$36	\$148
2004	39	46	—	68
2005	31	1	—	1
2006	28	—	13	—
2007	25	—	—	—
Thereafter	146	—	—	—
	\$342	\$234	\$49	\$217

^(a) Praxair enters into various take or pay arrangements primarily for the supply of feedstock used to produce carbon dioxide and power to produce atmospheric gases and hydrogen. Much of these risks are passed on to customers through similar take or pay contractual arrangements. Remaining purchase obligations require Praxair to satisfy its customer obligations and do not represent a significant risk. In addition, Praxair enters into contracts to purchase products and services which do not have minimum purchase provisions.

^(b) The company spends in the range of \$500 to \$700 million annually in new capital expenditures. A significant portion of these expenditures are related to the construction of new production facilities to satisfy customer commitments which may take a year or more to complete. Therefore, at any point in time, the company has outstanding commitments with suppliers to complete authorized construction projects. At December 31, 2002, such commitments totaled \$234 million.

^(c) Praxair is contingently liable on standby letters of credit totaling \$49 million that include approximately \$34 million related to insurance programs.

^(d) Guarantees primarily include \$196 million of residual value guarantees on operating leases as described in Note 5. Certain of Praxair's unconsolidated affiliates have debt on their balance sheets totaling approximately \$110 million, all non-recourse to Praxair except for approximately \$10 million. Praxair has no financing arrangements with closely held related parties.

NOTE 21. QUARTERLY DATA (UNAUDITED)

(Dollar amounts in millions, except per share data)

2002	1Q	2Q	3Q	4Q	YEAR
Sales	\$ 1,232	\$ 1,307	\$ 1,292	\$ 1,297	\$5,128
Cost of sales	699	755	749	747	2,950
Depreciation and amortization	121	120	120	122	483
Operating profit	217	244	235	227	923
Income before cumulative effect of an accounting change	\$ 127	\$ 150	\$ 131	\$ 140	548
Cumulative effect of an accounting change ^(a)	(139)	—	—	—	(139)
Net income	\$ (12)	\$ 150	\$ 131	\$ 140	\$ 409
BASIC PER SHARE DATA:					
Income before cumulative effect of an accounting change	\$ 0.78	\$ 0.92	\$ 0.81	\$ 0.86	\$ 3.36
Cumulative effect of an accounting change ^(a)	(0.85)	—	—	—	(0.85)
Net income	\$ (0.07)	\$ 0.92	\$ 0.81	\$ 0.86	\$ 2.51
Weighted average shares (000's)	163,524	162,697	162,296	162,555	162,768
DILUTED PER SHARE DATA:					
Income before cumulative effect of an accounting change	\$ 0.77	\$ 0.91	\$ 0.80	\$ 0.85	\$ 3.33
Cumulative effect of an accounting change ^(a)	(0.84)	—	—	—	(0.85)
Net income	\$ (0.07)	\$ 0.91	\$ 0.80	\$ 0.85	\$ 2.48
Weighted average shares (000's)	165,936	164,835	163,956	164,315	164,745

(Dollar amounts in millions, except per share data)

2001	1Q	2Q	3Q ^(b)	4Q	Year
Sales	\$1,335	\$1,314	\$1,271	\$1,238	\$5,158
Cost of sales	809	784	752	715	3,060
Depreciation and amortization	122	125	127	125	499
Operating profit	224	220	148	208	800
Income before cumulative effect of an accounting change	\$ 126	\$ 126	\$ 62	\$ 118	\$ 432
Cumulative effect of an accounting change ^(c)	(2)	—	—	—	(2)
Net income	\$ 124	\$ 126	\$ 62	\$ 118	\$ 430
Add back goodwill amortization after-tax	8	8	9	8	33
Net income excluding goodwill amortization ^(d)	\$ 132	\$ 134	\$ 71	\$ 126	\$ 463
BASIC PER SHARE DATA:					
Income before cumulative effect of an accounting change	\$ 0.78	\$ 0.78	\$ 0.38	\$ 0.73	\$ 2.68
Cumulative effect of an accounting change ^(c)	(0.01)	—	—	—	(0.01)
Net income	\$ 0.77	\$ 0.78	\$ 0.38	\$ 0.73	\$ 2.67
Add back goodwill amortization after-tax	0.05	0.05	0.06	0.05	0.20
Net income excluding goodwill amortization ^(d)	\$ 0.82	\$ 0.83	\$ 0.44	\$ 0.78	\$ 2.87
Weighted average shares (000's)	160,773	161,543	161,734	161,991	161,510
DILUTED PER SHARE DATA:					
Income before cumulative effect of an accounting change	\$ 0.77	\$ 0.77	\$ 0.38	\$ 0.72	\$ 2.64
Cumulative effect of an accounting change ^(c)	(0.01)	—	—	—	(0.01)
Net income	\$ 0.76	\$ 0.77	\$ 0.38	\$ 0.72	\$ 2.63
Add back goodwill amortization after-tax	0.05	0.05	0.06	0.05	0.20
Net income excluding goodwill amortization ^(d)	\$ 0.81	\$ 0.82	\$ 0.44	\$ 0.77	\$ 2.83
Weighted average shares (000's)	162,661	163,802	163,275	164,137	163,507

^(a) Related to the adoption of SFAS 142, Goodwill and Other Intangible Assets (see Note 2).

^(b) The third quarter 2001 includes \$70 million of pre-tax charges (\$57 million after tax, or \$0.35 per diluted share) related to restructuring and other actions (see Note 3).

^(c) Related to the adoption of SFAS 133, Accounting for Derivative Instruments and Hedging Activities (see Note 2).

^(d) Net income excluding goodwill amortization excludes amortization of goodwill prior to 2002 (see Note 12).

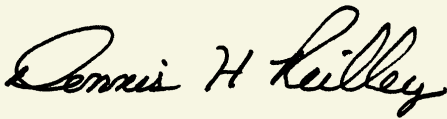
**MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR
FINANCIAL STATEMENTS**

Praxair's consolidated financial statements are prepared by management, which is responsible for their fairness, integrity and objectivity. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America applied on a consistent basis except for accounting changes as disclosed and include amounts that are estimates and judgments. All historical financial information in this annual report is consistent with the accompanying financial statements.

Praxair maintains accounting systems, including internal accounting controls monitored by a staff of internal auditors, that are designed to provide reasonable assurance of the reliability of financial records and the protection of assets. The concept of reasonable assurance is based on recognition that the cost of a system should not exceed the related benefits. The effectiveness of those systems depends primarily upon the careful selection of financial and other managers, clear delegation of authority and assignment of accountability, inculcation of high business ethics and conflict-of-interest standards, policies and procedures for coordinating the management of corporate resources and the leadership and commitment of top management.

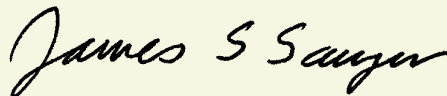
Praxair's consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, in accordance with auditing standards generally accepted in the United States of America. These standards provide for a review of Praxair's internal accounting controls to the extent they deem appropriate in order to issue their opinion on the financial statements.

The Audit Committee of the Board of Directors, which consists solely of non-employee directors, is responsible for overseeing the functioning of the accounting system and related controls and the preparation of annual financial statements. The Audit Committee periodically meets with management, internal auditors and the independent accountants to review and evaluate their accounting, auditing and financial reporting activities and responsibilities. The independent accountants and internal auditors have full and free access to the Audit Committee and meet with the Committee, with and without management present.



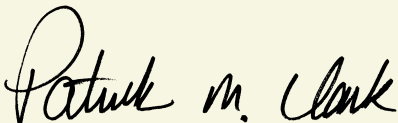
DENNIS H. REILLEY

Chairman, President and Chief Executive Officer



JAMES S. SAWYER

Vice President and Chief Financial Officer

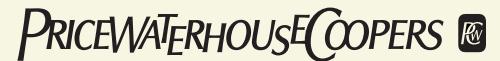


PATRICK M. CLARK

Vice President and Controller

Danbury, Connecticut
February 12, 2003

REPORT OF INDEPENDENT ACCOUNTANTS



To the Board of Directors and Shareholders of Praxair, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Praxair, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the Company adopted new accounting standards for goodwill in 2002 and for derivative instruments and hedging activities in 2001.

A handwritten signature in black ink that reads "PriceWaterhouseCoopers LLP".

Stamford, Connecticut
February 12, 2003

FIVE-YEAR FINANCIAL SUMMARY

(Dollar amounts in millions, except per share data)

Year Ended December 31,	2002	2001 ^(a)	2000 ^(a)	1999	1998 ^(a)
FROM THE INCOME STATEMENT					
Sales	\$5,128	\$5,158	\$5,043	\$4,639	\$4,833
Cost of sales	2,950	3,060	3,075	2,732	2,807
Selling, general and administrative	751	699	683	641	644
Depreciation and amortization	483	499	471	445	467
Research and development	69	66	65	67	72
Other income (expenses) – net	48	(34)	(42)	77	13
Operating profit	923	800	707	831	856
Interest expense	206	224	224	204	260
Income before taxes	717	576	483	627	596
Income taxes	158	135	103	152	127
Income of consolidated entities	559	441	380	475	469
Minority interests	(20)	(18)	(27)	(45)	(55)
Income from equity investments	9	9	10	11	11
Income before cumulative effect of accounting changes	548	432	363	441	425
Cumulative effect of accounting changes ^(b)	(139)	(2)	—	(10)	—
Net income	\$ 409	\$ 430	\$ 363	\$ 431	\$ 425
Add back goodwill amortization after-tax	—	33	29	28	32
Net income excluding goodwill amortization ^(c)	\$ 409	\$ 463	\$ 392	\$ 459	\$ 457
PER SHARE DATA^(c)					
Basic earnings per share:					
Income before cumulative effect of accounting changes	\$ 3.36	\$ 2.68	\$ 2.28	\$ 2.77	\$ 2.68
Net income	\$ 2.51	\$ 2.67	\$ 2.28	\$ 2.71	\$ 2.68
Add back goodwill amortization after-tax	—	0.20	0.18	0.18	0.20
Net income excluding goodwill amortization ^(c)	\$ 2.51	\$ 2.87	\$ 2.46	\$ 2.89	\$ 2.88
Diluted earnings per share:					
Income before cumulative effect of accounting changes	\$ 3.33	\$ 2.64	\$ 2.25	\$ 2.72	\$ 2.60
Net income	\$ 2.48	\$ 2.63	\$ 2.25	\$ 2.66	\$ 2.60
Add back goodwill amortization after-tax	—	0.20	0.18	0.17	0.19
Net income excluding goodwill amortization ^(c)	\$ 2.48	\$ 2.83	\$ 2.43	\$ 2.83	\$ 2.79
Cash dividends per share	\$ 0.76	\$ 0.68	\$ 0.62	\$ 0.56	\$ 0.50
WEIGHTED AVERAGE SHARES OUTSTANDING (000'S)					
Basic shares outstanding	162,768	161,510	159,123	159,280	158,462
Diluted shares outstanding	164,745	163,507	161,092	162,222	163,356
CAPITAL					
Total debt	\$2,748	\$2,989	\$3,141	\$2,995	\$3,274
Minority interests	164	141	138	359	487
Preferred stock	—	20	20	75	75
Shareholders' equity	2,340	2,477	2,357	2,290	2,332
Total capital	\$5,252	\$5,627	\$5,656	\$5,719	\$6,168
OTHER INFORMATION AND RATIOS					
Capital expenditures	\$ 498	\$ 595	\$ 704	\$ 653	\$ 781
Cash flow from operations	\$1,001	\$1,020	\$ 899	\$ 969	\$ 944
Cash flow from operations-to-debt ratio	36.4%	34.1%	28.6%	32.4%	28.8%
Total assets at year end	\$7,401	\$7,715	\$7,762	\$7,722	\$8,096
Shares outstanding at year-end (000's)	162,268	162,143	159,379	159,048	157,571
Debt-to-capital ratio	52.3%	53.1%	55.5%	52.4%	53.1%
Number of employees	25,010	24,271	23,430	24,102	24,834

^(a)In 2001, operating profit includes a \$70 million pre-tax charge (\$57 million after tax, or \$0.35 per diluted share) related to restructuring and other actions (shown \$7 million in cost of sales; \$5 million in selling, general and administrative expenses; and \$58 million in other income (expense) – net). In 2000, operating profit includes a \$159 million pre-tax charge and income from equity investments includes a \$2 million charge (\$117 million after tax, or \$0.73 per diluted share) related to repositioning and special charges (shown \$47 million in cost of sales; \$21 million in selling, general and administrative expenses; and \$91 million in other income (expenses) – net). See Note 3 to the consolidated financial statements for a description of these charges. In 1998, other income (expenses) – net includes a \$29 million pre-tax charge (\$18 million after-tax, or \$0.11 per diluted share) related to its investment in Indonesia (\$19 million or \$11 million after tax) and an anticipated loss on an air separation plant under construction for a third party (\$10 million or \$7 million after tax). 1998 income taxes include \$18 million of special tax credits (\$0.11 per diluted share). These items are collectively referred to as special items.

^(b)2002 net income includes the cumulative effect of a change in accounting for goodwill impairment resulting from the implementation of SFAS 142. 2001 net income includes the cumulative effect of a change in accounting for derivatives. 1999 net income includes the cumulative effect of a change in accounting for previously capitalized start-up costs. See note 2 to the consolidated financial statements for a description of accounting changes.

^(c)Net income excluding goodwill amortization excludes amortization of goodwill prior to 2002. See Note 12 to the consolidated financial statements.

APPENDIX

The company presents certain of the following non-GAAP financial measures on pages 1, 2 and 4 of this annual report:

(Dollar amounts in millions, except per share data)

Year Ended December 31,	2002	2001	2000	1999	1998
Adjusted operating profit	\$ 923	\$ 908	\$ 899	\$ 863	\$ 922
Adjusted income before accounting changes	\$ 548	\$ 522	\$ 509	\$ 469	\$ 457
Adjusted diluted earnings per share	\$3.33	\$3.19	\$3.16	\$2.89	\$2.79
After-tax return on capital	13.4%	12.7%	12.5%	11.6%	12.1%
Return on equity	22.8%	21.6%	21.9%	21.8%	20.5%

ADJUSTED AMOUNTS

Adjusted operating profit, adjusted income before accounting changes and adjusted diluted earnings per share exclude goodwill amortization and special items in 1998 to 2001. Praxair adopted SFAS 142, which eliminated the amortization of goodwill prospectively in 2002. Special items are defined in footnote (a) on page 62 of this annual report. The company believes these non-GAAP financial measures help investors understand underlying performance on a comparable basis. The tables below reconcile reported figures to the adjusted amounts:

(Dollar amounts in millions, except per share data)

Year Ended December 31,	2002	2001	2000	1999	1998
Reported operating profit	\$ 923	\$ 800	\$ 707	\$ 831	\$ 856
Add back: goodwill amortization	—	38	33	32	37
Add back: special items	—	70	159	—	29
Adjusted operating profit	\$ 923	\$ 908	\$ 899	\$ 863	\$ 922

Reported income before accounting changes	\$ 548	\$ 432	\$ 363	\$ 441	\$ 425
Add back: goodwill amortization net of tax	—	33	29	28	32
Add back: special items, net of tax	—	57	117	—	—
Adjusted income before accounting changes	\$ 548	\$ 522	\$ 509	\$ 469	\$ 457

Reported diluted earnings per share	\$3.33	\$2.64	\$2.25	\$2.72	\$2.60
Add back: goodwill amortization net of tax	—	\$ 0.20	\$ 0.18	\$ 0.17	\$ 0.20
Add back: special items net of tax	—	\$ 0.35	\$ 0.73	\$ —	\$ —
Adjusted diluted earnings per share	\$ 3.33	\$ 3.19	\$ 3.16	\$ 2.89	\$ 2.80

AFTER-TAX RETURN ON CAPITAL

After-tax return on capital is defined as after-tax operating profit plus income from equity investments, divided by average capital, and excluding special items. Capital is comprised of total debt, minority interests, shareholders' equity and

preferred stock. Praxair's definition of after-tax return on capital may not be comparable to similar definitions used by other companies. The company believes that its after-tax return on invested capital is an appropriate measure for judging performance as it reflects the approximate after-tax profit earned as a percentage of investments by all parties in the business (debt, minority interest, preferred stock, and shareholders' equity).

(Dollar amounts in millions)

Year Ended December 31,	2002	2001	2000	1999	1998
Adjusted operating profit (see above)	\$ 923	\$ 908	\$ 899	\$ 863	\$ 922
Less: reported taxes	(158)	(135)	(103)	(152)	(127)
Less: tax benefit on interest expense	(46)	(50)	(50)	(49)	(68)
Less: tax benefit on goodwill amortization	—	(5)	(4)	(4)	(5)
Less: tax benefit on special items	—	(13)	(44)	—	(11)
Add back: special tax credits	—	—	—	—	18
Add back: equity income	9	9	10	11	11
Add back: special items – equity income	—	—	2	—	—
Net operating profit after tax (NOPAT)	\$ 728	\$ 714	\$ 710	\$ 669	\$ 740
Beginning capital	\$5,627	\$5,656	\$5,719	\$6,168	\$6,023
Adjustment for January devaluation in Brazil	—	—	—	(318)	—
Beginning capital as adjusted	\$5,627	\$5,656	\$5,719	\$5,850	\$6,023
Ending capital	\$5,252	\$5,627	\$5,656	\$5,719	\$6,168
Average capital	\$5,440	\$5,642	\$5,688	\$5,785	\$6,096
After-tax return on capital	13.4%	12.7%	12.5%	11.6%	12.1%

RETURN ON EQUITY

Return on equity is defined as income before accounting changes, excluding special items and goodwill amortization, divided by average shareholder's equity. Praxair's definition of return on equity may not be comparable to similar definitions used by other companies. The company believes that its return on equity is an appropriate measure for judging performance for shareholders.

(Dollar amounts in millions)

Year Ended December 31,	2002	2001	2000	1999	1998
Adjusted income before accounting changes (see above)	\$ 548	\$ 522	\$ 509	\$ 469	\$ 457
Beginning shareholders' equity	\$2,477	\$2,357	\$2,290	\$2,332	\$2,122
Adjustment for January devaluation in Brazil	—	—	—	(\$318)	—
Beginning shareholders' equity as adjusted	\$2,477	\$2,357	\$2,290	\$2,014	\$2,122
Ending shareholders' equity	\$2,340	\$2,477	\$2,357	\$2,290	\$2,332
Average shareholders' equity	\$2,409	\$2,417	\$2,324	\$2,152	\$2,227
Return on equity	22.8%	21.6%	21.9%	21.8%	20.5%

INVESTOR INFORMATION

ELIZABETH T. HIRSCH, Director, Investor Relations
Praxair, Inc.
39 Old Ridgebury Road
Danbury, Connecticut 06810-5113
e-mail: investor_relations@praxair.com
(203) 837-2210

INVESTOR INFORMATION AT WWW.PRAXAIR.COM/INVESTORS

- Contact information
- Presentations
- Business trends report
- Webcasts
- Stock information
- Financial guidance
- Annual reports
- SEC filings
- Financial news
- Corporate responsibility & governance
- FAQs (frequently-asked questions)

COMMON STOCK LISTING (SYMBOL: PX)

New York Stock Exchange

OTHER STOCK EXCHANGES TRADING

PRAXAIR STOCK

Cincinnati
Midwest
Pacific

NUMBER OF SHAREHOLDERS

There were 24,770 registered shareholders of record as of December 31, 2002.

DIVIDEND POLICY

Dividends on Praxair's common stock are usually declared and paid quarterly. Praxair's objective is to continue quarterly dividends and consider annual dividend increases in conjunction with continued growth in earnings per share.

STOCK TRANSFER AGENT AND STOCK RECORD KEEPING

Registrar and Transfer Company is Praxair's stock transfer agent and registrar, and maintains shareholder records. For information about account records, stock certificates, change of address and dividend payments, contact:

1-800-368-5948

e-mail address for investor inquiries: info@rtco.com

website address: <http://www.rtco.com>

ADDRESS SHAREHOLDER INQUIRIES TO:

Shareholder Relations Department
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016

DIVIDEND REINVESTMENT PLAN

Praxair provides investors a convenient and low-cost program that allows purchases of Praxair stock without commissions and automatically reinvests dividends by purchasing additional shares of stock. Contact Investor Relations at Registrar and Transfer Company for full details at the address above.

ANNUAL SHAREHOLDERS MEETING

The 2003 annual meeting of shareholders of Praxair, Inc. will be held at 9:30 a.m. on Tuesday, April 22, 2003 at The Amber Room Colonnade, Stacey Road off Route 37, Danbury, Connecticut.

NYSE QUARTERLY STOCK PRICE AND DIVIDEND INFORMATION

	<i>Trading High</i>	<i>Trading Low</i>	<i>Close</i>	<i>Dividend per share</i>
2002				
First quarter	\$61.110	\$47.950	\$59.800	\$0.19
Second quarter	\$60.400	\$51.500	\$56.970	\$0.19
Third quarter	\$58.600	\$44.550	\$51.110	\$0.19
Fourth quarter	\$59.490	\$49.180	\$57.770	\$0.19
2001				
First quarter	\$49.570	\$39.375	\$44.650	\$0.17
Second quarter	\$54.000	\$44.100	\$47.000	\$0.17
Third quarter	\$49.640	\$36.600	\$42.000	\$0.17
Fourth quarter	\$55.920	\$40.700	\$55.250	\$0.17
2000				
First quarter	\$54.938	\$31.375	\$41.625	\$0.155
Second quarter	\$48.375	\$36.375	\$37.437	\$0.155
Third quarter	\$45.188	\$35.000	\$37.375	\$0.155
Fourth quarter	\$45.563	\$30.313	\$44.375	\$0.155

PRAXAIR LOCATIONS

WORLD HEADQUARTERS

PRAXAIR, INC.

39 Old Ridgebury Road
Danbury, CT 06810-5113
USA
1-800-PRAXAIR
(716) 879-4077 (from outside the U.S.)

PRAXAIR SURFACE TECHNOLOGIES, INC.

Indianapolis, IN, USA
(317) 240-2500
(affiliates in Brazil, France, Germany, Italy, Japan,
Singapore, Spain, Switzerland, United Kingdom)

NORTH AMERICA

PRAXAIR, INC.

Danbury, CT, USA
1-800-PRAXAIR
(716) 879-4077

PRAXAIR MEXICO S.A. DE C.V.

Mexico City, Mexico
52 (555) 354-9500

PRAXAIR CANADA INC.

Mississauga, Ontario
(905) 803-1600

SOUTH AMERICA

WHITE MARTINS GASES INDUSTRIAIS LTDA.

Rio de Janeiro, Brazil
55 (21) 2588-6622
Argentina, Bolivia, Chile, Colombia, Paraguay, Peru,
Uruguay, Venezuela

CENTRAL AMERICA/CARIBBEAN

PRAXAIR PUERTO RICO

Gurabo, Puerto Rico
(787) 258-7200
Costa Rica

EUROPE

PRAXAIR EUROPE

Madrid, Spain
34 91 453-7200
Austria, Belgium, Bulgaria, Croatia, Czech Republic, France,
Germany, Hungary, Israel, Italy, The Netherlands, Portugal,
Romania, Slovakia, Slovenia, Switzerland, Turkey

ASIA

PRAXAIR ASIA

Shanghai, People's Republic of China
86 (21) 5882-7100
India, Japan, Malaysia, Singapore,
South Korea, Taiwan, Thailand

The forward-looking statements contained in this annual report concerning demand for products and services, the expected macroeconomic environment, sales and earnings growth, projected capital and acquisition spending, the impact of required changes in accounting, the impact of accounting estimates, and other financial goals involve risks and uncertainties, and are subject to change based on various factors. These risk factors include the impact of changes in worldwide and national economies, the cost and availability of electric power, natural gas and other materials and the ability to achieve price increases to offset such cost increases, development of operational efficiencies, changes in foreign currencies, changes in interest rates, the continued timely development and acceptance of new products and services, the impact of competitive products and pricing, and the impact of tax and other legislation and regulation in the jurisdictions which the company operates as well as new accounting rules and practices.

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OFFICERS, REGIONAL MANAGEMENT AND ADVISORY COUNCIL

OFFICE OF THE CHAIRMAN

DENNIS H. REILLEY, Chairman, President &
Chief Executive Officer

STEPHEN F. ANGEL, Executive Vice President

PAUL J. BILEK, Executive Vice President

JAMES S. SAWYER, Vice President & Chief Financial Officer

THOMAS W. VON KRANNICHFELDT, Executive Vice
President; President, Praxair Surface Technologies &
President, Praxair Electronics

OFFICERS

MICHAEL J. ALLAN, Vice President & Treasurer

DOMINGOS H.G. BULUS, President, Praxair Asia

DAVID H. CHAIFETZ, Vice President, General Counsel &
Secretary

PATRICK M. CLARK, Vice President & Controller

THEODORE W. DOUGHER, Vice President, Engineering &
Supply Systems

MICHAEL J. DOUGLAS, Vice President, Praxair Metals
Technologies

JAMES J. FUCHS, President, North American Industrial Gases
& President, Praxair Canada Inc.

ROBERT F.X. FUSARO, Vice President, Mergers &
Acquisitions

MARK F. GRUNINGER, Vice President, Praxair Electronics

JOHN F. HILL, Chief Information Officer

RANDY S. KRAMER, Senior Vice President, Sales

STEVEN L. LERNER, Senior Vice President &
Chief Technology Officer

MICHAEL R. LUTZ, Vice President, Safety &
Production Excellence

RICARDO S. MALFITANO, President, Praxair South America
& President, White Martins Gases Industriais Ltda.

SUNIL MATTOO, Vice President, Strategic Planning &
Marketing

PETER M. MAYER, Vice President, Procurement &
Materials Management

NIGEL D. MUIR, Vice President, Communications &
Public Relations

GEORGE P. RISTEVSKI, Vice President, Healthcare

SALLY A. SAVOIA, Vice President, Human Resources

S. MARK SEYMOUR, Vice President, Tax

ALAN J. WESTENDORF, President, Praxair Europe

WAYNE J. YAKICH, President, Praxair Distribution, Inc.

REGIONAL MANAGEMENT

NORTH AMERICA – INDUSTRIAL GASES

HOWARD D. BRODBECK, Vice President, North U.S.

EDUARDO F. MENEZES, Vice President, West U.S.

THEODORE F. TRUMPP III, Vice President, East U.S.

DANIEL H. YANKOWSKI, Vice President, South U.S.

SCOTT K. SANDERUDE, Vice President, Marketing

ROBERT HOSSACK, Managing Director, Praxair Canada

CESAR GUAJARDO, Managing Director, Praxair Mexico

NORTH AMERICA – PACKAGED GASES

PATRICK M. HEFFERNAN, Vice President, Canada

CARL R. KOCH, Vice President, U.S.

SOUTH AMERICA

JOSÉ CARLOS COUTINHO ROBERT, Executive Director,
Andean Region

ALBINO CARNEIRO, Executive Director, South Cone Region

MARCELO PEREIRA QUINTAES, Vice President, Operations

EUROPE

MIGUEL MARTINEZ ASTOLA, Managing Director,
Western Europe, Spain & Portugal

FRANCO MAZZALI, Managing Director, Italy and
Middle East

ASIA

K.H. LEE, President, Praxair Korea

DOMINGOS H.G. BULUS, Acting President, Praxair China

INDRAJIT MOOKERJEE, Managing Director, Praxair India

KITTI PRAPASUCHART, Managing Director, Praxair Thailand

SOUTH AMERICAN ADVISORY COUNCIL

DENNIS H. REILLEY, Chairman

RICARDO S. MALFITANO, Deputy Chairman

FERNANDO AGÜERO, member of the Executive Committee,
Sociedad de Fomento Industrial, Chile

RICARDO CILLIONIZ, Board member and Chief Executive
Officer, Corporation Aceros Arequipa, Peru

ENZO DEBERNARDI, Consultant, Paraguay

CARLOS LANGONE, Consultant, Brazil

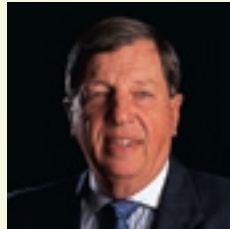
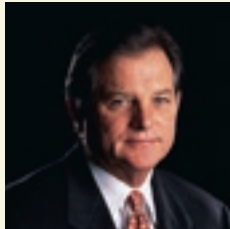
LUIZ PAGANI, President, Arcor Group, Argentina

RICARDO PARIS, Chairman & Chief Executive Officer,
Productos de Vidrio, Venezuela

JORGE PEIRANO, Chairman, Chamber of Commerce &
Services, Uruguay

BENJAMIN STEINBRUCH, Chairman, Companhia Siderugica
Nacional, Brazil

BOARD OF DIRECTORS



Captions from left to right, beginning with top row.

ALEJANDRO ACHAVAL

Chairman, Chief Executive Officer and Controlling Partner of IMEXTRADE S.A. and TRINIDAD S.C.A.
Audit; Finance & Pension Committees

DALE F. FREY

Director of various corporations; former Chairman & President, General Electric Investment Corporation
Finance & Pension (Chairman); Governance & Nominating Committees

CLAIRE W. GARGALLI

Director of various corporations; former Vice Chairman, Diversified Search Companies
Finance & Pension; Compensation & Management Development Committees

RONALD L. KUEHN, JR.

Director of various corporations; former Chairman, El Paso Corporation
Audit; Compensation & Management Development (Chairman) Committees

RAYMOND W. LEOEUF

Chairman & Chief Executive Officer, PPG Industries, Inc.
Finance & Pension; Compensation & Management Development Committees

BENJAMIN F. PAYTON

President, Tuskegee University
Audit; Governance & Nominating Committees

G. JACKSON RATCLIFFE, JR.

Chairman, Hubbell Incorporated
Executive Session Presiding Director Compensation & Management Development; Governance & Nominating (Chairman) Committees

DENNIS H. REILLEY

Chairman, President & Chief Executive Officer, Praxair, Inc.

WAYNE T. SMITH

Chairman, President & Chief Executive Officer, Community Health Systems, Inc.
Audit; Governance & Nominating Committees

H. MITCHELL WATSON, JR.

President, Sigma Group of America
Audit (chairman); Compensation & Management Development Committees

