



Investor Teleconference Presentation Fourth Quarter 2002

January 29th, 2003

Forward Looking Statements

The forward-looking statements contained in this presentation and conference call concerning demand for products, technologies, and services, earnings and cash flow growth, improvement in return on capital, actions taken to improve financial performance, the impact of required changes in accounting for goodwill, and other business goals involve risks and uncertainties, and are subject to change based on various factors. These include the impact of changes in worldwide and national economies and the demand for our customers' products and services, the cost and availability of electric power and other energy and the ability to achieve price increases to offset such cost increases, development of operational efficiencies, changes in foreign currencies, changes in interest rates, the continued timely development and acceptance of new products and services, the impact of competitive products and pricing, and the impact of tax and other legislation and regulation in the jurisdictions in which the company operates

2002 Financial Highlights

	<u>Full Year</u>		
	<u>2002</u> ¹	<u>2001</u> ^{1,2}	<u>D %</u>
Sales	\$5,128	\$5,158	-1%
Operating Profit	\$ 923	\$ 800	
As adjusted		\$ 908	2%
Income	\$ 548	\$ 432	
As adjusted		\$ 522	5%
Diluted EPS	\$ 3.33	\$ 2.64	
As adjusted		\$ 3.19	4%
After-Tax ROC	13.4%	12.7%	

Sales Comparisons (YOY)

Sales Growth	<u>-1%</u>
Volume	-1%
Price	+2%
Nat Gas	-1%
Acquisitions	+2%
Currency	-3%

¹ Before Accounting Changes related to SFAS 142 and SFAS 133

² Adjusted results exclude goodwill amortization that reduced operating profit by \$38MM, income by \$33MM, and EPS by \$0.20; and restructuring and other related charges which reduced operating profit by \$70MM, income by \$57MM and diluted EPS by \$0.35

Fourth Quarter Earnings

	<u>Fourth Quarter 2002</u>	<u>Third Quarter 2002¹</u>	<u>Fourth Quarter 2001²</u>
Sales	\$1,297	\$1,292	\$1,238
Operating Profit As Adjusted	\$ 227	\$ 235	\$ 208 \$ 218
Net Income As Adjusted	\$ 140	\$ 131	\$ 118 \$ 126
Diluted EPS As Adjusted	\$ 0.85	\$ 0.80 \$ 0.85	\$ 0.72 \$ 0.77
After-Tax ROC	14.0%	13.5%	12.2%

	<u>YOY</u>
◆ Sales Growth	<u>+5%</u>
Volume	+3%
Price	+3%
Nat Gas	+1%
Acquisitions	+1%
Currency	-3%
◆ OP Growth ²	+4%
◆ EPS Growth ²	+10%

1 Adjusted diluted EPS to exclude \$15M of interest expense related to early debt retirement and \$5MM of hedge gains related to Q4 Net Income

2 Adjusted results exclude goodwill amortization that reduced operating profit by \$10MM, net income by \$8MM, and EPS by \$0.05

North America

	Fourth Quarter <u>2002</u>	Third Quarter <u>2002</u>	Fourth Quarter <u>2001</u>
Sales	\$852	\$845	\$800
Segment OP	\$142	\$139	\$129
Operating Margin	16.7%	16.4%	16.1%

Sales Comparisons (YOY)

Sales Growth	<u>+7%</u>
Volume	+2%
Natural Gas Impact	+2%
Price	+3%
Acquisitions	+1%
Currency	-1%

- ◆ Sequential improvements in healthcare and refining
- ◆ Key merchant volumes higher sequentially despite weak December
- ◆ Liquid pricing action effective Jan. 03; packaged gases effective Dec. 02
- ◆ Packaged gases stable
- ◆ Sequential slowdown in electronics

<u>Key Indicators</u>	<u>YOY</u>
On-Site Volume	+3%
Merchant Volume	+1%
Lin Lox Price (ex surcharges)	+2%
PDI Same Store Sales	-1%

South America

	<u>Fourth Quarter 2002</u>	<u>Third Quarter 2002</u>	<u>Fourth Quarter 2001</u>
Sales	\$136	\$154	\$167
Segment OP	\$26	\$37	\$25
OP ex hedge gains		\$32 ¹	
Operating Margin	19.1%	24.0%	15.0%
OPM ex hedge gains		20.8% ¹	

Sales Comparisons (YOY)

Sales Growth	<u>-19%</u>
Volume	+4%
Price	+7%
Currency	-30%

- ◆ Brazil - price and volume growth, slowing slightly
- ◆ Brazil Currency
 - 35% devaluation since 12/31/01
 - Modest strengthening since Q3 reflects increased confidence
 - We have hedged Brazil's forecasted net income through Q3 03 at about 3.50 Real/USD
- ◆ Venezuela sales down 25% YOY - \$1MM impact on operating profit; expected to continue in Q1 03

¹ Excludes \$5MM hedge gains applicable to Q4 Net Income

Europe

	<u>Fourth Quarter 2002</u>	<u>Third Quarter 2002</u>	<u>Fourth Quarter 2001</u>
Sales	\$157	\$151	\$133
Segment OP	\$39	\$36	\$31
Operating Margin	24.8%	23.8%	23.3%

Sales Comparisons (YOY)

Sales Growth	<u>+18%</u>
Volume	+6%
Price	+3%
Currency	+9%

- ◆ Continental GDP growth slowing but Southern Europe (Spain and Italy) showing strength
- ◆ Volume and pricing growth in on-site, liquid, and packaged gases
- ◆ Signed 125 new contracts; 400 YTD
- ◆ Delivering productivity from Six Sigma projects

Asia

	<u>Fourth Quarter 2002</u>	<u>Third Quarter 2002</u>	<u>Fourth Quarter 2001</u>
Sales	\$88	\$84	\$75
Segment OP	\$14	\$14	\$13
Operating Margin	15.9%	16.7%	17.3%

- ◆ Strong sequential growth in liquid and on-site volumes
- ◆ CO2 volumes up sequentially in Thailand
- ◆ One time SG&A costs reduced operating profit by \$1MM

Sales Comparisons (YOY)

Sales Growth	<u>+17%</u>
Volume	+5%
Price	+4%
Consolidation	+8%
Currency	--

Surface Technologies

	<u>Fourth Quarter 2002</u>	<u>Third Quarter 2002</u>	<u>Fourth Quarter 2001</u>
Sales	\$97	\$99	\$100
Segment OP	\$6	\$9	\$10
Operating Margin	6.2%	9.1%	10.0%

<u>Fourth Quarter Sales</u>		<u>YOY</u>
Aviation Repair	\$21	11%
Coatings Services	\$76	-6%

- ◆ Aviation business slowing sequentially
- ◆ Coating services remain weak due to soft US and Europe manufacturing environment
- ◆ Weaker OEM demand for both industrial and aircraft engine turbines affects thermal spray coatings
- ◆ United Airlines bankruptcy and restructuring costs reduced operating profit and will continue into first quarter of 2003

Financial Outlook

First Quarter 2003

- ◆ Sales similar to Q1 02
- ◆ Operating profit expected to decline slightly due to turnaround and restructuring costs
- ◆ Effective tax rate increase to about 24% vs. 22%
- ◆ Diluted EPS 76-80 cents
- ◆ Hedged at about 3.50 Real/USD, and at about 1.05 Euro/USD exchange rates

Full Year 2003

- ◆ Sales and operating profit growth of 2-4%; ex-currency 3-5%
- ◆ Effective tax rate of 24%
- ◆ Diluted EPS \$3.40 - \$3.60
- ◆ Currency
 - Hedged Real through Q3 at about 3.50
 - Hedged Euro through Q2 at about 1.05
- ◆ Lower interest expense
- ◆ Capital expenditures of about \$600MM including new hydrogen plants

CoJet™ Status

US Steel

- ◆ Formal test period has ended
- ◆ We have received a request to install the technology on two additional vessels at the Gary facility
- ◆ We expect them to exercise their option to install the technology at Mon Valley Works

Usiminas

- ◆ Technology installed on a 175 Metric Ton Vessel (2MM tons per year) at Ipatinga facility in July 02
- ◆ Testing on-going due to a required change in the refractory lining
- ◆ They have endorsed the technology and requested a license; licensing fees to commence effective 1/1/03
- ◆ Initial cost savings, from iron, manganese, and aluminum consumption, are significant
- ◆ Additional savings will be quantified from argon use and faster cycle times
- ◆ We expect them to install the technology on the remaining vessel (2MM tons per year) at Ipatinga

Potential Savings from CoJet™

<u>CoJet Savings</u>	<u>Cumulative \$/ton</u>
Yield improvement (iron and ferro alloys)	0 - 2
CoJet argon blending	1 - 3
CoJet combined with slag splashing	2 - 4
Increased throughput / faster heating cycle time	3 - 5

News Release



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PRAXAIR REPORTS FOURTH-QUARTER EARNINGS PER SHARE OF 85 CENTS

DANBURY, Conn., January 29, 2003 -- Praxair, Inc. (NYSE:PX) reported fourth-quarter 2002 net income of \$140 million and diluted earnings per share of 85 cents, up from \$118 million and 72 cents per share in the prior-year quarter. Earnings per share grew 18% on a reported basis, and 10% excluding the favorable effect of a change in goodwill accounting.

Sales for the quarter were \$1,297 million versus \$1,238 million in 2001. Sales grew 5% on a reported basis, and 7% excluding the impact of currency and natural gas price changes. Operating profit for the period was \$227 million, versus \$208 million in the 2001 quarter.

For the full year 2002, Praxair reported net income of \$548 million, or diluted earnings per share of \$3.33, before the effect of adopting a change in goodwill accounting. In the prior year, net income was \$432 million, including the effect of special charges. On a comparable basis, excluding the effects of this charge and changes in accounting for goodwill, net income and earnings per share grew by 5% and 4%, respectively. Full-year sales were \$5,128 million versus \$5,158 million in 2001. Excluding the impact of fluctuating currencies and natural gas prices, sales were 3% higher. Full-year operating profit was \$923 million, reflecting growth on a comparable basis of 2%.

Commenting on the results, Dennis H. Reilley, chairman and chief executive officer, said, "Weak global economic conditions posed challenges for all of our businesses throughout the year. However, we achieved record operating results in 2002 due to our intense customer focus, which allowed us to gain new business in many markets, while continuing to drive productivity and maintaining our capital discipline."

In the fourth quarter, overall sales in North America were up 7% from the prior year (5% excluding natural gas), reflecting higher levels of product volume sold to customers in our traditional business, and additional growth from healthcare and refinery hydrogen. Segment operating profit rose 10% (6% excluding the change in goodwill accounting).

In Europe, sales grew 18% and operating profit 26%, due to strong volume growth, productivity, and the stronger Euro. In Asia, sales and operating profit were both higher than the year-ago quarter due to new business and the consolidation of a joint venture in China. Sales in South America declined 19% as a result of currency devaluation, which more than offset higher volumes. Operating profit was slightly higher, due to cost controls, pricing initiatives, and the change in goodwill accounting, which more than offset the currency decline.

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Cash flow from operations for the quarter and full year was \$338 million and \$1,001 million, respectively. Capital expenditures were \$158 million for the quarter, and \$498 million for the full-year 2002. The company reduced debt by \$245 million during the year, and the ended the year with a debt-to-capital ratio of 52.3%. Return on capital for the full year was 13.4%, up from 12.7% in 2001 on a comparable basis.

Looking ahead, Reilley said, “We remain cautious about the pace of economic recovery. In particular, the first quarter may be starting off on a weaker note, as a result of political uncertainty and higher energy prices which may exacerbate weak demand in electronics and general manufacturing in the United States.”

For the first quarter of 2003, Praxair expects sales and operating profit similar to the first quarter of 2002, with diluted earnings per share of 76 cents to 80 cents. This reflects an effective tax rate of about 24%, somewhat higher than last year’s effective rate.

For the full-year 2003, Praxair anticipates sales and operating profit growth of 2% to 4%. Full-year 2003 diluted earnings per share are estimated to be in the range of \$3.40 to \$3.60, reflecting an effective tax rate of about 24%. Interest expense should decline versus 2002. Full-year capital expenditures are expected to be in the range of \$600 million, including the costs associated with the new Gulf Coast hydrogen plants previously announced.

“We are committed to continuing to grow earnings, without much help from the economy,” continued Reilley. “Our focus in the short term will be to drive our growth programs in healthcare, refinery hydrogen, electronics, technology licensing and China. These programs, combined with our relentless focus on productivity and capital discipline, will deliver superior results in 2003.”

Praxair is the largest industrial gases company in North and South America. The company produces, sells and distributes atmospheric and process gases, and high-performance surface coatings. Praxair products, services and technologies bring productivity and environmental benefits to a wide variety of industries, including aerospace, chemicals, food and beverage, electronics, energy, healthcare, manufacturing, metals and others. More information on Praxair is available on the Internet at www.praxair.com.

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Attachments: Statement of Income, Balance sheet, Cash Flow Statement and Segment Information.

A **teleconference** on Praxair’s fourth-quarter and full-year 2002 results is being held this morning, January 29, at 10:00 am Eastern Standard Time. The number is (203) 748-8964. The call also is available as a web cast at www.praxair.com/investors. Materials to be used on the teleconference are available on www.praxair.com/investors.

Forward-Looking Statements: The forward-looking statements contained in this announcement concerning demand for products and services, the expected macroeconomic environment, sales and earnings growth, and other financial goals involve risks and uncertainties, and are subject to change based on various factors. These include the impact of changes in worldwide and national economies, the cost and availability of electric power, natural gas and other materials, development of operational efficiencies, changes in foreign currencies, changes in interest rates, the continued timely development and acceptance of new products and processes, the impact of competitive products and pricing, and the impact of tax and other legislation and regulation in the jurisdictions in which the company operates.

PRAXAIR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(Millions of dollars, except per share data)
(UNAUDITED)

	<u>Quarter Ended December 31,</u>	
	<u>2002^(b,c)</u>	<u>2001^(a)</u>
SALES	\$1,297	\$1,238
Cost of sales	747	715
Selling, general and administrative	189	175
Depreciation and amortization	122	125
Research and development	20	18
Other income - net	<u>8</u>	<u>3</u>
OPERATING PROFIT	227	208
Interest expense	<u>45</u>	<u>54</u>
INCOME BEFORE INCOME TAXES	182	154
Income taxes	<u>40</u>	<u>35</u>
INCOME OF CONSOLIDATED ENTITIES	142	119
Minority interests	(5)	(4)
Income from equity investments	<u>3</u>	<u>3</u>
NET INCOME	<u>\$ 140</u>	<u>\$ 118</u>
PER SHARE DATA:		
Basic earnings per share:	<u>\$ 0.86</u>	<u>\$ 0.73</u>
Diluted earnings per share:	<u>\$ 0.85</u>	<u>\$ 0.72</u>
Cash dividends	<u>\$ 0.19</u>	<u>\$ 0.17</u>
WEIGHTED AVERAGE SHARES OUTSTANDING (000'S):		
Basic shares outstanding	162,555	161,991
Diluted shares outstanding	164,315	164,137

(a) The following table summarizes comparative performance excluding the effect of goodwill amortization:

Adjusted	<u>2002</u>	<u>2001</u>
Sales	\$1,297	\$1,238
Operating Profit	227	218
Net Income	140	126
Diluted earnings per share	\$ 0.85	\$ 0.77

Praxair adopted SFAS 142, which eliminated the amortization of goodwill prospectively in 2002. 2001 reported results for the quarter included goodwill amortization of \$10 million pre-tax; \$8 million after-tax; and, affected diluted earnings per share by \$0.05.

(b) Results for the quarter ended December 31, 2002 include a \$40 million decrease in sales; a \$2 million increase in operating profit; and a \$2 million increase in net income, from currency effects worldwide compared to the 2001 results.

(c) Results for the quarter ended December 31, 2002 include a \$16 million increase in sales from the contractual pass-through of higher on-site hydrogen raw material costs tied to natural gas prices, with no impact on operating profit.

PRAXAIR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(Millions of dollars, except per share data)

	<u>Year Ended December 31,</u>	
	<u>2002^(b,c,d)</u>	<u>2001^(a)</u>
	(Unaudited)	
SALES	\$5,128	\$5,158
Cost of sales	2,950	3,060
Selling, general and administrative	751	699
Depreciation and amortization	483	499
Research and development	69	66
Other income (expense) - net ^(d)	48	(34)
OPERATING PROFIT	923	800
Interest expense ^(e)	206	224
INCOME BEFORE INCOME TAXES	717	576
Income taxes	158	135
INCOME OF CONSOLIDATED ENTITIES	559	441
Minority interests	(20)	(18)
Income from equity investments	9	9
INCOME BEFORE ACCOUNTING CHANGES	548	432
Cumulative effect of accounting changes ^(f)	(139)	(2)
NET INCOME	<u>\$ 409</u>	<u>\$ 430</u>
PER SHARE DATA:		
Basic earnings per share:		
Before accounting changes	\$ 3.36	\$ 2.68
Accounting changes ^(f)	(0.85)	(0.01)
Net income	<u>\$ 2.51</u>	<u>\$ 2.67</u>
Diluted earnings per share:		
Before accounting changes	\$ 3.33	\$ 2.64
Accounting changes ^(f)	(0.85)	(0.01)
Net income	<u>\$ 2.48</u>	<u>\$ 2.63</u>
Cash dividends	<u>\$ 0.76</u>	<u>\$ 0.68</u>
WEIGHTED AVERAGE SHARES OUTSTANDING (000'S):		
Basic shares outstanding	162,768	161,510
Diluted shares outstanding	164,745	163,507

(a) The following table summarizes comparative performance excluding the effects of goodwill amortization and special charges in 2001:

	Adjusted <u>2002</u>	<u>2001</u>
Sales	\$5,128	\$5,158
Operating Profit	923	908
Income Before Accounting Changes	548	522
Diluted earnings per share before accounting changes	\$ 3.33	\$ 3.19

Praxair adopted SFAS 142, which eliminated the amortization of goodwill prospectively in 2002. 2001 reported results included goodwill amortization of \$38 million pre-tax; \$33 million after-tax; and, affected diluted earnings per share by \$0.20.

2001 reported results include pre-tax special charges of \$70 million (\$57 million after-tax or \$0.35 per diluted share) related to restructuring and other actions. The charge was recorded as: \$7 million cost of sales, \$5 million in selling, general and administrative, and \$58 million in other income (expense) net.

- (b) Results for the year ended December 31, 2002 include a \$135 million decrease in sales; a \$1 million increase in operating profit; and a \$1 million increase in net income from currency effects worldwide compared to the 2001 results.
- (c) Results for the year ended December 31, 2002 include a \$58 million decrease in sales from the contractual pass-through of lower on-site hydrogen raw material costs tied to natural gas prices, with no impact on operating profit.
- (d) Other income (expense) - net for the year ended December 31, 2002 includes a net gain of \$7 million related to the settlement of litigation with Airgas, Inc. and \$17 million of net income hedge gains.
- (e) Interest expense for the year ended December 31, 2002 includes \$15 million from the early retirement of \$300 million of bonds.
- (f) In the second quarter of 2002, Praxair completed the initial goodwill impairment tests required for the adoption of SFAS 142, which indicated an impairment of goodwill related to previous acquisitions. As a result, a non-cash transition charge to earnings was recorded as a cumulative effect of an accounting change, retroactive to the first quarter 2002, of \$139 million (refer to Praxair's second quarter Form 10-Q dated August 13, 2002). In the 2001 first quarter the Company recorded a one-time transition charge of \$2 million (\$0.01 per share) recorded for the adoption of SFAS 133 which established new accounting rules for derivatives.

PRAXAIR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Millions of dollars)

	December 31, ^(b)	
	2002	2001
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 39	\$ 39
Accounts receivable	860	857
Inventories	277	287
Prepaid and other current assets	110	93
TOTAL CURRENT ASSETS	1,286	1,276
Property, plant and equipment - net	4,666	4,817
Goodwill	985	1,136
Other Intangibles	50	44
Other assets	414	442
TOTAL ASSETS	\$ 7,401	\$ 7,715
LIABILITIES AND EQUITY		
Accounts payable	\$ 378	\$ 413
Short-term debt	215	178
Current portion of long-term debt	23	86
Other current liabilities	484	517
TOTAL CURRENT LIABILITIES	1,100	1,194
Long-term debt	2,510	2,725
Other long-term liabilities	1,287	1,158
TOTAL LIABILITIES	4,897	5,077
Minority interests	164	141
Preferred stock	-	20
Shareholders' equity ^(a)	2,340	2,477
TOTAL LIABILITIES AND EQUITY	\$ 7,401	\$ 7,715

(a) 2002 includes a net decrease of \$284 million for translation adjustments (primarily South America), and a decrease of \$95 million for additional minimum pension liability in accordance with SFAS No. 87 (primarily North America).

(b) Debt (Short-term debt + Current portion of long-term debt + Long-term debt) to Capital (Debt + Minority interest + Preferred stock + Shareholders' equity) was 52.3% at December 31, 2002, and was 53.1% at December 31, 2001.

PRAXAIR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Millions of dollars)

	<u>Quarter Ended</u> <u>December 31,</u>		<u>Year Ended</u> <u>December 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(Unaudited)		(Unaudited)	
OPERATIONS				
Net income	\$ 140	\$ 118	\$ 409	\$ 430
Adjustments:				
Depreciation and amortization	122	125	483	499
Accounting change/special charges	-	-	139	58
Other non-cash (benefits) charges	43	9	40	25
Working capital	21	123	(27)	55
Long-term assets, liabilities and other	<u>12</u>	<u>(19)</u>	<u>(43)</u>	<u>(47)</u>
Net cash provided by operating activities	338	356	1,001	1,020
INVESTING				
Capital expenditures	(158)	(178)	(498)	(595)
Acquisitions	(37)	(17)	(113)	(213)
Divestitures and asset sales	<u>3</u>	<u>6</u>	<u>24</u>	<u>45</u>
Net cash used for investing activities	(192)	(189)	(587)	(763)
FINANCING				
Debt decrease - net	(137)	(181)	(245)	(189)
Issuance of common stock	35	53	206	142
Purchases of common stock	(11)	-	(276)	(76)
Cash dividends	(30)	(27)	(123)	(110)
Minority transactions and other*	<u>(7)</u>	<u>(4)</u>	<u>27</u>	<u>(14)</u>
Net cash used for financing activities	(150)	(159)	(411)	(247)
Effect of exchange rate changes on cash and cash equivalents	<u>(1)</u>	<u>1</u>	<u>(3)</u>	<u>(2)</u>
Change in cash and cash equivalents	(5)	9	-	8
Cash and cash equivalents beginning-of-period	<u>44</u>	<u>30</u>	<u>39</u>	<u>31</u>
Cash and cash equivalents end-of-period	\$ <u>39</u>	\$ <u>39</u>	\$ <u>39</u>	\$ <u>39</u>

* Minority transactions and other for the year ended December 31, 2002 includes \$47 million of cash proceeds related to the early termination of an interest rate swap, and a \$20 million payment for the retirement of preferred stock.

PRAXAIR, INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Millions of dollars)
(UNAUDITED)

	<u>Quarter Ended</u>		<u>Year Ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
SALES				
North America ^(a)	\$ 852	\$ 800	\$3,351	\$3,434
South America ^(b)	136	167	632	674
Europe ^(c)	157	133	589	537
Asia ^(d)	88	75	324	255
Surface Technologies	97	100	394	410
Elimination	(33)	(37)	(162)	(152)
Total Sales	<u>\$1,297</u>	<u>\$1,238</u>	<u>\$5,128</u>	<u>\$5,158</u>
SEGMENT OPERATING PROFIT				
North America ^(a, e, g)	\$ 142	\$ 129	\$ 557	\$ 545
South America ^(b, e, g)	26	25	134	129
Europe ^(c, e, g)	39	31	139	119
Asia ^(d, e, g)	14	13	51	38
Surface Technologies ^(e, g)	6	10	35	39
All Other ^(f, g)	-	-	7	-
Total Operating Profit	<u>\$ 227</u>	<u>\$ 208</u>	<u>\$ 923</u>	<u>\$ 870</u>

- (a) North American results for the quarter and year ended December 31, 2002 include a \$16 million increase and a \$58 million decrease in sales, respectively, from the contractual pass-through of on-site hydrogen raw material costs tied to natural gas prices, with no impact on operating profit versus the respective 2001 periods.
- (b) South American results for the quarter and year ended December 31, 2002 include a \$50 million and \$149 million decrease in sales, respectively; and, a \$2 million and \$6 million decrease in operating profit, respectively, from currency effects versus the 2001 periods, including the impact of net income hedges.
- (c) European results for the quarter and year ended December 31, 2002 include a \$12 million and \$22 million increase in sales, respectively; and, a \$5 million and \$8 million increase in operating profit, respectively, from currency effects versus the 2001 periods, including the impact of net income hedges.
- (d) During the third quarter of 2001 and the first quarter of 2002 Praxair increased its ownership and began consolidating joint ventures in India and China, respectively. For the quarter and years ended December 31, 2002 versus the 2001 periods, these consolidations increased sales by \$6 million and \$51 million, respectively; and, operating profit by \$1 million and \$12 million, respectively.

- (e) Effective in 2002, Praxair adopted SFAS 142, which eliminated the amortization of goodwill prospectively. Goodwill amortization included in the quarter and years ended December 31, 2001 was as follows (millions of dollars):

	<u>Quarter</u>	<u>Year</u>
North America	\$ 5	\$ 20
South America	2	9
Europe	1	4
Asia	1	3
Surface Technologies	<u>1</u>	<u>2</u>
Total	<u>\$ 10</u>	<u>\$ 38</u>

- (f) All other for the year ended December 31, 2002 represents a gain of \$7 million in the second quarter related to the settlement of litigation with Airgas, Inc.
- (g) Praxair recorded pre-tax special charges totaling \$70 million in the third quarter of 2001, which are not included in Praxair's management reporting definition of operating profit. Following is a reconciliation of segment operating profit to reported operating profit for the year ended December 31, 2001:

Segment operating profit	\$870
Less special charges:	
North America	(26)
South America	(30)
Europe	(3)
Asia	-
Surface Technologies	(4)
All Other	<u>(7)</u>
Consolidated operating profit	<u>\$800</u>

PRAXAIR, INC. AND SUBSIDIARIES
RETURN ON CAPITAL
(Millions of dollars)
(UNAUDITED)

	December 31, ^(a)	
	2002	2001
Operating Profit	\$ 923	\$ 800
Add-back: goodwill amortization	-	38
Add-back: special charges	-	70
Adjusted Operating Profit	923	908
Less: reported taxes	(158)	(135)
Less: tax benefit on interest expense	(46)	(50)
Less: tax benefit on goodwill amortization	-	(5)
Less: tax benefit on special charges	-	(13)
Add-back: equity income	9	9
Net Operating Profit After -tax(NOPAT)	\$ 728	\$ 714
Beginning capital ^(b)	\$5,627	\$5,656
Ending capital ^(b)	\$5,252	\$5,627
Average capital ^(b)	\$5,440	\$5,642
After-tax return on capital	13.4%	12.7%

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

(b) Capital includes debt, minority interests, preferred stock and shareholders' equity. Average capital is (beginning capital + ending capital)/2.