PRAXAIR INC
Form 10-Q
October 27, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

PRAXAIR, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation)

1-11037	**06-1249050**
(Commission File Number)	**(IRS Employer Identification No.)**
39 OLD RIDGEBURY ROAD, DANBURY, CT	**06810-5113**
(Address of principal executive offices)	**(Zip Code)**

(203) 837-2000

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** x **No** ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** x **No** ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** ¨ **No** x

At September 30, 2010, 306,379,680 shares of common stock ($0.01 par value) of the Registrant were outstanding.

Table of Contents

INDEX

Table of Contents

PRAXAIR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Millions of dollars, except per share data)

(UNAUDITED)

	Quarter Ended September 30, 2010	2009
SALES	$ 2,538	$ 2,288
Cost of sales, exclusive of depreciation and amortization	1,444	1,277
Selling, general and administrative	299	284
Depreciation and amortization	227	217
Research and development	19	20
Venezuela currency devaluation and other charges		306
Other income (expense) - net	2	(10)
OPERATING PROFIT	551	174
Interest expense - net	29	32
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	522	142
Income taxes	146	(187)
INCOME BEFORE EQUITY INVESTMENTS	376	329
Income from equity investments	12	7
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	388	336
Less: noncontrolling interests	(11)	(11)
NET INCOME - PRAXAIR, INC.	$ 377	$ 325
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	$ 1.22	$ 1.06
Diluted earnings per share	$ 1.21	$ 1.04
Cash dividends per share	$ 0.45	$ 0.40
WEIGHTED AVERAGE SHARES OUTSTANDING (000 s):		
Basic shares outstanding	307,127	307,360
Diluted shares outstanding	311,608	312,182

The accompanying notes are an integral part of these financial statements.

Table of Contents

PRAXAIR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Millions of dollars, except per share data)

(UNAUDITED)

	Nine Months Ended September 30, 2010	2009
SALES	$ 7,493	$ 6,549
Cost of sales, exclusive of depreciation and amortization	4,262	3,662
Selling, general and administrative	895	814
Depreciation and amortization	685	623
Research and development	56	56
Venezuela currency devaluation and other charges	27	306
Other income (expense) - net	9	(25)
OPERATING PROFIT	1,577	1,063
Interest expense - net	90	100
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	1,487	963
Income taxes	422	36
INCOME BEFORE EQUITY INVESTMENTS	1,065	927
Income from equity investments	27	18
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	1,092	945
Less: noncontrolling interests	(30)	(31)
NET INCOME - PRAXAIR, INC.	$ 1,062	$ 914
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	$ 3.46	$ 2.97
Diluted earnings per share	$ 3.41	$ 2.93
Cash dividends per share	$ 1.35	$ 1.20
WEIGHTED AVERAGE SHARES OUTSTANDING (000 s):		
Basic shares outstanding	306,915	307,712
Diluted shares outstanding	311,424	312,185

The accompanying notes are an integral part of these financial statements.

Table of Contents

PRAXAIR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Millions of dollars)

(UNAUDITED)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 71	$ 45
Accounts receivable - net	1,711	1,579
Inventories	403	377
Prepaid and other current assets	268	222
TOTAL CURRENT ASSETS	2,453	2,223
Property, plant and equipment (less accumulated depreciation of $9,966 at September 30, 2010 and $9,448 at December 31, 2009)	9,294	8,990
Goodwill	2,067	2,070
Other intangible assets - net	137	142
Other long-term assets	1,106	892
TOTAL ASSETS	$ 15,057	$ 14,317
LIABILITIES AND EQUITY		
Accounts payable	$ 746	$ 730
Short-term debt	222	227
Current portion of long-term debt	40	71
Other current liabilities	856	785
TOTAL CURRENT LIABILITIES	1,864	1,813
Long-term debt	4,815	4,757
Other long-term obligations	2,048	2,099
TOTAL LIABILITIES	8,727	8,669
Commitments and contingencies (Note 11)		
Praxair, Inc. Shareholders Equity:		
Common stock $0.01 par value, authorized - 800,000,000 shares, issued 2010 - 382,201,069 shares and 2009 - 379,415,678 shares	4	4
Additional paid-in capital	3,659	3,473
Retained earnings	7,480	6,831
Accumulated other comprehensive income (loss)	(1,064)	(1,155)
Treasury stock, at cost (2010 - 75,821,389 shares and 2009 - 72,938,074 shares)	(4,088)	(3,838)
Total Praxair, Inc. Shareholders Equity	5,991	5,315

Noncontrolling interests		339		333
TOTAL EQUITY		6,330		5,648
TOTAL LIABILITIES AND EQUITY	$	15,057	$	14,317

The accompanying notes are an integral part of these financial statements.

Table of Contents

PRAXAIR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of dollars)

(UNAUDITED)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
OPERATIONS		
Net income - Praxair, Inc.	$ 1,062	$ 914
Noncontrolling interests	30	31
Net income (including noncontrolling interests)	1,092	945
Adjustments to reconcile net income to net cash provided by operating activities:		
Venezuela currency devaluation and other charges, net of payments	23	270
Depreciation and amortization	685	623
Deferred income taxes	111	(251)
Share-based compensation	35	30
Accounts receivable	(139)	(10)
Inventory	(27)	37
Prepaid and other current assets	(16)	20
Payables and accruals	61	(196)
Pension contributions	(117)	(123)
Other	(93)	114
Net cash provided by operating activities	1,615	1,459
INVESTING		
Capital expenditures	(937)	(997)
Acquisitions, net of cash acquired	(134)	(128)
Divestitures and asset sales	44	20
Net cash used for investing activities	(1,027)	(1,105)
FINANCING		
Short-term debt borrowings - net	(32)	(436)
Long-term debt borrowings	1,511	1,846
Long-term debt repayments	(1,498)	(1,275)
Issuances of common stock	134	68
Purchases of common stock	(273)	(145)
Cash dividends - Praxair, Inc. shareholders	(414)	(368)
Excess tax benefit on stock option exercises	38	14
Noncontrolling interest transactions and other	(17)	(32)
Net cash used for financing activities	(551)	(328)

Effect of exchange rate changes on cash and cash equivalents	(11)	7
Change in cash and cash equivalents	26	33
Cash and cash equivalents, beginning-of-period	45	32
Cash and cash equivalents, end-of-period	$ 71	$ 65

The accompanying notes are an integral part of these financial statements.

6

Table of Contents

INDEX TO NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to Condensed Consolidated Financial Statements - Praxair, Inc. and Subsidiaries (Unaudited)

Table of Contents

PRAXAIR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Summary of Significant Accounting Policies

***Presentation of Condensed Consolidated Financial Statements* -** In the opinion of Praxair, Inc. (Praxair) management, the accompanying condensed consolidated financial statements include all adjustments necessary for a fair presentation of the results for the interim periods presented and such adjustments are of a normal recurring nature. The accompanying condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements of Praxair, Inc. and subsidiaries in Praxair s 2009 Annual Report on Form 10-K. There have been no material changes to the company s significant accounting policies during 2010.

Accounting Standards Implemented in 2010

Disclosures about Fair Value Measurements The standard added new requirements for disclosures about transfers into and out of Levels 1 and 2 and clarified existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The portion of this standard related to these items was effective for Praxair in 2010 and its adoption did not have a significant impact on the condensed consolidated financial statements. In addition, the standard added requirements for separate disclosures about the activity relating to Level 3 fair value measurements effective for Praxair on January 1, 2011. Praxair does not expect this requirement to have a significant impact on the consolidated financial statements.

The following standards were effective for Praxair in 2010 and their adoption did not have a significant impact on the condensed consolidated financial statements. Refer to Note 1 to the consolidated financial statements of Praxair s 2009 Annual Report on Form 10-K for a summary of these standards:

Accounting for Transfers of Financial Assets, and

Consolidation of Variable Interest Entities.

Accounting Standards to Be Implemented

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses This standard requires additional disclosures about financing receivables including rollforward schedules and other qualitative information. These disclosures will be required for Praxair beginning with the year-end 2010 financial statements. Praxair does not expect this requirement to have a significant impact on the consolidated financial statements.

2. Venezuela Currency Devaluation and Other Charges

2010 First Quarter Venezuela Currency Devaluation

On January 8, 2010, Venezuela announced a devaluation of the Venezuelan bolivar and created a two tier exchange rate system. Under the new system, a 2.60 exchange rate between the bolivar and the U.S. dollar (which implies 17.3% devaluation) will apply for essential goods while an exchange rate of 4.3 (implying 50% devaluation) will apply for all remaining sectors, including Praxair s operations. In the first quarter 2010, Praxair recorded a $27 million charge ($26 million after-tax or $ 0.08 per diluted share) due primarily to the remeasurement of the local Venezuelan balance sheet to reflect the new official 4.3 exchange rate. The company does not expect the impact of the devaluation on future results of operations to be significant.

2009 Brazil Tax Amnesty Program and Other Charges

In the third quarter 2009, Praxair recorded a net after-tax benefit of $7 million related primarily to a Federal tax amnesty program in Brazil (see Note 2 to the consolidated financial statements of Praxair s 2009 Annual Report on Form 10-K). The program required a cash outlay of $34 million in the 2009 fourth quarter and is expected to require up to an additional $60 million of cash payments in the next twelve months depending on timing of the Brazilian government consolidation process.

Table of Contents

2008 Cost Reduction Program

In the fourth quarter 2008, Praxair recorded charges relating to severance and other exit costs associated with a global cost reduction program which was initiated in response to the global economic downturn (see Note 2 to the consolidated financial statements of Praxair s 2009 Annual Report on Form 10-K). The program required cash payments of $4 million and $34 million in the nine months ended September 30, 2010 and 2009, respectively. At September 30, 2010, remaining cash payments are not significant.

3. Inventories

The following is a summary of Praxair s consolidated inventories:

(Millions of dollars)	**September 30, 2010**	**December 31, 2009**
Raw materials and supplies	$ 141	$ 137
Work in process	53	46
Finished goods	209	194
Total inventories	$ 403	$ 377

Table of Contents

4. Debt

The following is a summary of Praxair s outstanding debt at September 30, 2010 and December 31, 2009:

(Millions of dollars)	**September 30, 2010**	**December 31, 2009**
SHORT-TERM		
Commercial paper	$ 112	$ 28
Other bank borrowings (primarily international)	110	199
Total short-term debt	222	227
LONG-TERM		
U.S. borrowings		
Floating Rate Notes due 2010 (c)		500
6.375% Notes due 2012 (a, b)	506	509
1.75% Notes due 2012 (a, b)	415	399
3.95% Notes due 2013	350	350
2.125% Notes due 2013 (a, b, d)	526	
4.375% Notes due 2014 (a)	299	299
5.25% Notes due 2014	400	400
4.625% Notes due 2015	500	500
3.25% Notes due 2015 (a, b)	431	401
5.375% Notes due 2016	400	400
5.20% Notes due 2017	325	325
4.50% Notes due 2019 (a)	597	597
Other	6	7
International bank borrowings	91	135
Obligations under capital lease	9	6
	4,855	4,828
Less: current portion of long-term debt	(40)	(71)
Total long-term debt	4,815	4,757
Total debt	$ 5,077	$ 5,055

(a) Amounts are net of unamortized discounts.
(b) September 30, 2010 and December 31, 2009 include a $81 million and $12 million fair value increase, respectively, related to hedge accounting. See Note 5 for additional information.
(c) At December 31, 2009, $500 million of floating rate notes due 2010 have been classified as long-term because of the company s intent to refinance this debt on long-term basis and the availability of such financing under the terms of existing agreements.
(d) On January 14, 2010, Praxair issued $500 million of 2.125% notes due 2013. The proceeds were used to repay long-term debt, to fund share repurchases under the share repurchase program and for general corporate purposes.

Table of Contents

5. Financial Instruments

In its normal operations, Praxair is exposed to market risks relating to fluctuations in interest rates, foreign currency exchange rates, energy costs and to a lesser extent precious metal prices. The objective of financial risk management at Praxair is to minimize the negative impact of such fluctuations on the company s earnings and cash flows. To manage these risks, among other strategies, Praxair routinely enters into various derivative financial instruments (derivatives) including interest-rate swap and treasury rate lock agreements, currency-swap agreements, forward contracts, currency options, and commodity-swap agreements. These instruments are not entered into for trading purposes and Praxair only uses commonly traded and non-leveraged instruments.

There are two types of derivatives that the company enters into: (i) those relating to fair-value exposures, and (ii) those relating to 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 appropriate, it is designated as either a fair-value hedge or a cash-flow hedge. Currently, Praxair designates all interest-rate, treasury rate lock and commodity-swap agreements as hedges for accounting purposes; however, currency contracts are generally not designated as hedges for accounting purposes unless they are related to forecasted transactions. Whether designated as hedges for accounting purposes or not, all derivatives are linked to an appropriate underlying exposure. On an ongoing basis, the company assesses the hedge effectiveness of all derivatives designated as hedges for accounting purposes 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, then hedge accounting will be discontinued prospectively.

Counterparties to Praxair s derivatives are major banking institutions with credit ratings of investment grade or better and no collateral is required, and there are no significant risk concentrations. Management believes the risk of incurring losses on derivative contracts related to credit risk is remote and any losses would be immaterial.

The following table is a summary of the notional amount and fair value of derivatives outstanding at September 30, 2010 and December 31, 2009 for consolidated subsidiaries:

			Fair Value			
(Millions of dollars)	Notional Amounts		Assets		Liabilities	
	September 30, 2010	**December 31, 2009**	**September 30, 2010**	**December 31, 2009**	**September 30, 2010**	**December 31, 2009**
Derivatives Not Designated as Hedging Instruments:						
Currency contracts:						
Balance sheet items (a)	$ 1,436	$ 1,161	$ 7	$ 9	$ 3	$ 2
Anticipated net income (b)	137	128	11	8		
Total	$ 1,573	$ 1,289	$ 18	$ 17	$ 3	$ 2
Derivatives Designated as Hedging Instruments:						
Currency contracts:						
Forecasted purchases (a)	$	$ 2	$	$	$	$
Interest rate contracts:						
Interest rate swaps (b)	1,300	400	74	2		
Total	$ 1,300	$ 402	$ 74	$ 2	$	$
Total Derivatives	$ 2,873	$ 1,691	$ 92	$ 19	$ 3	$ 2

(a) Assets are recorded in prepaid and other current assets, and liabilities are recorded in other current liabilities.
(b) Assets are recorded in prepaid and other current assets and other long term assets.

Table of Contents

Currency Contracts

Balance Sheet Items

Foreign currency contracts related to balance sheet items consist of forward contracts entered into to manage the exposure to fluctuations in foreign-currency exchange rates on recorded balance sheet assets and liabilities denominated in currencies other than the functional currency of the related operating unit. The fair value adjustments on these contracts are largely offset by the fair value adjustments recorded on the hedged assets and liabilities.

Anticipated Net Income

The anticipated net income hedge contracts at September 30, 2010 and December 31, 2009 consist of foreign currency options related to anticipated net income in Brazil, Europe and Canada. Over the term of the contracts, the fair value adjustments from net-income hedging contracts are largely offset by the impacts on reported net income resulting from the currency translation process. The accounting rules pertaining to derivatives and hedging do not allow hedges of anticipated net income to be designated as hedging instruments.

Forecasted Purchases

Foreign currency contracts related to forecasted purchases consist of forward contracts entered into to manage the exposure to fluctuations in foreign-currency exchange rates on forecasted purchases of capital-related equipment and services denominated in currencies other than the functional currency of the related operating units. These forward contracts were designated and accounted for as cash flow hedges. The net impact recorded in accumulated other comprehensive income (AOCI) was less than $1 million and $1 million during the third quarter and nine months ended September 30, 2010 and 2009, respectively.

Interest Rate Contracts

Interest Rate Swaps

At September 30, 2010, Praxair had the following interest-rate swap agreements outstanding that effectively convert fixed-rate interest to variable-rate interest:

- January 14, 2010 agreement related to the $500 million 2.125% fixed-rate notes that mature in 2013,
- January 4, 2010 agreement related to the $400 million 1.75% fixed-rate notes that mature in 2012, and
- September 2009 agreement related to the $400 million 3.25% fixed-rate notes that mature in 2015.

These interest rate swap agreements were designated as fair value hedges with the resulting fair value adjustments recognized in earnings along with an equally offsetting charge/benefit to earnings for the changes in the fair value of the underlying debt instruments. At September 30, 2010, $74 million was recognized as an increase in the fair value of these notes ($26 million, $16 million and $32 million, respectively).

In October 2010, Praxair terminated the interest-rate swap agreement on the $400 million 1.75% notes that mature in 2012 and received a $16 million cash payment. The previously recorded debt increase of $16 million will be recognized in earnings as a reduction to interest expense over the remaining term of the underlying debt, or about two years.

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 and received a $47 million cash payment. The previously recorded debt increase of $47 million is being recognized in earnings as a reduction to interest expense over the remaining term of the underlying debt, or about

12

Table of Contents

ten years. During the quarter and nine-month periods ended September 30, 2010 and 2009, $2 million and $4 million was recognized as a reduction to interest expense, respectively, and $7 million remains unrecognized at September 30, 2010 ($10 million at December 31, 2009) and is shown as an increase to long-term debt.

Treasury Rate Locks

In December 2008, Praxair entered into treasury rate lock contracts totaling $500 million notional amount to hedge the cash flow exposure attributable to the changes in the treasury rate portion of the interest rate on a forecasted debt issuance. The treasury rate locks were designated as and accounted for as cash flow hedges. In January 2009, the company settled the treasury rate locks and received a cash payment of $16 million ($10 million net of taxes) which was recorded as a gain in AOCI. On August 13, 2009, Praxair issued $600 million of 4.50% notes due August 2019, which represents the forecasted debt issuance that was originally hedged in December 2008. The gain recorded in AOCI is currently being reclassified to earnings as a decrease to interest expense over the remaining term of these notes.

In February 2008, Praxair entered into a treasury rate lock to hedge the cash flow exposure attributable to the $500 million of 4.625% notes issued on March 7, 2008. The treasury rate lock was accounted for as a cash flow hedge with the resulting fair value adjustments recorded in AOCI. The treasury rate lock was settled at a loss of $7 million ($4 million net of taxes) which was recorded in AOCI and is currently being reclassified to earnings as an increase to interest expense over the remaining term of the underlying debt.

The following table summarizes the impacts of the Company s derivatives on the consolidated statement of income and AOCI for the quarter and nine-month periods ended September 30, 2010 and 2009:

	Amount of Pre-Tax Gain (Loss) Recognized in Earnings (a)			
	Quarter Ended September 30,		Nine months ended September 30,	
(Millions of dollars)	2010	2009	2010	2009
Derivatives Not Designated as Hedging Instruments				
Currency contracts:				
Balance sheet items				
Debt-related	$ 12	$ (1)	$ (14)	$
Other balance sheet items	2	1	4	4
Anticipated net income	(7)	(4)	(3)	(17)
Total	$ 7	$ (4)	$ (13)	$ (13)

	Amount of Pre-Tax Gain (Loss) Recognized in AOCI (b)			
	Quarter Ended September 30,		Nine months ended September 30,	
(Millions of dollars)	2010	2009	2010	2009
Derivatives Designated as Hedging Instruments				
Currency contracts:				
Forecasted purchases	$	$ 1	$	$ 1
Interest rate contracts:				
Treasury rate locks				10
Total	$	$ 1	$	$ 11

(a)

The gains (losses) on balance sheet items are largely offset by gains (losses) recorded on the underlying hedged assets and liabilities. The gains (losses) for the derivatives and the underlying hedged assets and liabilities related to debt items are recorded in the consolidated statement of income as interest expense-net. Other balance sheet items and anticipated net income gains (losses) are recorded in the consolidated statement of income as other income (expense)-net.

(b) The gains (losses) for interest rate contracts are reclassified to earnings as interest expense-net. The amount of gains (losses) reclassified to earnings for the quarters and nine months ended September 30, 2010 was less than $1 million and $1 million, respectively. The amount of gains (losses) reclassified to earnings for the quarters and nine months ended September 30, 2009 was less than $1 million. Net gains (losses) of $1 million are expected to be reclassified to earnings over the next twelve months. There was no ineffectiveness.

Table of Contents

6. Fair Value Disclosures

The fair value hierarchy prioritizes the input to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 quoted prices in active markets for identical assets or liabilities

Level 2 quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 inputs that are unobservable (for example cash flow modeling inputs based on assumptions)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes assets and liabilities measured at fair value on a recurring basis at September 30, 2010:

	Fair Value Measurements Using			
(Millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Derivative assets	$	$ 92	$	$ 92
Investments	2			2
Total	$ 2	$ 92	$	$ 94
Liabilities				
Derivative liabilities	$	$ 3	$	$ 3

The fair values of the derivative assets and liabilities are based on market prices obtained from independent brokers or determined using quantitative models that use as their basis readily observable market parameters that are actively quoted and can be validated through external sources, including third-party pricing services, brokers and market transactions. Investments are marketable securities traded on an exchange.

The fair values of cash and cash equivalents, short-term debt, accounts receivable-net, and accounts payable approximate carrying amounts because of the short maturities of these instruments. The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues. At September 30, 2010, the estimated fair value of Praxair s long-term debt portfolio was $5,321 million versus a carrying value of $4,855 million. At December 31, 2009, the estimated fair value of Praxair s long-term debt portfolio was $5,066 million versus a carrying value of $4,828 million. Differences from carrying amounts are attributable to interest-rate changes subsequent to when the debt was issued.

Assets Measured at Fair Value on a Non-Recurring Basis

Certain assets are valued at fair value on a non-recurring basis. As part of a third quarter 2009 business restructuring in Brazil, Praxair decided to close and sell a plant that manufactured cylinders used to convert vehicles to natural gas powered vehicles. The plant had a carrying value of $ 17 million and was written-down to an estimated fair value of $3 million, resulting in a pre-tax charge to earnings of $14 million. The fair value measurements were based on internal assessments of the best information available about the local real estate and business market conditions that would be indicative of what the plant could be sold for and is considered to be a Level 3 measurement.

Table of Contents

7. Earnings Per Share   Praxair, Inc. Shareholders

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator (Millions of dollars)				
Net Income - Praxair, Inc.	$ 377	$ 325	$ 1,062	$ 914
Denominator (Thousands of shares)				
Weighted average shares outstanding	306,476	306,666	306,266	307,026
Shares earned and issuable under compensation plans	651	694	649	686
Weighted average shares used in basic earnings per share	307,127	307,360	306,915	307,712
Effect of dilutive securities				
Stock options and awards	4,481	4,822	4,509	4,473
Weighted average shares used in diluted earnings per share	311,608	312,182	311,424	312,185
Basic Earnings Per Share	$ 1.22	$ 1.06	$ 3.46	$ 2.97
Diluted Earnings Per Share	$ 1.21	$ 1.04	$ 3.41	$ 2.93

Stock options of 14,000 and 3,136,623 were antidilutive and therefore excluded in the computation of diluted earnings per share for the quarter and nine months ended September 30, 2010, respectively. Stock options of 3,227,885 and 3,249,675 were antidilutive and excluded in the computation for the quarter and nine months ended September 30, 2009.

8. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended September 30, 2010 were as follows:

(Millions of dollars)	North America	South America	Europe	Asia	Surface Technologies	Total
Balance, December 31, 2009	$ 1,297	$ 232	$ 368	$ 31	$ 142	$ 2,070
Acquisitions	4		6			10
Purchase adjustments & other	(6)				3	(3)
Foreign currency translation	8	7	(24)	2	(3)	(10)
Balance, September 30, 2010	$ 1,303	$ 239	$ 350	$ 33	$ 142	$ 2,067

Table of Contents

Impairment tests have been performed annually during the second quarter of each year since the initial adoption of the goodwill accounting standard in 2002, and no impairments were indicated. Also, there were no indicators of impairment through September 30, 2010.

Changes in the carrying amounts of other intangibles for the nine months ended September 30, 2010 were as follows:

(Millions of dollars)	**Customer & License/Use Agreements**	**Non-compete Agreements**	**Patents & Other**	**Total**
Cost:				
Balance, December 31, 2009	$ 163	$ 34	$ 24	$ 221
Additions	8	2		10
Foreign currency translation	(1)			(1)
Other	(3)	(6)		(9)
Balance, September 30, 2010	$ 167	$ 30	$ 24	$ 221
Less: Accumulated amortization				
Balance, December 31, 2009	$ (52)	$ (21)	$ (6)	$ (79)
Amortization expense	(10)	(4)	(1)	(15)
Foreign currency translation	1			1
Other	3	6		9
Balance, September 30, 2010	$ (58)	$ (19)	$ (7)	$ (84)
Net balance at September 30, 2010	$ 109	$ 11	$ 17	$ 137

There are no expected residual values related to these intangible assets. The remaining weighted-average amortization period for intangible asset is approximately 13 years.

Total estimated annual amortization expense is as follows:

(millions of dollars)	
Remaining 2010	$ 5
2011	19
2012	17
2013	15
2014	14
Thereafter	67
	$ 137

9. Share-Based Compensation

Share-based compensation of $12 million ($9 million after tax) and $11 million ($8 million after tax) was recognized during the quarters ended September 30, 2010 and 2009, respectively. Share-based compensation of $35 million ($25 million after tax) and $30 million ($21 million after tax) was recognized for the nine months ended September 30, 2010 and 2009, respectively. The expense was recorded primarily in selling, general and administrative expenses. There was no share-based compensation cost that was capitalized. For further details regarding Praxair s share-based compensation arrangements and prior year grants, refer to Note 15 to the consolidated financial statements of Praxair s 2009 Annual Report on Form 10-K.

16

Table of Contents

Stock Options

The weighted-average fair value of options granted during quarter and nine months ended September 30, 2010 was $14.65 and $12.57, respectively, based on the Black-Scholes Options-Pricing model. The weighted-average fair value of options granted during the quarter and nine months ended September 30, 2009 was $11.70 and $8.08, respectively, based on the Black-Scholes Options-Pricing model.

The following weighted-average assumptions were used for grants in 2010 and 2009 :

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Dividend yield	2.0%	2.2%	2.4%	2.6%
Volatility	22.1%	20.4%	20.8%	18.7%
Risk-free interest rate	1.5%	2.4%	2.5%	1.9%
Expected term years	5	5	5	5

The following table summarizes option activity under the plans as of September 30, 2010 and changes during the nine-month period then ended (averages are calculated on a weighted basis; life in years; intrinsic value expressed in millions):

	Number of Options (000 s)	Average Exercise Price	Average Remaining Life	Aggregate Intrinsic Value
Outstanding at January 1, 2010	18,683	$ 53.80		
Granted	1,409	76.27		
Exercised	(3,022)	40.39		
Cancelled or Expired	(90)	63.48		
Outstanding at September 30, 2010	16,980	58.00	6.0	$ 548
Exercisable at September 30, 2010	12,913	$ 53.17	5.2	$ 479

The aggregate intrinsic value represents the difference between the company s closing stock price of $90.26 as of September 30, 2010 and the exercise price multiplied by the number of options outstanding as of that date. The total intrinsic value of stock options exercised during the quarter and nine months ended September 30, 2010 was $86 million and $136 million, respectively ($32 million and $62 million for the same time periods in 2009, respectively).

Cash received from option exercises under all share-based payment arrangements for the quarter and nine months ended September 30, 2010 was $74 million and $122 million, respectively ($27 million and $55 million for the same time periods in 2009, respectively). The cash tax benefit realized from stock option exercises totaled $28 million and $43 million for the quarter and nine months ended September 30, 2010, of which $38 million in excess tax benefits was classified as financing cash flows ($8 million and $16 million for the same time periods in 2009).

As of September 30, 2010, $23 million of unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted-average period of approximately 1.6 years.

Performance-Based and Restricted Stock Awards

During the nine months ended September 30, 2010, the company granted performance-based stock units to employees which vest on the third anniversary of their grant date. The actual number of shares issued in settlement of a vested award can range from zero to 150 percent of the target number of shares granted based upon the company s attainment of specified performance targets at the end of a three-year period. Compensation expense

Table of Contents

related to these awards is recognized over the three-year performance period based on the fair value of the closing market price of the company s common stock on the date of the grant and the estimated performance that will be achieved. Compensation expense will be adjusted during the three-year performance period based upon the estimated performance levels that will be achieved.

During the nine months ended September 30, 2010, the company granted restricted stock units to employees. The majority of the restricted stock units vest at the end of or ratably over a three-year service period. Compensation expense related to the restricted stock units is recognized on a straight-line basis over the vesting period.

The weighted-average fair value of performance-based stock and restricted stock units granted during the nine months ended September 30, 2010 was $70.99 and $72.09, respectively ($69.22 and $56.34 for the same periods in 2009). This is based on the closing market price of Praxair s common stock on the grant date adjusted for dividends that will not be paid during the vesting period.

The following table summarizes non-vested performance-based and restricted stock award activity as of September 30, 2010 and changes during the nine-month period then ended (shares based on target amounts, averages are calculated on a weighted basis):

	Performance-Based		Restricted Stock	
Performance-Based and Restricted Stock Activity	**Number of Shares (000 s)**	**Average Grant Date Fair Value**	**Number of Shares (000 s)**	**Average Grant Date Fair Value**
Non-vested at January 1, 2010	449	$ 59.57	97	$ 49.97
Granted	296	70.99	214	72.09
Vested	(39)	83.42		
Cancelled	(16)	71.12	(10)	71.06
Non-vested at September 30, 2010	690	$ 62.85	301	$ 64.97

As of September 30, 2010, based on current estimates of future performance, $30 million of unrecognized compensation cost related to performance-based awards is expected to be recognized through the first quarter of 2013 and $13 million of unrecognized compensation cost related to the restricted stock awards is expected to be recognized through the first quarter of 2017.

10. Retirement Programs

The components of net pension and postretirement benefits other than pensions (OPEB) costs for the quarters and nine-month periods ended September 30, 2010 and 2009 are shown below:

	Quarter Ended September 30,				Nine Months Ended September 30,			
	Pensions		OPEB		Pensions		OPEB	
(Millions of dollars)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Service cost	$ 10	$ 9	$ 1	$ 1	$ 30	$ 27	$ 4	$ 3
Interest cost	30	30	4	4	90	87	11	12
Expected return on plan assets	(35)	(35)			(105)	(98)		
Net amortization and deferral	9	4			26	12		
Net periodic benefit cost	$ 14	$ 8	$ 5	$ 5	$ 41	$ 28	$ 15	$ 15

Table of Contents

Praxair estimates that 2010 contributions to its pension plans will be in the area of $125 million, of which $117 million have been made through September 30, 2010.

The impact to Praxair s retirement plans in the U.S. related to the Patient Protection and Affordable Care Act signed into law on March 23, 2010 was insignificant.

11. Commitments and Contingencies

Praxair is subject to various lawsuits and government investigations that arise from time to time in the ordinary course of business. These actions are based upon alleged environmental, tax, antitrust and personal injury claims, among others. Praxair has strong defenses in these cases and intends to defend itself vigorously. It is possible that the company may incur losses in connection with some of these actions in excess of accrued liabilities. Management does not anticipate that in the aggregate such losses would have a material adverse effect on the company s consolidated financial position or liquidity; however, it is possible that the final outcomes could have a significant impact on the company s reported results of operations in any given period (see Note 17 to the consolidated financial statements of Praxair s 2009 Annual Report on Form 10-K).

Among such matters are:

Claims brought by welders alleging that exposure to manganese contained in welding fumes caused neurological injury. Praxair has never manufactured welding consumables. Such products were manufactured prior to 1985 by a predecessor company of Praxair. As of September 30, 2010, Praxair was a co-defendant with many other companies in lawsuits alleging personal injury caused by manganese contained in welding fumes. There were a total of 574 individual claimants in these cases as of September 30, 2010, down from 863 and 1,791 at December 31, 2009 and 2008, respectively. The cases were pending in several state and federal courts. The federal cases have been transferred to the U.S. District Court for the Northern District of Ohio for coordinated pretrial proceedings. The plaintiffs seek unspecified compensatory and, in most instances, punitive damages. In the past, Praxair has either been dismissed from the cases with no payment or has settled a few cases for nominal amounts. These claims raise numerous, individual issues that make them generally unsuited for class action status. Separately, various class actions for medical monitoring have been proposed but none have been certified. No reserves have been recorded for these cases as management does not believe that a loss from them is probable or reasonably estimable.

An investigation by Spanish prosecutors relating to income tax credits generated by certain of the company s Spanish subsidiaries prior to 2002 totaling approximately 120 million ($161 million). These tax positions relate to interpretation of the Spanish civil tax code and are under criminal investigation. All issues that have been submitted to the Supreme Court of Spain have upheld our positions. Praxair has recorded a full liability, including interest, for these tax positions. During March 2010, the investigation was expanded to include issues regarding the company s European holding company established pursuant to the ETVE (Entidad de Tenencia de Valores Extranjeros) legislation under the Spanish tax code, which includes interest and other deductions, which include an additional 180 million ($242 million), for which no additional liability has been recorded. Management believes that all these deductions and credits are compliant with applicable laws. It is possible that, in the course of these proceedings, a settlement may occur in the near future. If we reach a settlement, any difference in the settlement amount and the amounts accrued would be adjusted to earnings at the time. If the matter goes to trial, the prosecutor could seek material penalties which could be multiples of the principal amounts. The company believes it has strong defenses and will vigorously defend its position and appeal any unfavorable rulings up to such levels of the Spanish judiciary as may be necessary.

Claims by the Brazilian taxing authorities against several of the company s Brazilian subsidiaries relating to non-income and income tax matters. During May 2009, the Brazilian government published Law 11941/2009 instituting a new voluntary amnesty program (Refis Program) which allowed Brazilian companies to settle certain federal tax disputes at reduced amounts. During the 2009 third quarter, Praxair decided that it was economically beneficial to settle many of its outstanding federal tax disputes and these disputes were enrolled in the Refis Program and settled (see Note 2 to the consolidated financial statements of Praxair s 2009 Annual Report on Form 10-K). During January 2010, the Brazilian state of Rio de Janeiro (Rio) published Law

Table of Contents

5647/2010 instituting a new state amnesty program (Rio Amnesty Program) which allows Brazilian companies to settle certain disputes with the state of Rio at reduced amounts. During the 2010 first quarter, Praxair decided that it was economically beneficial to settle several of its outstanding disputes with the state of Rio and these disputes were enrolled in the Program and settled. The final settlements related to both the Refis and Rio Amnesty Programs are subject to final calculation and review by the Brazilian federal and Rio state governments, respectively, and the company currently anticipates these reviews will conclude during the next year. Any differences from amounts recorded will be adjusted to income at that time.

After enrollment in the amnesty programs, at September 30, 2010 the most significant remaining claims relate to a state VAT tax matter associated with a procedural issue and a federal income tax matter where the taxing authorities are challenging the tax rate that should be applied to income generated by a subsidiary company. The total estimated exposure relating to such claims, including interest and penalties as appropriate, is approximately R$274 million ($160 million). Praxair has not recorded any liabilities related to such claims based on management judgments, after considering judgments and opinions of outside counsel. Because litigation in Brazil historically takes many years to resolve, it is very difficult to estimate the timing of resolution of these matters; however, it is possible that certain of these matters may be resolved within the near term. The company is vigorously defending against the proceedings.

On September 1, 2010, CADE (Brazilian Administrative Council for Economic Defense) announced alleged anticompetitive activity on the part of five industrial gas companies in Brazil and imposed fines on all five companies. Originally, CADE imposed a civil fine of R$ 2.2 billion Brazilian reais (US$1.3 billion) against White Martins, the Brazil-based subsidiary of Praxair, Inc. In response to a motion for clarification, the fine was reduced to R$1.7 billion Brazilian reais (US$1 billion) due to a calculation error made by CADE. On September 2, 2010, Praxair issued a press release and filed a report on Form 8-K rejecting all claims and stating that the fine represents a gross and arbitrary disregard of Brazilian law.

Praxair strongly believes that the allegations are without merit and that the fine will be annulled during the appeal process. The company further believes that it has strong defenses and will vigorously defend against the allegations and related fine up to such levels of the Federal Courts in Brazil as may be necessary. Because appeals in Brazil historically take many years to resolve, it is very difficult to estimate when the appeal will be finally decided. Based on management judgments, after considering judgments and opinions of outside counsel, no reserve has been recorded for this proceeding as management does not believe that a loss is probable.

On October 19, 2010, White Martins filed an annulment petition (appeal) with the Federal Court in Brasilia seeking to have the fine against White Martins overturned. In order to suspend payment of the fine pending the completion of the appeal process, Brazilian law required that the company tender a form of guarantee in the amount of the fine as security.

Table of Contents

12. Segments

Sales and operating profit by segment for the quarters and nine-month periods ended September 30, 2010 and 2009 are shown below. For a description of Praxair s operating segments, refer to Note 18 to the consolidated financial statements of Praxair s 2009 Annual Report on Form 10-K.

(Millions of dollars)	Quarter Ended September 30, 2010	Quarter Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
SALES[(a)]				
North America	$ 1,282	$ 1,162	$ 3,801	$ 3,446
Europe	322	323	995	932
South America	506	436	1,454	1,184
Asia	287	232	825	611
Surface Technologies[(b)]	141	135	418	376
	$ 2,538	$ 2,288	$ 7,493	$ 6,549
OPERATING PROFIT				
North America	$ 314	$ 263	$ 885	$ 783
Europe	59	68	199	192
South America	117	94	340	239
Asia	38	37	116	96
Surface Technologies	23	18	64	59
Segment operating profit	551	480	1,604	1,369
Venezuela currency devaluation and other charges (Note 2)		(306)	(27)	(306)
Total operating profit	$ 551	$ 174	$ 1,577	$ 1,063

(a) Intersegment sales, primarily from North America to other segments, were not significant for the quarter and nine-month periods ended September 30, 2010 and 2009.

(b) On July 1, 2009, Praxair acquired Sermatech International Holdings Corp., which contributed sales of $41 million in the first half of 2010.

Table of Contents

13. Equity

A summary of the changes in total equity for the quarters and nine months ended September 30, 2010 and 2009 is provided below:

(Millions of dollars)	Quarter Ended September 30,					
	2010			2009		
Activity	**Praxair, Inc. Shareholders Equity**	**Noncontrolling Interests**	**Total Equity**	**Praxair, Inc. Shareholders Equity**	**Noncontrolling Interests**	**Total Equity**
Balance, beginning of period	$ 5,452	$ 315	$ 5,767	$ 4,638	$ 308	$ 4,946
Net Income	377	11	388	325	11	336
Translation Adjustments	319	14	333	253	7	260
Derivative Instruments, net of less than $1 million of taxes in 2010 and $1 million taxes in 2009						
Funded Status - retirement obligations, net of $7 million taxes in 2010 and $1 million taxes in 2009				(2)		(2)
Comprehensive income	696	25	721	576	18	594
Dividends to noncontrolling interests		(3)	(3)		(7)	(7)
(Purchases) sales of noncontrolling interests (a)		2	2			
Additions to noncontrolling interests					3	3
Dividends to Praxair, Inc. common stock holders ($0.45 per share in 2010 and $0.40 per share in 2009)	(139)		(139)	(122)		(122)
Issuances of common stock:						
For the dividend reinvestment and stock purchase plan	1		1	1		1
For employee savings and incentive plans	80		80	32		32
Purchases of common stock	(139)		(139)	(60)		(60)
Tax benefit from stock options	28		28	9		9
Share-based compensation	12		12	11		11
Balance, end of period	$ 5,991	$ 339	$ 6,330	$ 5,085	$ 322	$ 5,407

Table of Contents

	Nine Months Ended September 30,					
	2010			2009		
Activity	Praxair, Inc. Shareholders Equity	Noncontrolling Interests	Total Equity	Praxair, Inc. Shareholders Equity	Noncontrolling Interests	Total Equity
Balance, beginning of period	$ 5,315	$ 333	$ 5,648	$ 4,009	$ 302	$ 4,311
Net Income	1,062	30	1,092	914	31	945
Translation Adjustments	81	(4)	77	560	7	567
Derivative Instruments, net of less than $1 million taxes in 2010 and $4 million taxes in 2009				7		7
Funded Status - retirement obligations, net of $25 million taxes in 2010 and $2 million taxes in 2009	10		10	(4)		(4)
Comprehensive income	1,153	26	1,179	1,477	38	1,515
Dividends to noncontrolling interests		(22)	(22)		(23)	(23)
Additions to noncontrolling interests		2	2	(8)	(5)	(13)
(Purchases) sales of noncontrolling interests (a)	(2)		(2)		10	10
Dividends to Praxair, Inc. common stock holders ($1.35 per share in 2010 and $1.20 per share in 2009)	(414)		(414)	(368)		(368)
Issuances of common stock:						
For the dividend reinvestment and stock purchase plan	5		5	5		5
For employee savings and incentive plans	137		137	72		72
Purchases of common stock	(281)		(281)	(148)		(148)
Tax benefit from stock options	43		43	16		16
Share-based compensation	35		35	30		30
Balance, end of period	$ 5,991	$ 339	$ 6,330	$ 5,085	$ 322	$ 5,407

(a) During the 2010 and 2009 second quarters, Praxair increased its ownership in an Italian and US packaged gas subsidiary, respectively. The difference between the purchase price and the related noncontrolling interests of $2 million and $8 million, respectively, was recorded as a decrease in Praxair s additional paid-in capital.

The components of accumulated other comprehensive income (loss) (AOCI) are as follows:

(Millions of dollars)	September 30, 2010	December 31, 2009
Cumulative translation adjustments (CTA)	$ (574)	$ (651)
Derivative instruments	4	4
Pension/ OPEB funded status obligation	(492)	(502)
	(1,062)	(1,149)
Less: noncontrolling interests (CTA)	2	6
AOCI - Praxair, Inc.	$ (1,064)	$ (1,155)

14. Acquisitions

In August 2010, Praxair and the members of the ROC group entered into definitive agreements for Praxair to acquire a 49% ownership interest in the ROC group s existing industrial gases business operating in Kuwait, United Arab Emirates and Qatar. As of September 30, 2010, Praxair had acquired a 49% interest in the Kuwait and Qatar operations. The acquisition of the 49% interest in the United Arab Emirates operations is expected to close in the fourth quarter of 2010. The 49% investments in Kuwait and Qatar are accounted for as equity investments in the consolidated financial statements. In addition, during the nine months ended September 30, 2010, Praxair completed several small acquisitions, related primarily to North American packaged gas distributors. The aggregate purchase price for the acquisitions was $134 million.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Adjusted Amounts and Comparisons

The discussion of consolidated results and outlook in this Management s Discussion and Analysis (MD&A) includes adjusted amounts and comparisons with adjusted amounts which exclude the impact of the Venezuela currency devaluation in 2010 and the impact of the Brazil Tax Amnesty Program and other charges in 2009. Adjusted amounts are non-GAAP measures that supplement an understanding of the company s financial information by presenting information that investors, financial analysts and management use to help evaluate the company s performance and ongoing business trends on a comparable basis. See the Consolidated Results section of this MD&A for a summary of these adjusted amounts. A reconciliation of reported amounts to adjusted amounts can be found in the Non-GAAP Financial Measures section of this MD&A.

Consolidated Results

The following table provides summary data for the quarter and nine-month periods ended September 30, 2010 and 2009:

	Quarter Ended September 30,			Nine Months Ended September 30,		
(Dollar amounts in millions, except per share data)	**2010**	**2009**	**Variance**	**2010**	**2009**	**Variance**
Reported Amounts						
Sales	$ 2,538	$ 2,288	11%	$ 7,493	$ 6,549	14%
Gross margin [(a)]	$ 1,094	$ 1,011	8%	$ 3,231	$ 2,887	12%
As a percent of sales	43.1%	44.2%		43.1%	44.1%	
Selling, general and administrative	$ 299	$ 284	5%	$ 895	$ 814	10%
As a percent of sales	11.8%	12.4%		11.9%	12.4%	
Depreciation and amortization	$ 227	$ 217	5%	$ 685	$ 623	10%
Venezuela currency devaluation and other charges [(b)]	$	$ 306		$ 27	$ 306	
Other income (expense) - net	$ 2	$ (10)		$ 9	$ (25)	
Operating profit	$ 551	$ 174	217%	$ 1,577	$ 1,063	48%
As a percent of sales	21.7%	7.6%		21.0%	16.2%	
Interest expense - net	$ 29	$ 32	(9)%	$ 90	$ 100	(10)%
Effective tax rate	28.0%	-131.7%		28.4%	3.7%	
Income from equity investments	$ 12	$ 7	71%	$ 27	$ 18	50%
Net income - Praxair, Inc.	$ 377	$ 325	16%	$ 1,062	$ 914	16%
Diluted earnings per share	$ 1.21	$ 1.04	16%	$ 3.41	$ 2.93	16%
Diluted shares outstanding	311,608	312,182	%	311,424	312,185	%
Adjusted Amounts [(c)]						
Operating profit	$ 551	$ 480	15%	$ 1,604	$ 1,369	17%
As a percent of sales	21.7%	21.0%		21.4%	20.9%	
Effective tax rate	28.0%	28.1%		27.9%	27.5%	
Net income - Praxair, Inc.	$ 377	$ 318	19%	$ 1,088	$ 907	20%
Diluted earnings per share	$ 1.21	$ 1.02	19%	$ 3.49	$ 2.91	20%

(a) Gross margin excludes depreciation and amortization expense.
(b) See Note 2 to the condensed consolidated financial statements.
(c) Adjusted amounts are non-GAAP measures. 2010 adjusted amounts exclude the impact of the Venezuela currency devaluation. 2009 adjusted amounts exclude the impact of the Brazil Tax Amnesty Program and other charges. Variances are calculated using adjusted amounts, when appropriate. A reconciliation of reported amounts to adjusted amounts can be found in the Non-GAAP Financial Measures section of this MD&A.

Table of Contents

2010 Venezuela Currency Devaluation

On January 8, 2010, Venezuela announced a devaluation of the Venezuelan bolivar and created a two tier exchange rate system. Under the new system, a 2.60 exchange rate between the bolivar and the U.S. dollar (which implies 17.3% devaluation) will apply for essential goods while an exchange rate of 4.3 (implying 50% devaluation) will apply for all remaining sectors, including Praxair s operations. In the first quarter 2010, Praxair recorded a $27 million charge ($26 million after-tax or $0.08 per diluted share) due primarily to the remeasurement of the local Venezuelan balance sheet to reflect the new official 4.3 exchange rate.

2009 Brazil Tax Amnesty Program and Other Charges

In the third quarter 2009, Praxair recorded a net after-tax benefit of $7 million related primarily to a Federal tax amnesty program in Brazil (see Note 2 to the consolidated financial statements of Praxair s 2009 Annual Report on Form 10-K). The program required a cash outlay of $34 million in the 2009 fourth quarter and is expected to require up to an additional $60 million of cash payments in the next twelve months depending on timing of the Brazilian government consolidation process.

Results of Operations

As previously described, references to adjusted amounts refer to reported amounts adjusted to exclude the impact of special items and are non-GAAP measures. A reconciliation of reported amounts to adjusted amounts can be found in the Non-GAAP Financial Measures section of this MD&A.

	Quarter Ended September 30, 2010 vs. 2009 % Change	**Nine Months Ended September 30, 2010 vs. 2009 % Change**
Sales		
Volume	9%	9%
Price/Mix/Other	%	%
Cost pass-through	2%	1%
Currency	%	3%
Acquisitions/ divestitures	%	1%
Total sales change	11%	14%

Sales increased $250 million, or 11%, for the third quarter and increased $944 million, or 14%, for the nine months ended September 30, 2010 versus the respective 2009 periods. The underlying increase in sales of 9% for both periods reflects higher volumes in all geographies. Sales to the chemicals, metals, electronics and manufacturing end markets showed the strongest growth compared with the prior year. The favorable impact of currency, primarily in South America, Asia, Mexico and Canada increased sales by 3% for the year-to-date period. Higher cost pass-through increased sales by $48 million, or 2%, for the quarter and $95 million, or 1%, for the year-to-date period, with a negligible impact on operating profit.

Gross margin in 2010 improved $83 million, or 8%, for the third quarter and increased $344 million, or 12%, for the nine months ended September 30, 2010 versus the respective 2009 periods primarily due to higher volumes. The decrease in the gross margin percentage for both the quarter and year-to-date periods to 43.1% was due primarily to the impact of higher cost pass-through and product mix.

Selling, general and administrative (SG&A) expenses increased $15 million, or 5%, for the third quarter and increased $81 million, or 10%, for the nine months ended September 30, 2010 versus the respective 2009 periods, but decreased as a percentage of sales in both periods. The quarter increase in SG&A expenses was due primarily to higher pension, benefit costs, incentive compensation and other labor costs associated with increased business activity. The year-to-date period also included the impact of currency and an acquisition.

Depreciation and amortization expense increased $10 million, or 5%, for the third quarter and increased $62 million, or 10%, for the nine months ended September 30, 2010 versus the respective 2009 periods. The quarter increase was due to depreciation associated with project start-ups. The year-to-date period also included the impact of currency.

Table of Contents

Other income (expense) net for the quarter was a $2-million benefit in 2010 and a $10-million expense in 2009. The 2010 and 2009 quarters included a $5 million and $2 million loss, respectively, due to currency related items, related primarily to net income hedges. Other income (expense) net for the nine month period was a $9-million benefit for 2010 and a $25-million expense for 2009. The 2010 and 2009 nine month periods included a $1 million gain and a $17 million loss, respectively, due to currency related items, related primarily to net income hedges (see Note 5 to the condensed consolidated financial statements).

Operating profit for the third quarter 2010 increased $71 million, or 15%, as compared to the adjusted operating profit for the same period in 2009. For the nine months ended September 30, 2010, adjusted operating profit increased $235 million, or 17%, versus the respective 2009 period. This increase was driven primarily by higher sales volumes.

Interest expense net decreased $3 million, or 9%, for the third quarter and decreased $10 million, or 10%, for the nine months ended September 30, 2010 versus the respective periods in 2009 due to lower effective interest rates and lower levels of international bank borrowings.

The effective tax rate for the third quarter 2010 was 28.0% versus the adjusted effective tax rate of 28.1% for the same period in 2009. The adjusted effective tax rate for the nine months ended September 30, 2010 was 27.9% versus 27.5% for the same period in 2009. The 2009 nine-month period includes a $7 million tax benefit related primarily to tax incentives in Italy.

Praxair s significant sources of equity income are in China, Italy, the Middle East, and Norway. Income from equity investments increased $5 million for the third quarter and increased $9 million for the nine months ended September 30, 2010 versus the respective 2009 periods. This increase relates primarily to higher earnings in Italy (including a tax benefit) and Norway and the acquisition of ROC in the Middle East.

Net income Praxair, Inc. for the third quarter 2010 increased $59 million, or 19%, as compared to the adjusted net income Praxair, Inc. for the same period in 2009. For the nine months ended September 30, 2010, adjusted net income Praxair, Inc. increased $181 million, or 20%, versus the respective 2009 period. The increase was due primarily to higher operating profit and lower interest expense.

Diluted earnings per share (EPS) for the third quarter 2010 increased $0.19 per diluted share, or 19%, as compared to the adjusted diluted earnings per share for the same period in 2009. For the nine months ended September 30, 2010, adjusted EPS increased $0.58, or 20%, versus the respective 2009 period. The underlying increase in EPS attributable to an increase in net income Praxair, Inc. coupled with lower outstanding shares.

The number of employees at September 30, 2010 was 26,025, reflecting a decrease of 139 employees from December 31, 2009 due to ongoing cost reduction efforts related to productivity.

Segment Discussion

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

	Quarter ended September 30,			**Nine Months Ended September 30,**		
(Dollar amounts in millions)	**2010**	**2009**	**Variance**	**2010**	**2009**	**Variance**
SALES						
North America	$ 1,282	$ 1,162	10%	$ 3,801	$ 3,446	10%
Europe	322	323	%	995	932	7%
South America	506	436	16%	1,454	1,184	23%
Asia	287	232	24%	825	611	35%
Surface Technologies	141	135	4%	418	376	11%
	$ 2,538	$ 2,288	11%	$ 7,493	$ 6,549	14%
OPERATING PROFIT						
North America	$ 314	$ 263	19%	$ 885	$ 783	13%

Europe	59	68	(13)%	199	192	4%
South America	117	94	24%	340	239	42%
Asia	38	37	3%	116	96	21%
Surface Technologies	23	18	28%	64	59	8%
Segment operating profit	551	480	15%	1,604	1,369	17%
Venezuela currency devaluation and other charges (Note 2)		(306)		(27)	(306)	
Total operating profit	$ 551	$ 174		$ 1,577	$ 1,063	

26

Table of Contents

North America

	Quarter Ended September 30, 2010 vs. 2009 % Change	Nine Months Ended September 30, 2010 vs. 2009 % Change
Sales		
Volume	7 %	7 %
Price/Mix/Other	(1)%	(1)%
Cost pass-through	3 %	1 %
Currency	1 %	3 %
Total sales change	10 %	10 %

Sales increased $120 million, or 10%, for the third quarter and increased $355 million, or 10%, for the nine months ended September 30, 2010 versus the respective 2009 periods. Currency appreciation in Canada and Mexico increased sales by 1% in the quarter and 3% in the year-to-date period. Higher cost pass-through increased sales by $30 million, or 3%, for the quarter and $34 million, or 1%, for the year-to-date period with a minimal impact on operating profit. Excluding currency and cost pass-through, underlying sales increased 6% in both the quarter and year-to-date periods due primarily to higher volumes, driven by the manufacturing, chemicals, metals and energy end-markets.

Operating profit increased $51 million, or 19%, for the third quarter and increased $102 million, or 13%, for the nine months ended September 30, 2010 versus the respective 2009 periods. Excluding the impact of currency, operating profit grew as a result of higher volumes and lower fixed costs due to ongoing productivity initiatives and cost reductions.

Europe

	Quarter ended September 30, 2010 vs. 2009 % Change	Nine Months Ended September 30, 2010 vs. 2009 % Change
Sales		
Volume	7 %	8 %
Price/Mix/Other	%	%
Cost pass-through	1 %	1 %
Currency	(10)%	(3)%
Acquisitions/Divestitures	1 %	1 %
Equipment	1 %	%
Total sales change	%	7 %

27

Table of Contents

Sales in the quarter were comparable to prior year and increased $63 million, or 7%, for the nine months ended September 30, 2010 versus the respective 2009 period. Currency decreased sales by 10% in the quarter and 3% in the year-to-date period. Equipment sales increased 1% for the 2010 quarter versus the prior year. Higher cost pass-through increased sales by $3 million, or 1%, for the quarter and increased sales by $7 million, or 1% for the year-to-date period, with a minimal impact on operating profit. The underlying improvement in sales of 7% in the quarter and 8% in the year-to-date period was due primarily to higher on-site and merchant volumes in Germany, Italy and Spain.

Operating profit decreased $9 million, or 13%, for the third quarter and increased $7 million, or 4%, for the nine months ended September 30, 2010 versus the respective 2009 periods. Operating profit for the quarter included net income hedge losses of $4 million and $1 million in 2010 and 2009, respectively. Operating profit for the year-to-date period included a net income hedge gain of $1 million in 2010 and a net income hedge loss of $3 million in 2009 (see Note 5 to the condensed consolidated financial statements). Quarter and year-to-date operating profit reflects the negative impact of currency, higher acquisition and business development costs and product mix.

South America

	Quarter ended September 30, 2010 vs. 2009 % Change	Nine Months Ended September 30, 2010 vs. 2009 % Change
Sales		
Volume	10 %	8 %
Price/Mix/Other	2 %	2 %
Cost pass-through	%	1 %
Currency	4 %	12 %
Total sales change	16 %	23 %

Sales increased $70 million, or 16%, for the third quarter and increased $270 million, or 23%, for the nine months ended September 30, 2010 versus the respective 2009 periods. Currency increased sales by 4% in the quarter and 12% in the year-to-date period. Higher cost pass-through increased sales by $2 million, or less than 1%, for the quarter and increased sales by $6 million, or 1% for the year-to-date period, with a minimal impact on operating profit. Excluding currency and cost pass-through, sales increased 12% and 10% for the quarter and year-to-date periods, respectively. The increase was due primarily to higher volumes to metals, manufacturing and healthcare customers and higher overall pricing.

Operating profit increased $23 million, or 24%, for the third quarter and increased $101 million, or 42%, for the nine months ended September 30, 2010 versus the respective 2009 periods. Operating profit for the 2009 nine-month period included currency related net losses of $12 million, which consisted primarily of net income hedge losses (see Note 5 to the condensed consolidated financial statements). Excluding currency related impacts, underlying operating profit for the quarter and year-to-date periods grew as a result of higher volumes and higher pricing. Operating profit for the 2010 year-to-date period included a benefit from a decision to settle certain disputes under a special amnesty program enacted by the State of Rio de Janeiro, which was largely offset by charges in connection with a non-core service business restructuring.

Table of Contents

Asia

	Quarter ended September 30, 2010 vs. 2009 % Change	Nine Months Ended September 30, 2010 vs. 2009 % Change
Sales		
Volume	17 %	25 %
Price/Mix/Other	(2)%	(2)%
Cost pass-through	6 %	8 %
Currency	3 %	4 %
Total sales change	24 %	35 %

Sales increased $55 million, or 24%, for the third quarter and increased $214 million, or 35%, for the nine months ended September 30, 2010 versus the respective 2009 periods. Favorable currency increased sales by 3% in the quarter and 4% in the year-to-date period. Higher cost pass-through increased sales by $13 million, or 6%, for the 2010 third quarter, and increased sales by $49 million, or 8%, for the year-to-date period, with a minimal impact on operating profit. Excluding currency and cost pass-through, sales increased 15% and 23% for the quarter and year-to-date periods, respectively, due primarily to sharply higher volumes across the region and new plant start-ups.

Operating profit increased $1 million, or 3%, for the third quarter and increased $20 million, or 21%, for the nine months ended September 30, 2010 versus the respective 2009 periods. Operating profit reflects higher depreciation from new plant start-ups, higher power costs, increased business development costs and a higher volume of lower margin sales to the electronics end-market.

Surface Technologies

	Quarter ended September 30, 2010 vs. 2009 % Change	Nine Months Ended September 30, 2010 vs. 2009 % Change
Sales		
Volume/Price	8 %	%
Currency	(4)%	%
Acquisitions	%	11 %
Total sales change	4 %	11 %

Sales increased $6 million, or 4%, for the third quarter and increased $42 million, or 11%, for the nine months ended September 30, 2010 versus the respective 2009 periods. Sales for the 2010 year-to-date period increased $41 million, or 11% from the acquisition of Sermatech. Excluding the impact of currency translation and the acquisition, sales increased 8% in the quarter and were comparable to prior year in the year-to-date period. Sales increased due to higher aviation coatings volumes partially offset by weaker industrial gas turbines coatings.

Operating profit increased $5 million for both periods, or 28% and 8%, for the quarter and the nine months ended September 30, 2010 versus the respective 2009 periods, respectively. The increase was principally driven by lower costs due to productivity initiatives.

On July 1, 2009, Praxair acquired Sermatech International Holdings Corp. (Sermatech), a global supplier of protective coatings and advanced processes used on industrial and aviation gas turbines with operations in the U.S., Canada, United Kingdom, Germany and South Korea.

Currency

The results of Praxair s non-U.S. operations are translated to the company s reporting currency, the U.S. dollar, from the functional currencies used in the countries in which the company operates. For most foreign operations, Praxair uses the local currency as its functional currency. There is inherent variability and unpredictability in the relationship of these functional currencies to the U.S. dollar and such currency movements may materially impact Praxair s results of operations in any given period.

Table of Contents

To help understand the reported results, the following is a summary of the significant currencies underlying Praxair s consolidated results and the exchange rates used to translate the financial statements (rates of exchange expressed in units of local currency per U.S. dollar):

Currency	Percent of YTD 2010 Consolidated Sales [(a)]	Exchange Rate for Income Statement Year-To-Date Average		Exchange Rate for Balance Sheet	
		2010	2009	September 30, 2010	December 31, 2009
Brazil real	17%	1.78	2.07	1.69	1.74
Euro	15%	0.76	0.73	0.74	0.69
Canada dollar	8%	1.04	1.18	1.03	1.05
Mexico peso	6%	12.76	13.72	12.52	13.03
China yuan	3%	6.81	6.83	6.71	6.83
India rupee	2%	46.23	49.08	45.08	46.68
Korea won	2%	1,171	1,317	1,140	1,170
Singapore dollar	2%	1.39	1.47	1.32	1.40
Argentina peso	1%	3.89	3.70	3.96	3.80
Colombia peso	1%	1,907	2,202	1,801	2,044
Taiwan dollar	1%	31.98	33.33	31.38	32.29
Thailand bhat	1%	32.51	34.77	30.62	33.36
Venezuela bolivar (b)	<1%	4.30	2.15	4.30	2.15

(a) Certain Surface technologies segment sales are included in European, Brazilian and Indian sales.

(b) On January 8, 2010, the Venezuelan government announced a devaluation of the Venezuelan Bolivar to 4.30 (See Note 2 to the condensed consolidated financial statements).

Table of Contents

Liquidity, Capital Resources and Other Financial Data

The following selected cash flow information provides a basis for the discussion that follows:

(Millions of dollars)	Nine Months Ended September 30, 2010	2009
NET CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net income - Praxair, Inc. plus depreciation and amortization	$ 1,747	$ 1,537
Noncontrolling interests	30	31
Net income plus depreciation and amortization (including noncontrolling interests)	1,777	1,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Venezuela currency devaluation and other charges, net of payments	23	270
Working capital	(121)	(149)
Pension contributions	(117)	(123)
Other - net	53	(107)
Net cash provided by operating activities	$ 1,615	$ 1,459
INVESTING ACTIVITIES		
Capital expenditures	(937)	(997)
Acquisitions, net of cash acquired	(134)	(128)
Divestitures and asset sales	44	20
Net cash used for investing activities	$ (1,027)	$ (1,105)
FINANCING ACTIVITIES		
Debt increases (reductions) - net	(19)	135
Issuances (purchases) of common stock - net	(139)	(77)
Cash dividends - Praxair, Inc. shareholders	(414)	(368)
Excess tax benefit on stock option exercises	38	14
Noncontrolling interest transactions and other	(17)	(32)
Net cash used for financing activities	$ (551)	$ (328)

Cash Flow from Operations

Cash provided by operations of $1,615 million for the nine months ended September 30, 2010 increased $156 million versus 2009. The increase was due to higher net income   Praxair, Inc., adjusted for the non-cash charge related to the Venezuela currency devaluation and Brazil tax amnesty program and other charges. In addition, cash provided by operations benefited from fewer cash payments for the 2008 cost reduction program, working capital changes and lower pension contributions.

Praxair estimates that 2010 contributions to its pension plans will be in the area of $125 million, of which $117 million have been made through September 30, 2010.

In the third quarter 2009, Praxair recorded the net impact related to a Federal tax amnesty program in Brazil (see Note 2 to the consolidated financial statements of Praxair s 2009 Annual Report on Form 10-K). The program required a cash outlay of $34 million in the 2009 fourth quarter and is expected to require up to an additional $60 million of cash payments in the next twelve months depending on the timing of the Brazilian government consolidation process.

Investing

Net cash used for investing of $1,027 million for the nine months ended September 30, 2010 decreased $78 million versus 2009. Capital expenditures of $937 million relate largely to new production plants under contract for customers in North and South America, China and India. Acquisitions of $134 million primarily relates to the 49% ownership interest acquired in the ROC group s Kuwait and Qatar operations in August 2010. An additional cash outlay of $70 million is anticipated during the fourth quarter of 2010 to complete the transaction and acquire a 49% ownership interest in ROC group s United Arab Emirates operations. The 49% investments in Kuwait and Qatar are accounted for as equity investments in the consolidated financial statements.

Financing

Cash used for financing activities was $551 million in 2010 versus $328 million in 2009. Cash dividends of $414 million increased $46 million from the year ago period to $1.35 per share ($1.20 per share for 2009). The remaining increase was due primarily to lower net debt issuances in 2010 and higher net stock repurchases.

At September 30, 2010, Praxair s total debt outstanding was $5,077 million, an increase of $22 million from December 31, 2009. On January 14, 2010, Praxair issued $500 million of 2.125% notes due 2013. The proceeds were used to repay long-term debt, including the $500 million of floating rate notes due in May 2010, to fund share repurchases under the share repurchase program and for general corporate purposes.

On July 28, 2010, the company announced that the company s board of directors approved a new $1.5 billion share repurchase program authorizing the company to repurchase shares from time to time on the open market or through negotiated transactions, subject to market and business conditions.

Legal Proceedings

See Note 11 to the condensed consolidated financial statements for a description of current legal proceedings.

Non-GAAP Financial Measures

The following non-GAAP measures are intended to supplement investors understanding of the company s financial information by providing measures which investors, financial analysts and management use to help evaluate the company s financing leverage, return on net assets employed and operating performance. Special items which the company does not believe to be indicative of on-going business trends are excluded from these calculations so that investors can better evaluate and analyze historical and future business trends on a consistent basis. Definitions of these non-GAAP measures may not be comparable to similar definitions used by other companies and are not a substitute for similar GAAP measures.

The following are the non-GAAP measures presented in the MD&A:

	Quarter Ended September 30,	
(Dollar amounts in millions, except per share data)	**2010**	**2009**
Debt-to-capital	44.5%	49.2%
After-tax return on capital	14.7%	13.6%
Return on equity	26.4%	26.2%

Table of Contents

	Quarter Ended September 30, 2010	Quarter Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Adjusted amounts:				
Operating profit	$ 551	$ 480	$ 1,604	$ 1,369
As a percent of sales	21.7%	21.0%	21.4%	20.9%
Effective tax rate	28.0%	28.1%	27.9%	27.5%
Net income - Praxair, Inc.	$ 377	$ 318	$ 1,088	$ 907
Diluted earnings per share	$ 1.21	$ 1.02	$ 3.49	$ 2.91

Debt-to-Capital Ratio

The debt-to-capital ratio is a measure used by investors, financial analysts and management to provide a measure of financial leverage and insights into how the company is financing its operations.

(Dollar amounts in millions)	September 30, 2010	December 31, 2009
Total debt	$ 5,077	$ 5,055
Equity		
Praxair, Inc. shareholders equity	5,991	5,315
Noncontrolling interests	339	333
Total equity	6,330	5,648
Total capital	$ 11,407	$ 10,703
DEBT-TO-CAPITAL RATIO	44.5%	47.2%

After-tax Return on Capital (ROC)

After-tax return on capital is a measure used by investors, financial analysts and management to evaluate the return on net assets employed in the business. ROC measures the after-tax operating profit that the company was able to generate with the investments made by all parties in the business (debt, noncontrolling interests and Praxair, Inc. shareholders equity).

(Dollar amounts in millions)	Quarter Ended September 30, 2010	Quarter Ended September 30, 2009
Adjusted operating profit	551	$ 480
Less: adjusted income taxes	(146)	(126)
Less: tax benefit on interest expense (a)	(8)	(9)
Add: equity income	12	7
Net operating profit after-tax (NOPAT)	$ 409	$ 352
Beginning capital	$ 10,793	$ 10,053
Ending capital	$ 11,407	$ 10,642
Average capital	$ 11,100	$ 10,348

ROC%	3.7%	3.4%
ROC% (annualized)	14.7%	13.6%

(a) Tax benefit on interest expense is computed using the effective rate adjusted for non-recurring income tax benefits. The effective tax rate used was 28% for 2010 and 2009.

Table of Contents

Return on Praxair, Inc. Shareholders Equity (ROE)

Return on Praxair, Inc. shareholders equity is a measure used by investors, financial analysts and management to evaluate operating performance from a Praxair shareholder perspective. ROE measures the net income attributable to Praxair, Inc. that the company was able to generate with the money shareholders have invested.

	Quarter Ended September 30,	
(Dollar amounts in millions)	**2010**	**2009**
Adjusted net income - Praxair, Inc.	$ 377	$ 318
Beginning Praxair, Inc. shareholders equity	$ 5,452	$ 4,638
Ending Praxair, Inc. shareholders equity	$ 5,991	$ 5,085
Average Praxair, Inc. shareholders equity	$ 5,722	$ 4,862
ROE%	6.6%	6.5%
ROE% (annualized)	26.4%	26.2%

Adjusted Amounts

Amounts are adjusted for the impact of the 2010 Venezuela currency devaluation and the 2009 Brazil Tax Amnesty Program. The company does not believe this item is indicative of on-going business trends and, accordingly, the impact is excluded from the reported amounts so that investors can better evaluate and analyze historical and future business trends on a consistent basis.

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollar amounts in millions, except per share data)	**2010**	**2009**	**2010**	**2009**
Adjusted Operating Profit and Margin				
Reported operating profit	$ 551	$ 174	$ 1,577	$ 1,063
Add: Venezuela currency devaluation and other charges		306	27	306
Adjusted operating profit	$ 551	$ 480	$ 1,604	$ 1,369
Reported percent change	217%		48%	
Adjusted percent change	15%		17%	
Reported sales	$ 2,538	$ 2,288	$ 7,493	$ 6,549
Reported operating profit margin	21.7%	7.6%	21.0%	16.2%
Adjusted operating profit margin	21.7%	21.0%	21.4%	20.9%

Table of Contents

Adjusted Income Taxes and Effective Tax Rate

Reported income taxes	$ 146	$ (187)	$ 422	$ 36
Add: Venezuela currency devaluation and other charges		313	1	313
Adjusted income taxes	$ 146	$ 126	$ 423	$ 349
Reported income before income taxes and equity investments	$ 522	$ 142	$ 1,487	$ 963
Add: Venezuela currency devaluation and other charges		306	27	306
Adjusted income before income taxes and equity investments	$ 522	$ 448	$ 1,514	$ 1,269
Adjusted effective tax rate	28.0%	28.1%	27.9%	27.5%
Adjusted Net Income - Praxair, Inc.				
Reported net income - Praxair, Inc.	$ 377	$ 325	$ 1,062	$ 914
Add: Venezuela currency devaluation and other charges		(7)	26	(7)
Adjusted net income - Praxair, Inc.	$ 377	$ 318	$ 1,088	$ 907
Reported percent change	16%		16%	
Adjusted percent change	19%		20%	
Adjusted Diluted Earnings Per Share				
Reported diluted earnings per share	$ 1.21	$ 1.04	$ 3.41	$ 2.93
Add: Venezuela currency devaluation and other charges		(0.02)	0.08	(0.02)
Adjusted diluted earnings per share	$ 1.21	$ 1.02	$ 3.49	$ 2.91
Reported percent change	16%		16%	
Adjusted percent change	19%		20%	

Adjusted Full-Year 2010 Diluted Earnings Per Share Guidance

	Low End	**High End**
Expected full-year 2010 diluted earnings per share guidance	$ 4.59	$ 4.64
Add: Venezuela currency devaluation and other charges	0.08	0.08
Adjusted full-year 2010 diluted earnings per share guidance	$ 4.67	$ 4.72

New Accounting Standards

Refer to Note 1 of the condensed consolidated financial statements for information regarding new accounting standards.

Fair Value Measurements

Praxair does not expect changes in the aggregate fair value of its financial assets and liabilities to have a material impact on the consolidated financial statements. See Note 6 to the condensed consolidated financial statements.

Outlook

For the fourth quarter of 2010, diluted earnings per share are expected to be in the range of $1.18 to $1.23.

For the full year of 2010, Praxair expects sales of about $10 billion. Reported diluted earnings per share are expected to be in the range of $4.59 to $4.64, including the impact of the Venezuela currency devaluation in the first quarter ($26 million net after-tax charge or $0.08 per diluted share). Excluding the impact of the Venezuela currency devaluation, adjusted diluted earnings per share are expected to be in the range of $4.67 to $4.72. Full-year capital expenditures are expected to be about $1.4 billion supporting the current backlog of projects under contract with customers, which will come on stream in 2010 through 2012.

Praxair provides quarterly updates on operating results, material trends that may affect financial performance, and financial earnings guidance via quarterly earnings releases and investor teleconferences. These updates are available on the company s website, www.praxair.com, but are not incorporated herein.

Forward-looking Statements

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management s reasonable expectations and assumptions as of the date the statements are made but involve risks and uncertainties. These risks and uncertainties include, without limitation: the performance of stock markets generally; developments in worldwide and national economies and other international events and circumstances; changes in foreign currencies and in interest rates; the cost and availability of electric power, natural gas and other raw materials; the ability to achieve price increases to offset cost increases; catastrophic events including natural disasters, epidemics and acts of war and terrorism; the ability to attract, hire, and retain qualified personnel; the impact of changes in financial accounting standards; the impact of changes in pension plan liabilities; the impact of tax, environmental, healthcare and other legislation and government regulation in jurisdictions in which the company operates; the cost and outcomes of investigations, litigation and regulatory proceedings; continued timely development and market acceptance of new products and applications; the impact of competitive products and pricing; future financial and operating performance of major customers and industries served; and the effectiveness and speed of integrating new acquisitions into the business. These risks and uncertainties may cause actual future results or circumstances to differ materially from the projections or estimates contained in the forward-looking statements. The company assumes no obligation to update or provide revisions to any forward-looking statement in response to changing circumstances. The above listed risks and uncertainties are further described in Item 1A (Risk Factors) in this report which should be reviewed carefully. Please consider the company s forward-looking statements in light of those risks.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to Item 7A. to Part II of Praxair s 2009 Annual Report on Form 10-K for discussion.

Item 4. Controls and Procedures

(a) Based on an evaluation of the effectiveness of Praxair s disclosure controls and procedures, which was made under the supervision and with the participation of management, including Praxair s principal executive officer and principal financial officer, the principal executive officer and principal financial officer have each concluded that, as of the end of the quarterly period covered by this report, such disclosure controls and procedures are effective in ensuring that information required to be disclosed by Praxair in reports that it files under the Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and accumulated and communicated to management including Praxair s principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

(b) There were no changes in Praxair s internal control over financial reporting that occurred during the quarterly period covered by this report that have materially affected, or are reasonably likely to materially affect, Praxair s internal control over financial reporting.

PART II - OTHER INFORMATION

Praxair, Inc. and Subsidiaries

Item 1. Legal Proceedings

See Note 11 to the condensed consolidated financial statements for a description of current legal proceedings.

Item 1A. Risk Factors

Due to the size and geographic reach of the company s operations, a wide range of factors, many of which are outside of the company s control, could materially affect the company s future operations and financial performance. Management believes the following risks may significantly impact the company:

General Economic Conditions - Weakening economic conditions in markets in which the company does business may adversely impact the company s financial results and/or cash flows.

Praxair serves approximately 25 diverse industries across more than 40 countries, which generally leads to financial stability through various business cycles. However, a broad decline in general economic or business conditions in the industries served by its customers could adversely affect the demand for Praxair s products and impair the ability of our customers to satisfy their obligations to the company, resulting in uncollected receivables and/or unanticipated contract terminations or project delays. Additionally, such conditions could impact the utilization of the company s manufacturing capacity which may require the company to recognize impairment losses on tangible assets such as property, plant and equipment as well as intangible assets such as intellectual property or goodwill. In addition, many of the company s customers are in businesses that are cyclical in nature, such as the chemicals, metals and refining industries. Downturns in these industries may adversely impact the company during these cycles.

Cost and Availability of Raw Materials and Energy - Increases in the cost of energy and raw materials and/or disruption in the supply of these materials could result in lost sales or reduced profitability.

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, natural gas and diesel fuel for distribution. Praxair attempts to minimize the financial impact of variability in these costs through the management of customer contracts, which typically have escalation and pass-through clauses for the company s larger contracts. Such attempts may not successfully mitigate cost variability which could negatively impact its financial condition or results of operations. The supply of energy has not been a significant issue in the geographic areas where it conducts business. However, regional energy conditions are unpredictable and may pose future risk.

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. A disruption in supply of such raw materials could impact the company s ability to meet contractual supply commitments.

International Events and Circumstances - The company s international operations are subject to the risks of doing business abroad and international events and circumstances may adversely impact its business, financial condition or results of operations.

Praxair has substantial international operations which are subject to risks including devaluations in currency exchange rates, transportation delays and interruptions, political and economic instability and disruptions, restrictions on the transfer of funds, the imposition of duties and tariffs, import and export controls, changes in governmental policies, labor unrest, possible nationalization and/or expropriation of assets, domestic and international tax laws and compliance with governmental regulations. These events could have an adverse effect on the international operations in the future by reducing the demand for its products, decreasing the prices at which it

Table of Contents

can sell its products, reducing the U.S. dollar value of revenue from international operations or otherwise having an adverse effect on its business. In particular, due to recent government actions related to business and currency regulations, there is considerable risk associated with operations in Venezuela (see Note 2 to the condensed consolidated financial statements). At September 30, 2010, Praxair s sales and net assets in Venezuela were less than 1% of Praxair s consolidated amounts.

Global Financial Markets Conditions - Macroeconomic factors may impact the company s ability to obtain financing or increase the cost of obtaining financing which may adversely impact the company s financial results and/or cash flows.

Volatility and disruption in the U.S. and global credit and equity markets, from time to time, could make it more difficult for Praxair to obtain financing for its operations and/or could increase the cost of obtaining financing. In addition, the company s borrowing costs can be affected by short and long-term debt ratings assigned by independent rating agencies which are based, in significant part, on the company s performance as measured by certain criteria such as interest coverage and leverage ratios. A decrease in these debt ratings could increase the cost of borrowing or make it more difficult to obtain financing. While the impact of continued volatility in the global credit markets cannot be predicted with certainty, the company believes that it has sufficient operating flexibility, cash reserves, and funding sources to maintain adequate amounts of liquidity to meet its business needs around the world.

Competitor Actions - The inability to effectively compete could adversely impact results of operations.

Praxair operates within a highly competitive environment worldwide. Competition is based on price, product quality, delivery, reliability, technology and service to customers. Competitors behavior related to these areas could potentially have significant impacts on the company s financial results.

Governmental Regulations - The company is subject to a variety of United States and foreign government regulations. Changes in these regulations could have an adverse impact on the business, financial position and results of operations.

The company is subject to regulations in the following areas, among others:

- Environmental protection;
- Domestic and international tax laws and currency controls;
- Safety;
- Securities laws (e.g., SEC and generally accepted accounting principles in the United States);
- Trade and import/ export restrictions;
- Antitrust matters;
- Global anti-bribery laws; and
- Healthcare reimbursement regulations

Changes in these or other regulatory areas may impact the company s profitability, may require the company to spend additional resources to comply with the regulations, or may restrict the company s ability to compete effectively in the marketplace. Noncompliance with such laws and regulations could result in penalties or sanctions that could have an adverse impact on the company s financial results. Environmental protection and healthcare reimbursement legislation are discussed further below.

Praxair is subject to various environmental and occupational health and safety laws and regulations, including those governing the discharge of pollutants into the air or water, the storage, handling and disposal of chemicals, hazardous substances and wastes, the remediation of contamination, the regulation of greenhouse gas emissions, and other potential climate change initiatives. Violations of these laws could result in substantial penalties, third party claims for property damage or personal injury, or sanctions. The company may also be subject to liability for the investigation and remediation of environmental contamination at properties that it owns or operates and at other properties where Praxair or its predecessors have operated or arranged for the disposal of hazardous wastes. Although management does not believe that any such liabilities will have a material adverse impact on its financial position and results of operations, management cannot provide assurance that such costs will not increase in the future or will not become material. See the section captioned Management s Discussion and Analysis Environmental Matters in Item 7 of Praxair s 2009 Annual Report on Form 10-K.

Recent legislation in the United States, including the 2010 Patient Protection and Affordable Care Act, contain provisions that will significantly impact government reimbursement of healthcare-related products and services provided by Praxair to its customers. Many provisions are not effective for several years and regulations have either not been issued or their impact is unclear. Therefore, it is not possible to predict the impact on the company s financial results. Praxair is continuously evaluating and monitoring the impact of this legislation, including any actions that may be appropriate.

Catastrophic Events - Catastrophic events could disrupt the operations of the company and/or its customers and suppliers and may have a significant adverse impact on the results of operations.

The occurrence of catastrophic events or natural disasters such as hurricanes, health epidemics, acts of war or terrorism, could disrupt or delay the company s ability to produce and distribute its products to customers and could potentially expose the company to third-party liability claims. In addition, such events could impact the company s customers and suppliers resulting in temporary or long-term outages and/or the limitation of supply of energy and other raw materials used in normal business operations. These situations are outside the company s control and may have a significant adverse impact on the company s financial results.

Retaining Qualified Personnel - The inability to attract and retain qualified personnel may adversely impact the company s business.

If Praxair fails to attract, hire and retain qualified personnel, the company may not be able to develop, market or sell its products or successfully manage its business. Praxair is dependent upon its highly skilled, experienced and efficient workforce to be successful. Much of Praxair s competitive advantage is based on the expertise and experience of its key personnel regarding its marketing, technology, manufacturing and distribution infrastructure, systems and products. The inability to attract and hire qualified individuals or the loss of key employees in very skilled areas could have a negative effect on the company s financial results.

Technological Advances - If the company fails to keep pace with technological advances in the industry or if new technology initiatives do not become commercially accepted, customers may not continue to buy the company s products and results of operations could be adversely affected.

Praxair s research and development is directed toward developing new and improved methods for the production and distribution of industrial gases and the development of new markets and applications for the use of these gases. This results in the frequent introduction of new industrial gas applications and the development of new advanced air separation process technologies. The company also conducts research and development for its surface technologies to improve the quality and durability of coatings and the use of specialty powders for new applications and industries. The results of these research and development activities help Praxair to create a competitive advantage and provide a platform for the company to grow its business at greater percentages than the rate of industrial production growth in the geographies where it operates. If Praxair s research and development activities did not keep pace with competitors or if it did not create new applications that benefit customers, then the company s future results of operations could be adversely affected.

Litigation and Governmental Investigations - The outcomes of litigation and governmental investigations may affect the company s financial results.

Praxair is subject to various lawsuits and governmental investigations arising out of the normal course of business that may result in adverse outcomes. These actions are based upon alleged environmental, tax, antitrust and personal injury claims, among others. Adverse outcomes in some or all of the claims pending may result in significant monetary damages or injunctive relief that could adversely affect its ability to conduct business. While management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the company s financial position or liquidity, the litigation and other claims Praxair faces are subject to inherent uncertainties and management s view of these matters may change in the future. There exists the possibility of a material adverse impact on the company s results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

Tax Liabilities - Potential tax liabilities could adversely impact the company s financial position and results of operations.

Praxair is subject to income and other taxes in both the United States and numerous foreign jurisdictions. The determination of the company s worldwide provision for income taxes and other tax liabilities requires judgment and is based on diverse legislative and regulatory structures that exist in the various jurisdictions where the company operates. Although management believes its estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in its financial statements and may materially affect the company s financial results for the period when such determination is made. See Notes 5 and 17 to the consolidated financial statements of Praxair s 2009 Annual Report on Form 10-K.

During August 2010, the United States enacted legislation, Education, Jobs and Medicaid Assistance Act, that included changes to tax provisions. The Company is currently evaluating the provisions of this legislation, including any actions that may be appropriate.

Pension Liabilities - Risks related to our pension benefit plans may adversely impact our results of operations and cash flows.

Pension benefits represent significant 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 and asset returns, significant estimates are required to calculate pension expense and liabilities related to the company s plans. The company utilizes the services of independent actuaries, whose models are used to facilitate these calculations. Several key assumptions are used in the actuarial models to calculate pension expense and liability amounts recorded in the consolidated financial statements. In particular, significant changes in actual investment returns on pension assets, discount rates, or legislative or regulatory changes could impact future results of operations and required pension contributions. For information regarding the potential impacts regarding significant assumptions used to estimate pension expense, including discount rates and the expected long-term rates of return on plan assets. See Critical Accounting Policies - Pension Benefits included in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Praxair s 2009 Annual Report on Form 10-K.

Operational Risks - Operational risks may adversely impact the company s business or results of operations.

Praxair s operating results are dependent on the continued operation of its production facilities and its ability to meet customer contract requirements and other needs. Insufficient or excess capacity threatens the company s ability to generate competitive profit margins and may expose the company to liabilities related to contract commitments. Operating results are also dependent on the company s ability to complete new construction projects on time, on budget and in accordance with performance requirements. Failure to do so may expose the business to loss of revenue, potential litigation and loss of business reputation.

Also inherent in the management of the company s production facilities and delivery systems, including storage, vehicle transportation and pipelines, are operational risks that require continuous training, oversight and control. Material operating failures at production, storage facilities or pipelines, including fire, toxic release and explosions, or the occurrence of vehicle transportation accidents could result in loss of life, damage to the environment, loss of production and/or extensive property damage, all of which may negatively impact the company s financial results.

Acquisitions - The inability to effectively integrate acquisitions could adversely impact the company s financial position and results of operations.

Praxair has evaluated, and expects to continue to evaluate, a wide array of potential strategic acquisitions. Many of these acquisitions, if consummated, could be material to its financial condition and results of operations. In addition, the process of integrating an acquired company, business or group of assets may create unforeseen operating difficulties and expenditures. Although historically the company has been successful with its acquisition strategy and execution, the areas where the company may face risks include:

- The need to implement or remediate controls, procedures and policies appropriate for a larger public company at companies that prior to the acquisition lacked these controls, procedures and policies;

Table of Contents

Diversion of management time and focus from operating existing business to acquisition integration challenges;

Cultural challenges associated with integrating employees from the acquired company into the existing organization;

The need to integrate each company s accounting, management information, human resource and other administrative systems to permit effective management;

Difficulty with the assimilation of acquired operations and products;

Failure to achieve targeted synergies; and

Inability to retain key employees and business relationships of acquired companies.

Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries. Also, the anticipated benefit of the company s acquisitions may not materialize. Future acquisitions or dispositions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities or amortization expenses, or impairments of goodwill, any of which could adversely impact the company s financial results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities- Certain information regarding purchases made by or on behalf of the company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of its common stock during the quarter ended September 30, 2010 is provided below:

Period	**Total Number of Shares Purchased** *(Thousands)*	**Average Price Paid Per Share**	**Total Numbers of Shares Purchased as Part of Publicly Announced Program (1)** *(Thousands)*	**Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased Under the Program (2)** *(Millions)*
July 2010				$ 1,502
August 2010	707	$ 87.07	707	$ 1,440
September 2010	892	$ 87.14	892	$ 1,362
Third Quarter 2010	1,599	$ 87.11	1,599	$ 1,362

(1) On July 23, 2008, the company s board of directors approved the repurchase of $1 billion of its common stock which could take place from time to time on the open market (which could include the use of 10b5-1 trading plans) or through negotiated transactions, subject to market and business conditions. On July 28, 2010, the company announced that the company s board of directors approved the repurchase of an additional $1.5 billion of its common stock which may take place from time to time on the open market (which may include the use of 10b5-1 trading plans) or through negotiated transactions, subject to market and business conditions. The 2008 and 2010 programs do not have any stated expiration date.

(2) During the third quarter, the Company completed the purchase of its common stock pursuant to the 2008 program. On July 28, 2010, the company announced that the company s board of directors approved the repurchase of an additional $1.5 billion of its common stock. As of September 30, 2010, the Company purchased $138 million of its common stock, pursuant to the 2010 program, leaving an additional $1.4 billion remaining authorized for purchase under the 2010 program.

Table of Contents

Item 3. Defaults Upon Senior Securities

None.

Item 4. Reserved

Item 5. Other Information

Effective October 26, 2010, Praxair, Inc. has clarified certain of the terms of an existing minimum retirement benefit agreement with James T. Breedlove, Senior Vice President, General Counsel & Secretary of Praxair, as set forth in the letter agreement filed herewith as Exhibit 10.1 and incorporated herein by reference.

Item 6. Exhibits

(a) Exhibits:

*10.1	Letter of Clarification of certain pension benefits dated October 26, 2010 between Praxair, Inc. and James T. Breedlove is filed herewith.
12.01	Computation of Ratio of Earnings to Fixed Charges.
31.01	Rule 13a-14(a) Certification
31.02	Rule 13a-14(a) Certification
32.01	Section 1350 Certification (such certifications are furnished for the information of the Commission and shall not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act).
32.02	Section 1350 Certification (such certifications are furnished for the information of the Commission and shall not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

* Indicates a management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURE

Praxair, Inc. and Subsidiaries

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRAXAIR, INC.
(Registrant)

Date: October 27, 2010

By: /s/ Mark J. Murphy
Mark J. Murphy
Vice President and Controller
(On behalf of the Registrant and as Chief Accounting Officer)

43