

PRAXAIR INC
Form 10-Q
July 25, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2012

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
(Commission File Number)

06-1249050
(IRS Employer Identification No.)

39 OLD RIDGEBURY ROAD, DANBURY, CT
(Address of principal executive offices)

06810-5113
(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

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to such filing requirements for the past 90 days. Yes 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 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 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

At June 30, 2012, 298,171,508 shares of common stock (\$0.01 par value) of the Registrant were outstanding.

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Table of Contents**PRAXAIR, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(Millions of dollars, except per share data)

(UNAUDITED)

| | Quarter Ended June 30, | |
|---|------------------------|---------------|
| | 2012 | 2011 |
| SALES | \$ 2,811 | \$ 2,858 |
| Cost of sales, exclusive of depreciation and amortization | 1,602 | 1,640 |
| Selling, general and administrative | 310 | 309 |
| Depreciation and amortization | 247 | 254 |
| Research and development | 25 | 23 |
| Other income (expense) - net | 9 | (5) |
| OPERATING PROFIT | 636 | 627 |
| Interest expense - net | 33 | 36 |
| INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS | 603 | 591 |
| Income taxes | 169 | 163 |
| INCOME BEFORE EQUITY INVESTMENTS | 434 | 428 |
| Income from equity investments | 10 | 11 |
| NET INCOME (INCLUDING NONCONTROLLING INTERESTS) | 444 | 439 |
| Less: noncontrolling interests | (15) | (14) |
| NET INCOME - PRAXAIR, INC. | \$ 429 | \$ 425 |
| PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS | | |
| Basic earnings per share | \$ 1.43 | \$ 1.40 |
| Diluted earnings per share | \$ 1.42 | \$ 1.38 |
| Cash dividends per share | \$ 0.55 | \$ 0.50 |
| WEIGHTED AVERAGE SHARES OUTSTANDING (000 s): | | |
| Basic shares outstanding | 298,885 | 303,709 |
| Diluted shares outstanding | 302,492 | 308,253 |

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)

| | Six Months Ended June 30, | |
|---|---------------------------|----------|
| | 2012 | 2011 |
| SALES | \$ 5,651 | \$ 5,560 |
| Cost of sales, exclusive of depreciation and amortization | 3,218 | 3,176 |
| Selling, general and administrative | 645 | 617 |
| Depreciation and amortization | 499 | 498 |
| Research and development | 49 | 45 |
| Other income (expense) - net | 23 | (6) |
| OPERATING PROFIT | 1,263 | 1,218 |
| Interest expense - net | 70 | 71 |
| INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS | 1,193 | 1,147 |
| Income taxes | 334 | 319 |
| INCOME BEFORE EQUITY INVESTMENTS | 859 | 828 |
| Income from equity investments | 17 | 20 |
| NET INCOME (INCLUDING NONCONTROLLING INTERESTS) | 876 | 848 |
| Less: noncontrolling interests | (28) | (25) |
| NET INCOME - PRAXAIR, INC. | \$ 848 | \$ 823 |
| PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS | | |
| Basic earnings per share | \$ 2.84 | \$ 2.71 |
| Diluted earnings per share | \$ 2.80 | \$ 2.67 |
| Cash dividends per share | \$ 1.10 | \$ 1.00 |
| WEIGHTED AVERAGE SHARES OUTSTANDING (000 s): | | |
| Basic shares outstanding | 298,981 | 303,890 |
| Diluted shares outstanding | 302,657 | 308,460 |

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

Table of Contents**PRAXAIR, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Millions of dollars)

(UNAUDITED)

| | Quarter Ended June 30, | |
|--|---------------------------|----------|
| | 2012 | 2011 |
| NET INCOME (INCLUDING NONCONTROLLING INTERESTS) | \$ 444 | \$ 439 |
| OTHER COMPREHENSIVE INCOME (LOSS) (Net of Tax) | | |
| Translation adjustments (Note 12) | (548) | 133 |
| Derivative instruments (Note 4) | 4 | (1) |
| Funded status - retirement obligations (Note 9) | 9 | (8) |
| COMPREHENSIVE INCOME (LOSS) (INCLUDING NONCONTROLLING INTERESTS) | (91) | 563 |
| Less: noncontrolling interests | | (19) |
| COMPREHENSIVE INCOME (LOSS) - PRAXAIR, INC. | \$ (91) | \$ 544 |
| | | |
| | Six Months Ended June 30, | |
| | 2012 | 2011 |
| NET INCOME (INCLUDING NONCONTROLLING INTERESTS) | \$ 876 | \$ 848 |
| OTHER COMPREHENSIVE INCOME (LOSS) (Net of Tax) | | |
| Translation adjustments (Note 12) | (276) | 363 |
| Derivative instruments (Note 4) | 5 | |
| Funded status - retirement obligations (Note 9) | 16 | (5) |
| COMPREHENSIVE INCOME (INCLUDING NONCONTROLLING INTERESTS) | 621 | 1,206 |
| Less: noncontrolling interests | (19) | (40) |
| COMPREHENSIVE INCOME - PRAXAIR, INC. | \$ 602 | \$ 1,166 |

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

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PRAXAIR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar amounts in millions)

(UNAUDITED)

| | June 30, 2012 | December 31, 2011 |
|--|------------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 104 | \$ 90 |
| Accounts receivable - net | 1,843 | 1,795 |
| Inventories | 469 | 456 |
| Prepaid and other current assets | 236 | 266 |
| TOTAL CURRENT ASSETS | 2,652 | 2,607 |
| Property, plant and equipment (less accumulated depreciation of \$10,719 in 2012 and \$10,497 in 2011) | 10,466 | 10,131 |
| Goodwill | 2,353 | 2,372 |
| Other intangible assets - net | 152 | 167 |
| Other long-term assets | 1,065 | 1,079 |
| TOTAL ASSETS | \$ 16,688 | \$ 16,356 |
| LIABILITIES AND EQUITY | | |
| Accounts payable | \$ 896 | \$ 896 |
| Short-term debt | 125 | 337 |
| Current portion of long-term debt | 909 | 387 |
| Other current liabilities | 798 | 915 |
| TOTAL CURRENT LIABILITIES | 2,728 | 2,535 |
| Long-term debt | 5,961 | 5,838 |
| Other long-term liabilities | 1,873 | 1,966 |
| TOTAL LIABILITIES | 10,562 | 10,339 |
| Commitments and contingencies (Note 10) | | |
| Redeemable noncontrolling interests (Note 12) | 232 | 220 |
| Praxair, Inc. Shareholders' Equity: | | |
| Common stock \$0.01 par value, authorized - 800,000,000 shares, issued 2012 - 382,968,729 shares and 2011 - 382,854,272 shares | 4 | 4 |
| Additional paid-in capital | 3,835 | 3,809 |
| Retained earnings | 9,024 | 8,510 |
| Accumulated other comprehensive income (loss) | (1,992) | (1,746) |
| Treasury stock, at cost (2012 - 84,797,221 shares and 2011 - 84,324,255 shares) | (5,256) | (5,089) |
| Total Praxair, Inc. Shareholders' Equity | 5,615 | 5,488 |
| Noncontrolling interests | 279 | 309 |

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| | | |
|------------------------------|-----------|-----------|
| TOTAL EQUITY | 5,894 | 5,797 |
| TOTAL LIABILITIES AND EQUITY | \$ 16,688 | \$ 16,356 |

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)

| | Six Months Ended June 30, | |
|---|---------------------------|--------|
| | 2012 | 2011 |
| OPERATIONS | | |
| Net income - Praxair, Inc. | \$ 848 | \$ 823 |
| Noncontrolling interests | 28 | 25 |
| Net income (including noncontrolling interests) | 876 | 848 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 499 | 498 |
| Deferred income taxes | 83 | 82 |
| Share-based compensation | 35 | 30 |
| Accounts receivable | (47) | (267) |
| Inventory | (14) | (50) |
| Prepaid and other current assets | 3 | (32) |
| Payables and accruals | (118) | (153) |
| Pension contributions | (109) | (85) |
| Long-term assets, liabilities and other | (81) | 61 |
| Net cash provided by operating activities | 1,127 | 932 |
| INVESTING | | |
| Capital expenditures | (1,047) | (767) |
| Acquisitions, net of cash acquired | (51) | (80) |
| Divestitures and asset sales | 71 | 37 |
| Net cash used for investing activities | (1,027) | (810) |
| FINANCING | | |
| Short-term debt borrowings (repayments) - net | (218) | 26 |
| Long-term debt borrowings | 1,400 | 699 |
| Long-term debt repayments | (730) | (204) |
| Issuances of common stock | 107 | 142 |
| Purchases of common stock | (313) | (485) |
| Cash dividends - Praxair, Inc. shareholders | (328) | (303) |
| Excess tax benefit on share-based compensation | 44 | 41 |
| Noncontrolling interest transactions and other | (41) | (1) |
| Net cash (used for) provided by financing activities | (79) | (85) |
| Effect of exchange rate changes on cash and cash equivalents | (7) | 4 |
| Change in cash and cash equivalents | 14 | 41 |

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| | | |
|--|--------|-------|
| Cash and cash equivalents, beginning-of-period | 90 | 39 |
| Cash and cash equivalents, end-of-period | \$ 104 | \$ 80 |

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

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

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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 2011 Annual Report on Form 10-K. There have been no material changes to the company's significant accounting policies during 2012.

Accounting Standards Implemented in 2012

The following standards were effective for Praxair in 2012 and their adoption did not have a significant impact on the condensed consolidated financial statements:

Testing for Goodwill Impairment - In September 2011, the FASB issued updated guidance on the periodic testing of goodwill for impairment. This guidance provides companies with the option to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform a quantitative two-step goodwill impairment test. Praxair applied the updated guidance during its annual goodwill review performed in the second quarter of 2012. Refer to Note 7.

Other Comprehensive Income - In June 2011, the FASB issued (and subsequently amended in December 2011) a revised standard regarding the presentation of other comprehensive income. Praxair has elected a two-statement approach. Refer to the Condensed Consolidated Statements of Comprehensive Income (Loss) following the Consolidated Statements of Income.

Expanded Disclosures for Fair Value Measurements - In May 2011, the FASB issued additional guidance expanding the disclosures for Fair Value Measurements, particularly Level 3 inputs. Refer to Note 5 for the additional guidance, as applicable.

Accounting Standards to be Implemented

Offsetting Assets and Liabilities - In December 2011, the FASB issued updated disclosure requirements related to a company's right or requirement to offset balance sheet items and the related arrangements associated with its financial instruments and derivative instruments. The new guidance requires the disclosure of the gross amounts subject to rights of setoff, amounts offset, and the related net exposure. This guidance will be effective for Praxair beginning with the first quarter 2013. Praxair does not expect this requirement to have any impact on the consolidated financial statements.

Table of Contents**2. Supplemental Information*****Inventories***

The following is a summary of Praxair's consolidated inventories:

| <i>(Millions of dollars)</i> | June 30, 2012 | December 31, 2011 |
|------------------------------|------------------|----------------------|
| Inventories | | |
| Raw materials and supplies | \$ 158 | \$ 153 |
| Work in process | 65 | 58 |
| Finished goods | 246 | 245 |
| Total inventories | \$ 469 | \$ 456 |

Long-term receivables

Long-term receivables are not material and are largely reserved. Such long-term receivables are included within other long-term assets in the condensed consolidated balance sheets and totaled \$45 million and \$53 million at June 30, 2012 and December 31, 2011, respectively, net of reserves of \$44 million and \$64 million, respectively. The amounts in both periods relate primarily to government receivables in Brazil and other long-term notes receivable from customers. Collectability is reviewed regularly and uncollectible amounts are written-off as appropriate. The reduction in the balances during 2012 was due primarily to the collection of a portion of the government receivables, foreign currency movements and the write-off of a long-term note receivable which was fully reserved.

Table of Contents**3. Debt**

The following is a summary of Praxair's outstanding debt at June 30, 2012 and December 31, 2011:

| <i>(Millions of dollars)</i> | June 30, 2012 | December 31, 2011 |
|---|------------------|----------------------|
| SHORT-TERM | | |
| Commercial paper and U.S. bank borrowings | \$ 8 | \$ 159 |
| Other bank borrowings (primarily international) | 117 | 178 |
| Total short-term debt | 125 | 337 |
| LONG-TERM | | |
| U.S. borrowings | | |
| Commercial paper ^(d) | 575 | |
| 6.375% Notes due 2012 ^(e) | | 501 |
| 1.75% Notes due 2012 ^(a, b, d) | 402 | 405 |
| 3.95% Notes due 2013 ^(d) | 350 | 350 |
| 2.125% Notes due 2013 ^(a, b) | 508 | 513 |
| 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) | 434 | 434 |
| 5.375% Notes due 2016 | 400 | 400 |
| 5.20% Notes due 2017 | 325 | 325 |
| 4.50% Notes due 2019 ^(a) | 597 | 597 |
| 3.00% Notes due 2021 ^(a) | 498 | 498 |
| 4.05% Notes due 2021 ^(a) | 496 | 496 |
| 2.45% Notes due 2022 ^(a, c) | 598 | |
| Other | 5 | 6 |
| International bank borrowings | 472 | 490 |
| Obligations under capital leases | 11 | 11 |
| | 6,870 | 6,225 |
| Less: current portion of long-term debt | (909) | (387) |
| Total long-term debt | 5,961 | 5,838 |
| Total debt | \$ 6,995 | \$ 6,562 |

(a) Amounts are net of unamortized discounts.

(b) June 30, 2012 and December 31, 2011 include a \$44 million and \$54 million fair value increase, respectively, related to hedge accounting. See Note 4 for additional information.

(c) In February 2012, Praxair issued \$600 million of 2.45% notes due 2022. The proceeds were used for general corporate purposes.

(d) Classified as long-term because of the Company's intent to refinance this debt on a long-term basis and the availability of such financing under the terms of an existing long-term agreement.

(e) In April 2012, Praxair repaid \$500 million of 6.375% notes that became due.

Table of Contents**4. 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 and treasury-rate locks 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 June 30, 2012 and December 31, 2011:

| | Notional Amounts | | Fair Value | | | |
|---|------------------|----------------------|------------------|--------------------------------|---------------------------------|----------------------|
| | June 30, 2012 | December 31, 2011 | June 30, 2012 | Assets December 31, 2011 | Liabilities June 30, 2012 | December 31, 2011 |
| <i>(Millions of dollars)</i> | | | | | | |
| Derivatives Not Designated as Hedging Instruments: | | | | | | |
| Currency contracts: | | | | | | |
| Balance sheet items (a) | \$ 1,541 | \$ 1,541 | \$ 1 | \$ 2 | \$ 2 | \$ 2 |
| Derivatives Designated as Hedging Instruments: | | | | | | |
| Currency contracts: | | | | | | |
| Forecasted purchases (a) | \$ 25 | \$ 59 | \$ | \$ | \$ 1 | \$ 2 |
| Interest rate contracts: | | | | | | |
| Interest rate swaps (b) | 400 | 400 | 34 | 35 | | |
| Treasury rate lock (a) | 500 | | 7 | | | |
| Total | \$ 925 | \$ 459 | \$ 41 | \$ 35 | \$ 1 | \$ 2 |
| Total Derivatives | \$ 2,466 | \$ 2,000 | \$ 42 | \$ 37 | \$ 3 | \$ 4 |

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

(b) Assets are recorded in long term assets.

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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 offset by the fair value adjustments recorded on the hedged assets and liabilities.

Anticipated Net Income

Historically Praxair has entered into anticipated net income hedge contracts consisting of foreign currency options and forwards related primarily to anticipated net income in Brazil, Europe and Canada. Although there were no anticipated net income hedges outstanding as of June 30, 2012 and December 31, 2011, such derivatives were outstanding during the six month periods ended June 30, 2012 and 2011. 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 currency translation. 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.

Interest Rate Contracts

Outstanding Interest Rate Swaps

At June 30, 2012, Praxair had an interest-rate swap agreement outstanding related to the \$400 million 3.25% fixed-rate notes that mature in 2015 which effectively convert fixed-rate interest to variable-rate interest. This swap agreement was designated as a fair value hedge 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 instrument. At June 30, 2012, \$34 million was recognized as an increase in the fair value of this note (\$35 million at December 31, 2011).

Table of Contents**Terminated Interest Rate Swaps**

The following table summarizes information related to terminated interest rate swap contracts:

| (Millions of Dollars) | Year Terminated | Original Gain | Amount of Gain Recognized in Earnings (a) Quarter Ended | | Amount of Gain Recognized in Earnings (a) Six Months Ended | | Unrecognized Gain (a) | |
|--|-----------------|---------------|---|---------------|--|---------------|-----------------------|-------------------|
| | | | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 | December 31, 2011 |
| Interest Rate Swaps | | | | | | | | |
| <i>Underlying debt instrument (b):</i> | | | | | | | | |
| \$500 million 2.125% fixed-rate notes that mature in 2013 | 2011 | \$ 18 | \$ 3 | \$ 1 | \$ 5 | \$ 1 | \$ 8 | \$ 13 |
| \$400 million 1.75% fixed-rate notes that mature in 2012 | 2010 | 13 | 1 | 2 | 3 | 3 | 2 | 5 |
| \$500 million 6.375% fixed-rate notes that matured in 2012 | 2002 | 47 | | 1 | 1 | 2 | | 1 |
| Total | | \$ 78 | \$ 4 | \$ 4 | \$ 9 | \$ 6 | \$ 10 | \$ 19 |

(a) The unrecognized gain for terminated interest rate swaps is shown as an increase to long-term debt and will be recognized on a straight line basis to interest expense - net over the term of the underlying debt agreements. Upon settlement of the underlying interest rate contract, the cash received is reflected within the Noncontrolling interest transactions and other in the financing section of the consolidated statement of cash flows.

(b) The notional amounts of the interest rate contracts are equal to the underlying debt instruments.

Table of Contents**Treasury Rate Locks**

The following table summarizes the unrecognized gains (losses) related to treasury rate lock contracts:

| <i>(Millions of Dollars)</i> | Year Terminated | Original Gain / (Loss) | Unrecognized Gain / (Loss) (a) | |
|---|----------------------------|---------------------------------------|---------------------------------------|------------------------------|
| | | | June 30, 2012 | December 31, 2011 |
| Outstanding Treasury Rate Locks (b) | | | \$ 7 | \$ |
| Terminated Treasury Rate Locks | | | | |
| <i>Underlying debt instrument:</i> | | | | |
| \$500 million 3.000% fixed-rate notes that mature in 2021 (c) | 2011 | \$ (11) | (10) | (11) |
| \$600 million 4.50% fixed-rate notes that mature in 2019 (c) | 2009 | 16 | 12 | 12 |
| \$500 million 4.625% fixed-rate notes that mature in 2015 (c) | 2008 | (7) | (3) | (3) |
| Total - pre-tax | | | \$ 6 | \$ (2) |
| Less: income taxes | | | (3) | 1 |
| After- tax amounts | | | \$ 3 | \$ (1) |

- (a) The unrecognized gains / (losses) for the treasury rate locks are shown in accumulated other comprehensive income (AOCI) and upon termination will be recognized on a straight line basis to interest expense net over the term of the underlying debt agreements. Upon settlement of the treasury rate lock contracts, the cash received or paid is reflected within the noncontrolling interest transactions and other in the financing section of the consolidated statement of cash flows. Refer to the table below summarizing the impact on the company's consolidated statements of income and AOCI for current period gain (loss) recognition.
- (b) In June 2012 Praxair entered into a treasury rate lock contract with a notional amount of \$500 million, maturing in December 2012 and covering a period of 10 years from settlement. Praxair entered into this contract in order to hedge the interest rate risk associated with the first \$500 million of forecasted long-term debt issuance planned for the second half of 2012. This issuance is deemed probable and the treasury rate lock has been deemed highly effective.
- (c) The notional amount of the treasury rate lock contracts are equal to the underlying debt instrument with the exception of the treasury rate lock contract entered into to hedge the \$600 million 4.50% fixed-rate notes that mature in 2019. The notional amount of this contract was \$500 million.

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The following table summarizes the impacts of the company's derivatives on the condensed consolidated statements of income and AOCI:

| <i>(Millions of dollars)</i> | Amount of Pre-Tax Gain (Loss) Recognized in Earnings (a) | | | | Net Change in AOCI | |
|--|---|-------------|------------------------------|---------------|--------------------|--|
| | Quarter Ended June 30, | | Six Months Ended June 30, | | | |
| | 2012 | 2011 | 2012 | 2011 | | |
| Derivatives Not Designated as Hedging Instruments | | | | | | |
| Currency contracts: | | | | | | |
| Balance sheet items | | | | | | |
| Debt-related | \$ (19) | \$ | \$ 18 | \$ (6) | | |
| Other balance sheet items | (3) | 3 | (5) | 5 | | |
| Anticipated net income | | (2) | (4) | (5) | | |
| Total | \$ (22) | \$ 1 | \$ 9 | \$ (6) | | |

| <i>(Millions of dollars)</i> | Amount of Gain (Loss) Recognized in AOCI (b) | | Quarter Ended Amount of Gain (Loss) Reclassified from AOCI to the Consolidated Statement of Income (c) | | Net Change in AOCI | |
|------------------------------|--|------------------|--|------------------|--------------------|------------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| | Derivatives Designated as Hedging Instruments | | | | | |
| Currency contracts: | | | | | | |
| Forecasted purchases (b) | \$ (2) | \$ | \$ | \$ | \$ (2) | \$ |
| Interest rate contracts: | | | | | | |
| Treasury rate locks (b) | 7 | | | | 7 | |
| Total - pre tax | \$ 5 | \$ | \$ | \$ | \$ 5 | \$ |
| Less: income taxes | (1) | | | | (1) | |
| Total - Net of Taxes | \$ 4 | \$ | \$ | \$ | \$ 4 | \$ |

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| | Amount of Gain (Loss) Recognized in AOCI (b) | | Six Months Ended Amount of Gain (Loss) Reclassified from AOCI to the Consolidated Statement of Income (c) | | Net Change in AOCI | |
|--|--|------------------|--|------------------|--------------------|------------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| | <i>(Millions of dollars)</i> | | | | | |
| Derivatives Designated as Hedging Instruments | | | | | | |
| Interest rate contracts: | | | | | | |
| Treasury rate locks (b) | 7 | | | | 7 | |
| Less: income taxes | (2) | | | | (2) | |
| Total - Net of Taxes | \$ 5 | \$ | \$ | \$ | \$ 5 | \$ |

- (a) The gains (losses) on balance sheet items are 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 statements of income as interest expense-net. Other balance sheet items and anticipated net income gains (losses) are recorded in the consolidated statements of income as other income (expenses)-net.
- (b) The gains (losses) on forecasted purchases and treasury rate locks are recorded as a component of AOCI within derivative instruments in the consolidated statements of equity. There was no ineffectiveness for these instruments during 2012 or 2011.
- (c) The gains (losses) on forecasted purchases are reclassified to the depreciation and amortization expense on a straight-line basis consistent with the useful life of the underlying asset. The gains (losses) for interest rate contracts are reclassified to earnings as interest expense net on a straight-line basis over the remaining maturity of the underlying debt. Net gains (losses) of \$1 million are expected to be reclassified to earnings during the next twelve months.

Table of Contents**5. 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:

| <i>(Millions of dollars)</i> | Fair Value Measurements Using | | | | | |
|------------------------------|-------------------------------|----------------------|------------------|----------------------|------------------|----------------------|
| | Level 1 | | Level 2 | | Level 3 | |
| | June 30, 2012 | December 31, 2011 | June 30, 2012 | December 31, 2011 | June 30, 2012 | December 31, 2011 |
| Assets | | | | | | |
| Derivative assets | | | \$ 42 | \$ 37 | | |
| Liabilities | | | | | | |
| Derivative liabilities | | | \$ 3 | \$ 4 | | |

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.

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 similar issues, which is deemed a level 2 measurement. At June 30, 2012, the estimated fair value of Praxair's long-term debt portfolio was \$7,324 million versus a carrying value of \$6,870 million. At December 31, 2011, the estimated fair value of Praxair's long-term debt portfolio was \$6,692 million versus a carrying value of \$6,225 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. During the first quarter 2012, the company reduced the value of certain assets in Brazil, Colombia and Chile to estimated fair value which resulted in a \$21 million pre-tax charge to other income (expense) net in the South America segment.

Table of Contents**6. 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 June 30, | | Six Months Ended June 30, | |
|--|---------------------------|---------|------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator (Millions of dollars) | | | | |
| Net income - Praxair, Inc. | \$ 429 | \$ 425 | \$ 848 | \$ 823 |
| Denominator (Thousands of shares) | | | | |
| Weighted average shares outstanding | 298,316 | 303,081 | 298,414 | 303,265 |
| Shares earned and issuable under compensation plans | 569 | 628 | 567 | 625 |
| Weighted average shares used in basic earnings per share | 298,885 | 303,709 | 298,981 | 303,890 |
| Effect of dilutive securities | | | | |
| Stock options and awards | 3,607 | 4,544 | 3,676 | 4,570 |
| Weighted average shares used in diluted earnings per share | 302,492 | 308,253 | 302,657 | 308,460 |
| Basic Earnings Per Share | \$ 1.43 | \$ 1.40 | \$ 2.84 | \$ 2.71 |
| Diluted Earnings Per Share | \$ 1.42 | \$ 1.38 | \$ 2.80 | \$ 2.67 |

There were no antidilutive shares for the quarter ended June 30, 2012. Stock options of 1,611,500 were antidilutive and therefore excluded in the computation of diluted earnings per share for the six months ended June 30, 2012. There were no antidilutive shares for the quarter and six months ended June 30, 2011.

7. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the six months ended June 30, 2012 were as follows:

| (Millions of dollars) | North America | South America | Europe | Asia | Surface Technologies | Total |
|------------------------------|------------------|------------------|--------|-------|-------------------------|----------|
| Balance, December 31, 2011 | \$ 1,375 | \$ 215 | \$ 618 | \$ 24 | \$ 140 | \$ 2,372 |
| Acquisitions | 9 | | 1 | | | 10 |
| Purchase adjustments & other | 6 | | | | | 6 |
| Foreign currency translation | | (18) | (15) | | (2) | (35) |
| Balance, June 30, 2012 | \$ 1,390 | \$ 197 | \$ 604 | \$ 24 | \$ 138 | \$ 2,353 |

Praxair has performed its goodwill impairment tests annually during the second quarter of each year, and historically has determined that the fair value of each of its reporting units was substantially in excess of its carrying value. For the 2012 test completed this quarter, Praxair applied the FASB's updated accounting guidance (refer to Note 1) which allows the Company to first assess qualitative factors to determine the extent of additional quantitative analysis, if any, that may be required to test goodwill for impairment. Based on the qualitative assessments performed, Praxair concluded that it was more likely than not that the fair value of each reporting unit substantially exceeded its carrying value and therefore, further quantitative analysis was not required. As a result, no impairment was recorded.

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Changes in the carrying amounts of other intangibles for the six months ended June 30, 2012 were as follows:

| <i>(Millions of dollars)</i> | Customer & License/Use Agreements | Non-compete Agreements | Patents & Other | Total |
|---------------------------------------|---|---------------------------|--------------------|----------|
| Cost: | | | | |
| Balance, December 31, 2011 | \$ 208 | \$ 37 | \$ 27 | \$ 272 |
| Additions | 13 | 2 | | 15 |
| Foreign currency translation | (1) | | | (1) |
| Other | (16) | (5) | (6) | (27) |
| Balance, June 30, 2012 | \$ 204 | \$ 34 | \$ 21 | \$ 259 |
| Less: Accumulated amortization | | | | |
| Balance, December 31, 2011 | \$ (75) | \$ (20) | \$ (10) | \$ (105) |
| Amortization expense | (5) | (4) | (1) | (10) |
| Foreign currency translation | (1) | | | (1) |
| Other | 1 | 5 | 3 | 9 |
| Balance, June 30, 2012 | \$ (80) | \$ (19) | \$ (8) | \$ (107) |
| Net balance at June 30, 2012 | \$ 124 | \$ 15 | \$ 13 | \$ 152 |

There are no expected residual values related to these intangible assets. The remaining weighted-average amortization period for intangible asset is approximately 12 years.

Total estimated annual amortization expense is as follows:

| <i>(Millions of dollars)</i> | |
|------------------------------|--------|
| Remaining 2012 | \$ 12 |
| 2013 | 21 |
| 2014 | 19 |
| 2015 | 18 |
| 2016 | 17 |
| Thereafter | 65 |
| | \$ 152 |

8. Share-Based Compensation

Share-based compensation of \$18 million (\$13 million after-tax) and \$16 million (\$11 million after-tax) was recognized during the quarters ended June 30, 2012 and 2011, respectively. Share-based compensation of \$35 million (\$24 million after-tax) and \$30 million (\$21 million after-tax) was recognized for the six months ended June 30, 2012 and 2011, 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 2011 Annual Report on Form 10-K.

Stock Options

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The weighted-average fair value of options granted during six months ended June 30, 2012 was \$17.43 (\$17.70 in 2011) based on the Black-Scholes Options-Pricing model. The decrease in grant date fair value year-over-year is attributable to the impact of lower interest rates partially offset by increases in Praxair's stock price.

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The following weighted-average assumptions were used for grants in 2012 and 2011 :

| | Six Months Ended June 30, | |
|-------------------------|---------------------------|-------|
| | 2012 | 2011 |
| Dividend yield | 2.0% | 2.0% |
| Volatility | 22.5% | 22.3% |
| Risk-free interest rate | 0.86% | 2.2% |
| Expected term years | 5 | 5 |

The following table summarizes option activity under the plans as of June 30, 2012 and changes during the six months 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, 2012 | 13,540 | \$ 65.30 | | |
| Granted | 1,650 | 109.64 | | |
| Exercised | (1,893) | 51.61 | | |
| Cancelled or Expired | (41) | 99.75 | | |
| Outstanding at June 30, 2012 | 13,256 | 72.67 | 6.1 | \$ 478 |
| Exercisable at June 30, 2012 | 10,129 | \$ 63.94 | 5.1 | \$ 454 |

The aggregate intrinsic value represents the difference between the company's closing stock price of \$108.73 as of June 30, 2012 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 six months ended June 30, 2012 was \$40 million and \$114 million, respectively (\$78 million and \$147 million during the same time periods in 2011, respectively).

Cash received from option exercises under all share-based payment arrangements for the quarter and six months ended June 30, 2012 was \$29 million and \$98 million (\$61 million and \$134 million for the same time periods in 2011, respectively). The cash tax benefit realized from share-based compensation totaled \$15 million and \$61 million for the quarter and six months ended June 30, 2012, of which \$44 million in excess tax benefits was classified as financing cash flows for the six months ended June 30, 2012 (\$28 million and \$52 million tax benefit for the same periods 2011 of which \$41 million represented excess tax benefit for the six months ended June 30, 2011).

As of June 30, 2012, \$38 million of unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted-average period of approximately 1.1 years.

Performance-Based and Restricted Stock Awards

During the six months ended June 30, 2012, 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 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.

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During the six months ended June 30, 2012, the company also 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 six months ended June 30, 2012 was \$103.13 and \$108.60, respectively (\$92.06 and \$92.19 for the same periods in 2011). 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 June 30, 2012 and changes during the six months then ended (shares based on target amounts, averages are calculated on a weighted basis):

| | Performance-Based | | Restricted Stock | |
|-------------------------------|--------------------------|-------------------------------|--------------------------|-------------------------------|
| | 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, 2012 | 962 | \$ 71.58 | 340 | \$ 75.51 |
| Granted (a) | 403 | 103.13 | 89 | 108.60 |
| Vested | (508) | 56.41 | (95) | 62.87 |
| Cancelled | (10) | 87.84 | (9) | 80.01 |
| Non-vested at June 30, 2012 | 847 | \$ 88.90 | 325 | \$ 88.27 |

(a) Performance-based stock unit grants during 2012 include 120 thousand shares relating to the actual payout of the 2009 PSU grants. The original grant date fair value of these shares was \$56.02, the cost of which was expensed in prior periods.

As of June 30, 2012, based on current estimates of future performance, \$44 million of unrecognized compensation cost related to performance-based awards is expected to be recognized through the first quarter of 2015 and \$17 million of unrecognized compensation cost related to the restricted stock awards is expected to be recognized through the first quarter of 2017.

9. Retirement Programs

The components of net pension and postretirement benefits other than pensions (OPEB) costs for the quarters and six-months ended June 30, 2012 and 2011 are shown below:

| (Millions of dollars) | Quarter Ended June 30, | | | | Six Months Ended June 30, | | | |
|--------------------------------|------------------------|-------|------|------|---------------------------|-------|------|------|
| | Pensions | | OPEB | | Pensions | | OPEB | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Service cost | \$ 12 | \$ 11 | \$ 1 | \$ 1 | \$ 25 | \$ 22 | \$ 2 | \$ 2 |
| Interest cost | 30 | 32 | 3 | 4 | 61 | 63 | 6 | 8 |
| Expected return on plan assets | (39) | (38) | | | (78) | (76) | | |
| Net amortization and deferral | 17 | 12 | (2) | (2) | 34 | 23 | (3) | (4) |
| Net periodic benefit cost | \$ 20 | \$ 17 | \$ 2 | \$ 3 | \$ 42 | \$ 32 | \$ 5 | \$ 6 |

Praxair estimates that 2012 contributions to its pension plans will be in the area of \$120 million, of which \$109 million have been made through June 30, 2012.

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In 2011 a number of senior managers retired. These retirees are covered by the U.S. supplemental pension plan which provides for a lump sum benefit payment option. Under certain circumstances, such lump sum payments must be accounted for as a settlement of the related pension obligation, but only when paid. As a result, Praxair expects to record a pension settlement expense of approximately \$9 million in the third quarter 2012 when the payments are made to the retirees.

10. 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 2011 Annual Report on Form 10-K).

Among such matters are:

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 of Praxair's 2011 Annual Report on Form 10-K). The final settlement related to the Refis Program is subject to final calculation and review by the Brazilian federal government and, although the timing is very difficult to estimate, it is possible that this review could be concluded during the next year. Any differences from amounts recorded will be adjusted to income at that time.

After enrollment in the amnesty programs, at June 30, 2012 the most significant remaining claims relate to state VAT tax matters associated with procedural issues 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 \$190 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\$1.1 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\$840 million) 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.

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 entirely 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. Currently, 50% of the guarantee is satisfied by letters of credit with a financial institution and 50% of the guarantee is satisfied by equity of a Brazilian subsidiary.

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Praxair strongly believes that the allegations are without merit and that the fine will be entirely overturned 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.

From 2003 to 2012, Praxair and several other co-defendants were the subject of welding fume litigation in which thousands of welders alleged personal injury caused by manganese contained in welding fumes. In January 2012, Praxair and the other co-defendants in this litigation entered into a Resolution Agreement (Agreement) that resolved all remaining cases against Praxair in exchange for Praxair's payment of less than \$1 million.

Contingent Asset-Resolution

Praxair's Brazilian-based subsidiary, White Martins, had a long-standing claim against a Brazilian power company, Bandeirante Energia SA, which had been successfully litigated, and in 2011 the courts released a cash deposit to White Martins, subject to completion of an appeal process. During the first quarter of 2012, White Martins was notified that the appeal process was favorably concluded, and accordingly, recognized a \$24 million gain to other income (expense), net of legal fees and another litigation matter.

Table of Contents**11. Segments**

Sales and operating profit by segment for the quarters and six-month periods ended June 30, 2012 and 2011 are shown below. For a description of Praxair's operating segments, refer to Note 18 to the consolidated financial statements of Praxair's 2011 Annual Report on Form 10-K.

| <i>(Millions of dollars)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|------------------------------|------------------------|-----------------|---------------------------|-----------------|
| | 2012 | 2011 (b) | 2012 | 2011 (b) |
| SALES^(a) | | | | |
| North America | \$ 1,393 | \$ 1,361 | \$ 2,791 | \$ 2,686 |
| Europe | 382 | 370 | 759 | 715 |
| South America | 520 | 611 | 1,082 | 1,169 |
| Asia | 348 | 348 | 682 | 665 |
| Surface Technologies | 168 | 168 | 337 | 325 |
| | \$ 2,811 | \$ 2,858 | \$ 5,651 | \$ 5,560 |
| OPERATING PROFIT | | | | |
| North America | \$ 363 | \$ 326 | \$ 724 | \$ 638 |
| Europe | 68 | 72 | 136 | 140 |
| South America | 110 | 139 | 225 | 272 |
| Asia | 68 | 63 | 125 | 116 |
| Surface Technologies | 27 | 27 | 53 | 52 |
| Total operating profit | \$ 636 | \$ 627 | \$ 1,263 | \$ 1,218 |

- (a) Intersegment sales, primarily from North America to other segments, were not significant for the quarters and six months ended June 30, 2012 and 2011.
- (b) During the 2012 first quarter, Praxair changed the measurement of its segment sales and operating profit to be based on the country in which the customer is domiciled instead of where the company's selling subsidiary is domiciled. The company believes these changes better represent the sales and profitability by geographic segment. These changes primarily relate to helium and specialty gas sales and result in slightly higher sales and operating profit in the Europe and Asia segments with offsetting declines in the North America segment. Prior period amounts have been reclassified to conform to the current year presentation.

Table of Contents**12. Equity and Redeemable Noncontrolling Interests***Equity*

A summary of the changes in total equity for the quarters and six months ended June 30, 2012 and 2011 is provided below:

(Millions of dollars)

| Activity | 2012 | | | Quarter Ended June 30, | | |
|---|--|-------------------------------------|---------------------|--|--|---------------------|
| | Praxair, Inc. Shareholders Equity | Noncontrolling Interests | Total Equity | Praxair, Inc. Shareholders Equity | 2011 Noncontrolling Interests | Total Equity |
| Balance, beginning of period | \$ 5,940 | \$ 327 | \$ 6,267 | \$ 6,165 | \$ 372 | \$ 6,537 |
| Net Income (b) | 429 | 10 | 439 | 425 | 14 | 439 |
| Translation Adjustments | (533) | (15) | (548) | 128 | 5 | 133 |
| Derivative Instruments, net of \$1 million taxes in 2012 and net of less than \$1 million 2011 | 4 | | 4 | (1) | | (1) |
| Funded Status - retirement obligations, net of \$3 million in 2012 and 2011 | 9 | | 9 | (8) | | (8) |
| Comprehensive income (loss) | (91) | (5) | (96) | 544 | 19 | 563 |
| Dividends and other capital reductions to noncontrolling interests | | (43) | (43) | | (19) | (19) |
| Additions (Reductions) to noncontrolling interests (a) | | | | | (2) | (2) |
| Redemption value adjustment to redeemable noncontrolling interests | (2) | | (2) | | | |
| Dividends to Praxair, Inc. common stock holders (\$0.55 per share in 2012 and \$0.50 per share in 2011) | (164) | | (164) | (151) | | (151) |
| Issuances of common stock: | | | | | | |
| For the dividend reinvestment and stock purchase plan | | | | 2 | | 2 |
| For employee savings and incentive plans | 30 | | 30 | 67 | | 67 |
| Purchases of common stock | (131) | | (131) | (268) | | (268) |
| Tax benefit from share-based compensation | 15 | | 15 | 25 | | 25 |
| Share-based compensation | 18 | | 18 | 16 | | 16 |
| Balance, end of period | \$ 5,615 | \$ 279 | \$ 5,894 | \$ 6,400 | \$ 370 | \$ 6,770 |

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| Activity | 2012 | | | Six Months Ended June 30, | | |
|---|--|-------------------------------------|---------------------|--|-------------------------------------|---------------------|
| | Praxair, Inc. Shareholders Equity | Noncontrolling Interests | Total Equity | Praxair, Inc. Shareholders Equity | Noncontrolling Interests | Total Equity |
| Balance, beginning of period | \$ 5,488 | \$ 309 | \$ 5,797 | \$ 5,792 | \$ 353 | \$ 6,145 |
| Net Income (b) | 848 | 18 | 866 | 823 | 25 | 848 |
| Translation Adjustments | (267) | (9) | (276) | 348 | 15 | 363 |
| Derivative Instruments, net of \$2 million taxes in 2012 | 5 | | 5 | | | |
| Funded Status - retirement obligations, net of \$7 million taxes in 2012 and \$4 million taxes in 2011 | 16 | | 16 | (5) | | (5) |
| Comprehensive income | 602 | 9 | 611 | 1,166 | 40 | 1,206 |
| Dividends and other capital reductions to noncontrolling interests | | (39) | (39) | | (22) | (22) |
| Additions (reductions) to noncontrolling interests (a) | | | | | (1) | (1) |
| Redemption value adjustment to redeemable noncontrolling interests | (6) | | (6) | | | |
| Dividends to Praxair, Inc. common stock holders (\$1.10 per share in 2012 and \$1.00 per share in 2011) | (328) | | (328) | (303) | | (303) |
| Issuances of common stock: | | | | | | |
| For the dividend reinvestment and stock purchase plan | 3 | | 3 | 4 | | 4 |
| For employee savings and incentive plans | 88 | | 88 | 144 | | 144 |
| Purchases of common stock | (313) | | (313) | (478) | | (478) |
| Tax benefit from stock options | 46 | | 46 | 45 | | 45 |
| Share-based compensation | 35 | | 35 | 30 | | 30 |
| Balance, end of period | \$ 5,615 | \$ 279 | \$ 5,894 | \$ 6,400 | \$ 370 | \$ 6,770 |

(a) Praxair increased (decreased) its ownership in certain consolidated subsidiaries. The difference between the purchase price and the related noncontrolling interests was recorded as a decrease in Praxair's additional paid-in-capital.

(b) In 2012, Net income for noncontrolling interests excludes Net income related to redeemable noncontrolling interests of \$5 million and \$10 million for the quarter and six months ended June 30, 2012, respectively, which is not part of total equity (see below). There were no redeemable noncontrolling interests recorded at June 30, 2011.

The components of AOCI are as follows:

| <i>(Millions of dollars)</i> | June 30, 2012 | December 31, 2011 |
|--|------------------|----------------------|
| Cumulative translation adjustments (CTA) | \$ (1,333) | \$ (1,057) |
| Derivative instruments | | (5) |
| Funded status - retirement obligations | (668) | (684) |
| | (2,001) | (1,746) |
| Less: noncontrolling interests (CTA) | (9) | |

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AOI - Praxair, Inc.

\$ (1,992)

\$ (1,746)

Table of Contents*Redeemable Noncontrolling Interests*

Noncontrolling interests with redemption features, such as put/sell options, that are not solely within the Company's control (redeemable noncontrolling interests) are reported separately in the consolidated balance sheets at the greater of carrying value or redemption value. For redeemable noncontrolling interests that are not yet exercisable, Praxair calculates the redemption value by accreting the carrying value to the redemption value over the period until exercisable. If the redemption value is greater than the carrying value, any increase is adjusted directly to retained earnings and does not impact net income.

The following is a summary of redeemable noncontrolling interests for the six months ended June 30, 2012:

| | |
|--|--------|
| <i>(Millions of dollars)</i> | |
| <i>Balance, December 31, 2011</i> | \$ 220 |
| Net income | 10 |
| Distributions to noncontrolling interest | (4) |
| Redemption value adjustment/accretion | 6 |
| <i>Balance, June 30, 2012</i> | \$ 232 |

13. Income Taxes

In June 2012, the Company settled its 2007 and 2008 U.S. income tax audit with the Internal Revenue Service. The settlement was not significant to the consolidated financial statements.

In 2011, the Company requested a pre-filing agreement (PFA) with the U.S. Internal Revenue Service related to a loss of a liquidated subsidiary. The PFA may be settled during the third quarter of 2012, and if resolved favorably, could result in a benefit to income tax expense.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Consolidated Results**

For the second quarter, Praxair's reported sales were 2% below the prior-year quarter. Volume growth and higher prices were more than offset by the negative effects of foreign currency translation due to the strengthening of the US dollar against most foreign currencies, and lower cost pass-through, primarily lower natural gas prices. These two factors reduced sales in the quarter by 8% as compared to the prior year. Excluding these effects, sales grew 6% in the quarter from higher volumes, prices, and acquisitions. Underlying sales grew in all geographic segments except Europe. Sales growth was strongest in North America, coming from solid demand from the energy, metals, and manufacturing markets. Sales in Asia reflect new plant start-ups for chemicals and metals customers. Sales in Europe and South America as compared to the prior-year quarter reflect significant currency headwinds and lower volumes due to softer demand resulting from overall weak macro-economic conditions. New project development activity continues to be robust in North America, South America, and Asia. Reported operating profit grew 1% from the prior-year quarter. Excluding currency effects operating profit grew 9%, higher than the underlying increase in sales. Higher overall volumes, higher pricing, productivity gains, and an increase in other income contributed to the growth in operating profit. By end market, overall sales growth was strongest to the energy, metals and manufacturing markets.

The following table provides summary data for the quarters and six months ended June 30, 2012 and 2011:

| <i>(Dollar amounts in millions, except per share data)</i> | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|--|------------------------|----------|----------|---------------------------|----------|----------|
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Reported Amounts | | | | | | |
| Sales | \$ 2,811 | \$ 2,858 | (2)% | \$ 5,651 | \$ 5,560 | 2% |
| Cost of sales, exclusive of depreciation and amortization | \$ 1,602 | \$ 1,640 | (2)% | \$ 3,218 | \$ 3,176 | 1% |
| Gross margin | \$ 1,209 | \$ 1,218 | (1)% | \$ 2,433 | \$ 2,384 | 2% |
| As a percent of sales | 43.0% | 42.6% | | 43.1% | 42.9% | |
| Selling, general and administrative | \$ 310 | \$ 309 | % | \$ 645 | \$ 617 | 5% |
| As a percent of sales | 11.0% | 10.8% | | 11.4% | 11.1% | |
| Depreciation and amortization | \$ 247 | \$ 254 | (3)% | \$ 499 | \$ 498 | % |
| Other income (expense) - net | \$ 9 | \$ (5) | | \$ 23 | \$ (6) | |
| Operating profit | \$ 636 | \$ 627 | 1% | \$ 1,263 | \$ 1,218 | 4% |
| As a percent of sales | 22.6% | 21.9% | | 22.4% | 21.9% | |
| Interest expense - net | \$ 33 | \$ 36 | (8)% | \$ 70 | \$ 71 | (1)% |
| Effective tax rate | 28.0% | 27.6% | | 28.0% | 27.8% | |
| Income from equity investments | \$ 10 | \$ 11 | (9)% | \$ 17 | \$ 20 | (15)% |
| Noncontrolling interests | \$ (15) | \$ (14) | 7% | \$ (28) | \$ (25) | 12% |
| Net income - Praxair, Inc. | \$ 429 | \$ 425 | 1% | \$ 848 | \$ 823 | 3% |
| Diluted earnings per share | \$ 1.42 | \$ 1.38 | 3% | \$ 2.80 | \$ 2.67 | 5% |
| Diluted shares outstanding | 302,492 | 308,253 | (2)% | 302,657 | 308,460 | (2)% |

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The change in consolidated sales and operating profit compared to the prior year is attributable to the following:

| Factors Contributing to Changes | Quarter Ended June 30, 2012 vs. 2011 % Change | | Six Months Ended June 30, 2012 vs. 2011 % Change | |
|---------------------------------|--|------------------|---|------------------|
| | Sales | Operating Profit | Sales | Operating Profit |
| Volume | 2% | 2% | 3% | 5% |
| Price | 2% | 6% | 2% | 7% |
| Cost pass-through | (2)% | % | (1)% | % |
| Currency | (6)% | (8)% | (4)% | (6)% |
| Acquisitions/divestitures | 2% | 1% | 2% | 2% |
| Other | % | % | % | (4)% |
| | (2)% | 1% | 2% | 4% |

The following tables provide sales by end-market and distribution method:

| Sales by End Markets | Quarter Ended June 30, % of Sales | | | Six Months Ended June 30, % of Sales | | |
|----------------------|--------------------------------------|------|-------------------------|---|------|-------------------------|
| | 2012 | 2011 | % Change Organic Sales* | 2012 | 2011 | % Change Organic Sales* |
| Manufacturing | 26% | 24% | 7% | 25% | 24% | 7% |
| Metals | 18% | 18% | 3% | 18% | 18% | 6% |
| Energy | 11% | 11% | 18% | 11% | 11% | 17% |
| Chemicals | 10% | 10% | (2)% | 10% | 10% | % |
| Electronics | 8% | 9% | (6)% | 8% | 9% | (7)% |
| Healthcare | 8% | 8% | 5% | 8% | 9% | 5% |
| Food & Beverage | 6% | 6% | (2)% | 6% | 6% | 1% |
| Aerospace | 3% | 3% | 11% | 3% | 3% | 10% |
| Other | 10% | 11% | (6)% | 11% | 10% | (1)% |
| | 100% | 100% | | 100% | 100% | |

* Excludes impact of currency, natural gas/precious metals cost pass-through and acquisitions/divestitures.

| Sales by Distribution Method | Quarter Ended June 30, % of Sales | | Six Months Ended June 30, % of Sales | |
|------------------------------|--------------------------------------|------|---|------|
| | 2012 | 2011 | 2012 | 2011 |
| On- Site | 25% | 25% | 25% | 25% |
| Packaged Gas | 29% | 27% | 29% | 28% |
| Merchant | 31% | 31% | 31% | 31% |
| Other | 15% | 17% | 15% | 16% |
| | 100% | 100% | 100% | 100% |

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Sales declined \$47 million, or 2%, for the second quarter and increased \$91 million, or 2%, for the six months ended June 30, 2012 versus the respective 2011 periods. For both the quarter and year-to-date periods, sales increased due to higher volumes and higher overall pricing. Volume growth was 2% in the quarter and 3% in the year-to-date period, attributable primarily to growth in North America and Asia, including new plant start-ups. Higher overall pricing increased sales by 2% in both the quarter and six month period. Acquisitions increased sales by 2% for both the quarter and six month periods, primarily due to the consolidation of an industrial gas business in Scandinavia in the fourth quarter of 2011. Weaker foreign currencies relative to the US Dollar reduced sales by 6% and 4% for the quarter and year-to-date periods, respectively, as compared to the same periods in 2011, and lower cost pass-through due to lower natural gas prices reduced sales by 2% in the quarter and 1% for the six month period. By customer end-market, organic sales growth to energy, metals, and manufacturing customers was strongest compared with the prior year. A further discussion of sales by segment is included in the segment discussion that follows.

Gross margin in 2012 decreased \$9 million, or 1%, in the second quarter and increased \$49 million, or 2%, for the six months ended June 30, 2012 versus the respective 2011 periods. For the quarter, the decrease was a result of negative currency effects which more than offset the increased margin from higher volumes and pricing. The increase for the year-to-date period came primarily from higher volumes and price, partially offset by negative currency effects. Gross margin as a percentage of sales for the second quarter and year-to-date periods increased modestly versus the prior year. Excluding the effect of lower cost pass-through on sales, the gross margin percentage was modestly below the prior-year for the quarter and six months.

Selling, general and administrative (SG&A) expenses increased \$1 million for the second quarter and \$28 million, or 5%, for the six months ended June 30, 2012 versus the respective 2011 periods. The increase was due primarily to increased pension and other benefit costs, incentive compensation and acquisitions, partially offset by negative currency effects.

Depreciation and amortization expense decreased \$7 million, or 3%, for the second quarter and increased \$1 million for the six months ended June 30, 2012 versus the respective 2011 periods. Excluding currency impacts, depreciation and amortization increased in both periods due to new project start-ups and acquisitions.

Other income (expense) net was a \$9 million and \$23 million benefit for the quarter and six months ended June 30, 2012, respectively versus a \$5 million expense and \$6 million expense in the respective 2011 periods. The quarter and six month period included, among other items, a gain on a land sale in Korea and other asset sales, partially offset by severance and other charges. The year-to-date period also included a gain from litigation settlements in South America, partially offset by business restructuring costs in South America. The 2011 quarter and six-month periods included \$1 million and \$2 million of currency-related net losses, respectively, primarily related to net income hedges.

Operating profit increased \$9 million, or 1%, for the second quarter and increased \$45 million, or 4%, for the six months ended June 30, 2012 versus the respective 2011 periods. For the quarter, operating profit increased 9% excluding currency effects. Operating margin increased slightly from the prior year periods. A discussion of operating profit by segment is included in the segment discussion that follows.

Interest expense net decreased \$3 million, or 8%, for the second quarter and \$1 million, or 1%, for the six months ended June 30, 2012 versus the respective periods in 2011 despite higher debt levels due to lower interest rates.

The effective tax rate for the second quarter 2012 was 28.0% versus 27.6% for the same period in 2011. The effective tax rate for the six months ended June 30, 2012 was 28.0% versus 27.8% for the same period in 2011.

Praxair's significant sources of equity income are in China, Italy and the Middle East. Income from equity investments decreased \$1 million in the second quarter and decreased \$3 million for the six months ended June 30, 2012 versus the respective 2011 periods. This decrease relates to the acquisition of a controlling interest in an industrial gas business in Scandinavia in October 2011, which required consolidation. This decrease was partially offset by higher earnings from affiliates in Italy, the Middle East, and China.

At June 30, 2012, noncontrolling interests consisted primarily of noncontrolling shareholders' investments in Asia (primarily in China and India), Europe (primarily in Italy and Scandinavia), and North America (primarily within

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the U.S. packaged gas business). Noncontrolling interests increased \$1 million for the second quarter and increased \$3 million for the six months ended June 30, 2012 versus the respective periods in 2011 due to higher earnings of these entities and the consolidation of the Scandinavian industrial gas business.

Net income Praxair, Inc. increased \$4 million, or 1%, for the second quarter and increased \$25 million, or 3%, for the six months ended June 30, 2012 versus the respective periods in 2011. The increase was due primarily to higher operating profit and lower interest expense, partially offset by higher income taxes.

EPS increased \$0.04 per diluted share, or 3%, for the second quarter and increased \$0.13 per diluted share, or 5%, for the six months ended June 30, 2012 versus the respective periods in 2011. The increase in EPS is attributable to an increase in net income Praxair, Inc. coupled with a lower number of diluted shares outstanding due to the impact of the company's net repurchases of common stock.

Comprehensive income for the 2012 quarter includes a negative currency translation adjustment of \$548 million reflecting the impact of translating foreign subsidiary balance sheets to US Dollars using exchange rates at June 30, 2012. The impact is negative because the US Dollar strengthened significantly against almost all foreign currencies during the quarter, primarily the Brazilian Real and Euro. For the six months, the currency translation adjustment impact was a negative \$276 million.

Segment Discussion

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

| <i>(Dollar amounts in millions)</i> | Quarter ended June 30, | | | Six Months Ended June 30, | | |
|-------------------------------------|------------------------|----------|----------|---------------------------|----------|----------|
| | 2012 | 2011 (a) | Variance | 2012 | 2011 (a) | Variance |
| SALES | | | | | | |
| North America | \$ 1,393 | \$ 1,361 | 2% | \$ 2,791 | \$ 2,686 | 4% |
| Europe | 382 | 370 | 3% | 759 | 715 | 6% |
| South America | 520 | 611 | (15)% | 1,082 | 1,169 | (7)% |
| Asia | 348 | 348 | % | 682 | 665 | 3% |
| Surface Technologies | 168 | 168 | % | 337 | 325 | 4% |
| | \$ 2,811 | \$ 2,858 | | \$ 5,651 | \$ 5,560 | |
| OPERATING PROFIT | | | | | | |
| North America | \$ 363 | \$ 326 | 11% | \$ 724 | \$ 638 | 13% |
| Europe | 68 | 72 | (6)% | 136 | 140 | (3)% |
| South America | 110 | 139 | (21)% | 225 | 272 | (17)% |
| Asia | 68 | 63 | 8% | 125 | 116 | 8% |
| Surface Technologies | 27 | 27 | % | 53 | 52 | 2% |
| Total operating profit | \$ 636 | \$ 627 | | \$ 1,263 | \$ 1,218 | |

- a) During the 2012 first quarter, Praxair changed the measurement of its segment sales and operating profit. Prior period amounts have been reclassified to conform to the current year classification (See Note 11). These reclassified amounts are reflected in the segment tables below.

Table of Contents**North America**

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|------------------------|----------|----------|---------------------------|----------|----------|
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Sales | \$ 1,393 | \$ 1,361 | 2% | \$ 2,791 | \$ 2,686 | 4% |
| Cost of sales, exclusive of depreciation and amortization | 742 | 748 | | 1,483 | 1,463 | |
| Gross margin | 651 | 613 | | 1,308 | 1,223 | |
| Operating expenses | 167 | 162 | | 338 | 338 | |
| Depreciation and amortization | 121 | 125 | | 246 | 247 | |
| Operating profit | \$ 363 | \$ 326 | 11% | \$ 724 | \$ 638 | 13% |
| Margin % | 26.1% | 24.0% | | 25.9% | 23.8% | |

| Factors Contributing to Changes | 2012 vs. 2011 % Change | | 2012 vs. 2011 % Change | |
|---------------------------------|---------------------------|------------------|---------------------------|------------------|
| | Sales | Operating Profit | Sales | Operating Profit |
| Volume | 4% | 6% | 6% | 10% |
| Price | 2% | 8% | 2% | 9% |
| Cost pass-through | (4)% | % | (3)% | % |
| Currency | (2)% | (3)% | (2)% | (2)% |
| Acquisitions/divestitures | 2% | % | 1% | 1% |
| Other | % | % | % | (5)% |
| | 2% | 11% | 4 | 13 |

The following tables provide sales by end-market and distribution method:

| Sales by End Markets | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|----------------------|------------------------|--------------------|---------------------------|---------------------------|--------------------|---------------------------|
| | % of Sales 2012 | % of Sales 2011 | % Change Organic Sales | % of Sales 2012 | % of Sales 2011 | % Change Organic Sales |
| Manufacturing | 33% | 29% | 12% | 32% | 28% | 12% |
| Metals | 14% | 14% | 3% | 14% | 14% | 6% |
| Energy | 16% | 16% | 21% | 16% | 16% | 21% |
| Chemicals | 10% | 11% | (6)% | 11% | 11% | (2)% |
| Electronics | 5% | 6% | (9)% | 5% | 6% | (7)% |
| Healthcare | 7% | 8% | (2)% | 7% | 9% | (1)% |
| Food & Beverage | 5% | 5% | (4)% | 5% | 5% | % |
| Other | 10% | 11% | (1)% | 10% | 11% | 5% |
| | 100% | 100% | | 100% | 100% | |

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| | Quarter Ended June 30, % of Sales | | Six Months Ended June 30, % of Sales | |
|-------------------------------------|--------------------------------------|------|---|------|
| | 2012 | 2011 | 2012 | 2011 |
| Sales by Distribution Method | | | | |
| On- Site | 27% | 28% | 27% | 28% |
| Packaged Gas | 34% | 31% | 34% | 32% |
| Merchant | 32% | 32% | 32% | 32% |
| Other | 7% | 9% | 7% | 8% |
| | 100% | 100% | 100% | 100% |

Segment sales growth in the quarter and six month periods came from higher volumes and higher pricing, partially offset by negative currency effects and lower cost pass-through, primarily lower natural gas prices passed through to hydrogen customers. In the quarter, sales grew \$32 million, or 8%, excluding currency and cost pass-through. Volumes increased 4% and pricing increased 2%. Acquisitions of packaged gas distributors increased sales by 2%. The effects of currency and cost pass-through reduced sales by 6%. For the six month period, sales increased \$105 million, or 9%, excluding currency and cost pass-through. Volumes, pricing and acquisitions increased sales by 6%, 2% and 1%, respectively, and were partially offset by the effects of currency and cost pass-through which reduced sales by 5%.

Operating profit increased \$37 million, or 11%, for the second quarter and increased \$86 million, or 13%, for the six months ended June 30, 2012 versus the respective 2011 periods. Higher volumes, pricing and productivity savings drove the increase and more than offset inflationary cost increases and the negative impact of currency translation. The operating margin rose to 26.0% for the quarter and year-to-date periods. Lower cost pass-through which reduces sales with minimal impact on operating profit benefited operating margin by 1% in both the quarter and year-to-date periods.

Europe

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|------------------------|--------|------------|---------------------------|--------|------------|
| | 2012 | 2011 | Variance % | 2012 | 2011 | Variance % |
| Sales | \$ 382 | \$ 370 | 3% | \$ 759 | \$ 715 | 6% |
| Cost of sales, exclusive of depreciation and amortization | 217 | 213 | | 430 | 412 | |
| Gross margin | 165 | 157 | | 329 | 303 | |
| Operating expenses | 60 | 51 | | 118 | 96 | |
| Depreciation and amortization | 37 | 34 | | 75 | 67 | |
| Operating profit | \$ 68 | \$ 72 | (6)% | \$ 136 | \$ 140 | (3)% |
| Margin % | 17.8% | 19.5% | | 17.9% | 19.6% | |

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| | 2012 vs. 2011 | | 2012 vs. 2011 | |
|--|----------------|---------------------------|----------------|---------------------------|
| | % Change Sales | % Change Operating Profit | % Change Sales | % Change Operating Profit |
| Factors Contributing to Changes | | | | |
| Volume | (2)% | (9)% | (2)% | (8)% |
| Price | 2% | 4% | 1% | 3% |
| Cost pass-through | (1)% | % | | |
| Currency | (9)% | (8)% | (6)% | (6)% |
| Acquisitions/divestitures | 13% | 10% | 13% | 9% |
| Other | % | (3)% | % | (1)% |
| | 3% | (6)% | 6% | (3)% |

The following tables provide sales by end-market and distribution method:

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|-----------------------------|------------------------|------|------------------------|---------------------------|------|------------------------|
| | % of Sales | | % Change Organic Sales | % of Sales | | % Change Organic Sales |
| | 2012 | 2011 | | 2012 | 2011 | |
| Sales by End Markets | | | | | | |
| Manufacturing | 23% | 21% | (3)% | 23% | 22% | (3)% |
| Metals | 17% | 18% | % | 17% | 18% | (3)% |
| Energy | 3% | 3% | (15)% | 3% | 3% | (10)% |
| Chemicals | 17% | 18% | 3% | 17% | 18% | 1% |
| Electronics | 7% | 8% | (15)% | 7% | 8% | (19)% |
| Healthcare | 10% | 12% | (9)% | 11% | 12% | % |
| Food & Beverage | 9% | 7% | % | 9% | 7% | (4)% |
| Other | 14% | 13% | 9% | 13% | 12% | 9% |
| | 100% | 100% | | 100% | 100% | |

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------------|------------------------|------|---------------------------|------|
| | % of Sales | | % of Sales | |
| | 2012 | 2011 | 2012 | 2011 |
| Sales by Distribution Method | | | | |
| On- Site | 19% | 21% | 20% | 21% |
| Packaged Gas | 43% | 41% | 42% | 41% |
| Merchant | 33% | 31% | 33% | 31% |
| Other | 5% | 7% | 5% | 7% |
| | 100% | 100% | 100% | 100% |

Segment sales increased \$12 million, or 3%, for the second quarter and increased \$44 million, or 6%, for the six months ended June 30, 2012 versus the respective 2011 periods. The increase was due to the acquisition of an increased ownership interest in Yara Praxair Holding AS (Yara Praxair) in October 2011 which required consolidation. In the quarter underlying sales were comparable to the prior year, as 2% higher pricing offset lower volume. Volumes in Spain and Italy were below prior year quarter primarily attributable to packaged gases, where customer demand was weaker due to lower industrial economic activity. Negative currency impacts, primarily the

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weaker Euro, reduced sales by 9%. For the six-month period underlying sales were comparable to the prior year as improved pricing partially offset lower volume. Volumes in Spain and Italy were below the prior year comparable period primarily due to packaged gases, where customer demand was weaker due to lower industrial economic activity.

Operating profit decreased by \$4 million, or 6%, for the second quarter and \$4 million, or 3% for the six months ended June 30, 2012 versus the respective 2011 periods. Excluding the Yara Praxair acquisition and the negative currency impact, underlying operating profit decreased primarily driven by lower volumes. Volumes decreased operating profit by 9% for the second quarter and 8% for the six month period, partially offset by higher pricing. Operating margins were below the prior-year period. Excluding the impact of currency, depreciation increased \$5 million and \$11 million for the quarter and six-months period ended June 30, 2012, respectively, due primarily to the acquisition of Yara Praxair and the start up of a plant in Germany.

South America

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|------------------------|--------|----------|---------------------------|----------|----------|
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Sales | \$ 520 | \$ 611 | (15)% | \$ 1,082 | \$ 1,169 | (7)% |
| Cost of sales, exclusive of depreciation and amortization | 300 | 340 | | 627 | 650 | |
| Gross margin | 220 | 271 | | 455 | 519 | |
| Operating expenses | 64 | 80 | | 136 | 148 | |
| Depreciation and amortization | 46 | 52 | | 94 | 99 | |
| Operating profit | \$ 110 | \$ 139 | (21)% | \$ 225 | \$ 272 | (17)% |
| Margin % | 21.2% | 22.7% | | 20.8% | 23.3% | |

| | 2012 vs. 2011 | | 2012 vs. 2011 | |
|--|----------------|---------------------------|----------------|---------------------------|
| | % Change Sales | % Change Operating Profit | % Change Sales | % Change Operating Profit |
| Factors Contributing to Changes | | | | |
| Volume | (1)% | % | % | % |
| Price | 2% | 7% | 2% | 11% |
| Cost pass-through | % | % | 1% | % |
| Currency | (16)% | (21)% | (10)% | (14)% |
| Other | % | (7)% | % | (14)% |
| | (15)% | (21)% | (7)% | (17)% |

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The following tables provide sales by end-market and distribution method:

| | Quarter Ended June 30, % of Sales | | | Six Months Ended June 30, % of Sales | | |
|-----------------------------|--------------------------------------|------|------------------------------|---|------|------------------------------|
| | 2012 | 2011 | % Change Organic Sales | 2012 | 2011 | % Change Organic Sales |
| Sales by End Markets | | | | | | |
| Manufacturing | 22% | 23% | (2)% | 23% | 23% | % |
| Metals | 29% | 28% | 5% | 28% | 27% | 7% |
| Energy | 5% | 4% | 9% | 4% | 4% | 6% |
| Chemicals | 5% | 6% | (3)% | 5% | 6% | % |
| Healthcare | 17% | 14% | 19% | 16% | 14% | 16% |
| Food & Beverage | 11% | 11% | (2)% | 12% | 11% | 4% |
| Other | 11% | 14% | (21)% | 12% | 15% | (15)% |
| | 100% | 100% | | 100% | 100% | |

| | Quarter Ended June 30, % of Sales | | Six Months Ended June 30, % of Sales | |
|-------------------------------------|--------------------------------------|------|---|------|
| | 2012 | 2011 | 2012 | 2011 |
| Sales by Distribution Method | | | | |
| On- Site | 22% | 21% | 21% | 21% |
| Packaged Gas | 24% | 25% | 24% | 25% |
| Merchant | 37% | 37% | 37% | 38% |
| Other | 17% | 17% | 18% | 16% |
| | 100% | 100% | 100% | 100% |

Sales decreased \$91 million, or 15%, in the second quarter and \$87 million, or 7%, for the six-months ended June 30, 2012 versus the respective 2011 periods. Underlying sales grew 1% for the quarter and 2% for the six-months, primarily due to improved pricing in both periods partially offset by lower volumes versus 2011. Negative currency impacts, primarily the weakening of the Brazilian Real against the US Dollar, reduced sales by 16% in the quarter and 10% for the six months versus 2011. Higher volumes from new on-site production facilities were more than offset by lower volumes to merchant and packaged gas customers largely attributable to the lower industrial production rates in Brazil. By end-market, year-over-year sales increased to metals, healthcare and energy customers, and were lower to manufacturing customers.

Operating profit decreased in the 2012 periods versus 2011, primarily due to currency translation impacts which reduced operating profit by 21% in the quarter and 14% for the six-months versus the respective 2011 periods. Excluding currency effects, operating profit in the quarter was comparable to the prior year, and decreased 3% for the six-months versus 2011. Higher pricing in the 2012 periods increased operating profit and largely offset cost increases primarily related to power, distribution and cost inflation. A lower mix of higher margin packaged gas and merchant liquid volumes contributed to a lower gross margin and lower operating profit. Other operating expenses were below prior year amounts due primarily to currency impacts. Additionally, the current quarter included a charge related to cost reduction actions. Depreciation and amortization includes increased costs related to the start up of new on-site production facilities but was more than offset by the impacts of currency translation. The six-month period also included a first quarter benefit from litigation settlements, which was largely offset by charges in connection with business restructurings in Brazil, Chile and Colombia.

Table of Contents**Asia**

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|------------------------|--------|----------|---------------------------|--------|----------|
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Sales | \$ 348 | \$ 348 | % | \$ 682 | \$ 665 | 3% |
| Cost of sales, exclusive of depreciation and amortization | 233 | 229 | | 458 | 438 | |
| Gross margin | 115 | 119 | | 224 | 227 | |
| Operating expenses | 15 | 24 | | 36 | 48 | |
| Depreciation and amortization | 32 | 32 | | 63 | 63 | |
| Operating profit | \$ 68 | \$ 63 | 8% | \$ 125 | \$ 116 | 8% |
| Margin % | 19.5% | 18.1% | | 18.3% | 17.4% | |

| | 2012 vs. 2011 | | 2012 vs. 2011 | |
|--|----------------|---------------------------|----------------|---------------------------|
| | % Change Sales | % Change Operating Profit | % Change Sales | % Change Operating Profit |
| Factors Contributing to Changes | | | | |
| Volume | 3% | (2)% | 4% | % |
| Price | (1)% | (6)% | (1)% | (5)% |
| Cost pass-through | 1% | % | 2% | % |
| Currency | (3)% | (3)% | (2)% | (2)% |
| Other | % | 19% | % | 15% |
| | % | 8% | 3% | 8% |

The following tables provide sales by end-market and distribution method:

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|-----------------------------|------------------------|------|------------------------|---------------------------|------|------------------------|
| | 2012 | 2011 | % Change Organic Sales | 2012 | 2011 | % Change Organic Sales |
| Sales by End Markets | | | | | | |
| Manufacturing | 12% | 13% | % | 12% | 13% | (1)% |
| Metals | 24% | 23% | 14% | 25% | 22% | 17% |
| Chemicals | 10% | 10% | 5% | 11% | 10% | 8% |
| Electronics | 38% | 40% | (3)% | 38% | 40% | (5)% |
| Other | 16% | 14% | 4% | 14% | 15% | 3% |
| | 100% | 100% | | 100% | 100% | |

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| | Quarter Ended June 30, % of Sales | | Six Months Ended June 30, % of Sales | |
|-------------------------------------|--------------------------------------|------|---|------|
| | 2012 | 2011 | 2012 | 2011 |
| Sales by Distribution Method | | | | |
| On- Site | 40% | 38% | 40% | 38% |
| Packaged Gas | 13% | 14% | 13% | 14% |
| Merchant | 30% | 31% | 30% | 31% |
| Other | 17% | 17% | 17% | 17% |
| | 100% | 100% | 100% | 100% |

Segment sales are comparable to prior year for the second quarter and increased \$17 million, or 3%, for the six-months ended June 30, 2012 versus the respective 2011 periods. Volume growth increased sales 3% for the second quarter and 4% for the six-month periods primarily from higher on-site sales from new plant start-ups in China and India. Overall volume growth was mitigated by lower demand from the electronics end-market including semiconductor, flat panel display, and solar customers. Lower merchant pricing, primarily due to the electronics end-market, reduced sales by 1% for both the quarter and six-month period as compared to the prior year. Negative currency impacts, primarily the weakening of the Indian Rupee against the US Dollar, reduced sales by 3% in the quarter and 2% for the six months versus 2011. By end-market, sales increased to metals and chemicals customers, and decreased to electronics customers for both periods. Cost pass-through increased sales by 1% for the quarter and 2% for the six-month period and relates to the contractual pass through of precious metals and power costs fluctuations, with minimal impact on operating profit.

Operating profit grew \$5 million, or 8%, for the second quarter and \$9 million, or 8%, for six months ended June 30, 2012 versus the respective 2011 periods. Higher volumes resulted in a 2% decrease in operating profit, for the second quarter, primarily due to unfavorable mix. Lower price decreased operating profit by 6% and 5% in the quarter and six-month period, respectively. Operating profit included a gain on a land sale in Korea for both the quarter and six-months ended June 30, 2012. This gain was partially offset by inflationary cost increases.

Surface Technologies

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|------------------------|--------|----------|---------------------------|--------|----------|
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Sales | \$ 168 | \$ 168 | % | \$ 337 | \$ 325 | 4% |
| Cost of sales, exclusive of depreciation and amortization | 110 | 110 | | 220 | 213 | |
| Gross margin | 58 | 58 | | 117 | 112 | |
| Operating expenses | 20 | 20 | | 42 | 38 | |
| Depreciation and amortization | 11 | 11 | | 22 | 22 | |
| Operating profit | \$ 27 | \$ 27 | % | \$ 53 | \$ 52 | 2% |
| Margin % | 16.1% | 16.1% | | 15.7% | 16.0% | |

| | 2012 vs. 2011 | | 2012 vs. 2011 | |
|--|-------------------|------------------------------|-------------------|------------------------------|
| | % Change Sales | % Change Operating Profit | % Change Sales | % Change Operating Profit |
| Factors Contributing to Changes | | | | |
| Volume/Price | 4% | 13% | 5% | 14% |
| Cost pass-through | % | % | 1% | % |
| Currency | (4)% | (4)% | (2)% | (3)% |
| Other | % | (9)% | % | (9)% |
| | % | % | 4% | 2% |

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The following table provide sales by end-market:

| | Quarter Ended June 30, 2012 | | | Six Months Ended June 30, 2012 | | |
|-----------------------------|-----------------------------|------|---------------|--------------------------------|------|---------------|
| | % of Sales | | % Change | % of Sales | | % Change |
| | 2012 | 2011 | Organic Sales | 2012 | 2011 | Organic Sales |
| Sales by End Markets | | | | | | |
| Manufacturing | 13% | 13% | 5% | 14% | 14% | 9% |
| Metals | 7% | 11% | (33)% | 7% | 10% | (21)% |
| Energy | 28% | 23% | 27% | 28% | 24% | 23% |
| Aerospace | 34% | 32% | 12% | 34% | 31% | 14% |
| Other | 18% | 21% | (11)% | 17% | 21% | (12)% |
| | 100% | 100% | | 100% | 100% | |

Segment sales for the quarter were comparable to prior year and increased \$12 million, or 4%, for the six months ended June 30, 2012 versus 2011. Underlying sales increased 4% and 5% driven by higher volumes and pricing. Sales increase came from higher aerospace coatings, and increased coatings for energy markets, primarily oil and gas. Cost pass-through impact of 1% for year-to-date relates to the pass through of metal costs, used to make powders used in thermal spray coatings, with no impact on operating profit. Currency translation negatively impacted sales by 4% and 2% for the quarter and six month periods, due primarily to the weakening of the Euro versus the U.S. Dollar.

Operating profit remained unchanged for the quarter and increased 2% for the six months ended June 30, 2012 versus the respective 2011 periods. Higher volumes and leverage from improved pricing increased operating profit. These benefits were offset in the quarter and largely offset for the six months by currency translation impacts and cost increases, primarily relating to employee wages and benefit costs, incentive plans expense and general cost inflation.

Table of ContentsCurrency

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.

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 2012 Consolidated Sales ^(a) | Exchange Rate for Income Statement Year-To-Date Average | | Exchange Rate for Balance Sheet | |
|-------------------|--|---|-------|------------------------------------|----------------------|
| | | 2012 | 2011 | June 30, 2012 | December 31, 2011 |
| Brazil real | 16% | 1.86 | 1.63 | 2.02 | 1.88 |
| Euro | 14% | 0.76 | 0.72 | 0.80 | 0.77 |
| Canada dollar | 9% | 1.00 | 0.98 | 1.03 | 1.02 |
| Mexico peso | 6% | 13.26 | 11.95 | 13.82 | 13.95 |
| China yuan | 4% | 6.30 | 6.56 | 6.32 | 6.31 |
| Korea won | 3% | 1,144 | 1,106 | 1,157 | 1,157 |
| India rupee | 2% | 51.83 | 45.10 | 57.22 | 52.96 |
| Singapore dollar | 2% | 1.27 | 1.26 | 1.28 | 1.30 |
| Argentina peso | 1% | 4.40 | 4.05 | 4.53 | 4.30 |
| Colombia peso | 1% | 1,792 | 1,836 | 1,785 | 1,943 |
| Taiwan dollar | 1% | 29.70 | 29.21 | 29.90 | 30.30 |
| Thailand bhat | 1% | 31.04 | 30.40 | 31.85 | 31.54 |
| Venezuela bolivar | <1% | 4.30 | 4.30 | 4.30 | 4.30 |

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

Table of Contents**Liquidity, Capital Resources and Other Financial Data**

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

| <i>(Millions of dollars)</i> | Six Months Ended June 30, | |
|--|------------------------------|----------|
| | 2012 | 2011 |
| NET CASH PROVIDED BY (USED FOR): | | |
| OPERATING ACTIVITIES | | |
| Net income - Praxair, Inc. plus depreciation and amortization | \$ 1,347 | \$ 1,321 |
| Noncontrolling interests | 28 | 25 |
| Net income plus depreciation and amortization (including noncontrolling interests) | 1,375 | 1,346 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Working capital | (179) | (470) |
| Pension contributions | (109) | (85) |
| Long-term assets, liabilities and other | 40 | 141 |
| Net cash provided by operating activities | \$ 1,127 | \$ 932 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (1,047) | (767) |
| Acquisitions, net of cash acquired | (51) | (80) |
| Divestitures and asset sales | 71 | 37 |
| Net cash used for investing activities | \$ (1,027) | \$ (810) |
| FINANCING ACTIVITIES | | |
| Debt increases (reductions) - net | 452 | 521 |
| Issuances (purchases) of common stock - net | (206) | (343) |
| Cash dividends - Praxair, Inc. shareholders | (328) | (303) |
| Excess tax benefit on share-based compensation | 44 | 41 |
| Noncontrolling interest transactions and other | (41) | (1) |
| Net cash (used for) provided by financing activities | \$ (79) | \$ (85) |

Cash Flow from Operations

Cash provided by operations of \$1,127 million for the six months ended June 30, 2012 increased \$195 million versus 2011. The increase was primarily due to higher net income Praxair, Inc. plus lower working capital requirements, partially offset by a \$24 million increase in pension contributions.

Praxair estimates that total 2012 contributions to its pension plans will be in the area of \$120 million, of which \$109 million have been made through June 30, 2012.

In July the Surface Transportation Extension Act of 2012 was passed in the United States that could impact companies' pension funding requirements and pension expense. Praxair does not expect it to have a significant impact on future pension contributions or pension expense.

Table of Contents**Investing**

Net cash used for investing of \$1,027 million for the six months ended June 30, 2012 increased \$217 million versus 2011 primarily due to the \$280 million increase in capital expenditures related largely to new production plants under contract for customers. Acquisitions of \$51 million primarily relate to the acquisition of multiple packaged gas distributors in North America. Divestitures and asset sales of \$71 million include the sale of an electronics business in the United States and a land sale in Korea.

Financing

Cash used by financing activities was \$79 million in 2012 versus \$85 million in 2011.

In 2012, net debt increases of \$452 million contributed to the funding of \$206 million of net common stock repurchases and \$328 million of cash dividends. Cash dividends increased \$25 million from the year ago period to \$1.10 per share (\$1.00 per share for 2011).

At June 30, 2012, Praxair's total debt outstanding was \$6,995 million, an increase of \$433 million from December 31, 2011. In February 2012, Praxair issued \$600 million of 2.45% notes due 2022, and in April 2012, Praxair repaid \$500 million of 6.375% notes that became due.

Legal Proceedings

See Note 10 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 financial 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:

| <i>(Dollar amounts in millions, except per share data)</i> | Quarter Ended June 30, | |
|--|-------------------------------|-------------|
| | 2012 | 2011 |
| Debt-to-capital | 53.3% | 52.2%* |
| After-tax return on capital | 14.2% | 14.7% |
| Return on equity | 29.7% | 27.1% |
| EBITDA | \$ 893 | \$ 892 |
| Debt-to-EBITDA | 1.9 | 1.7 |

* As of December 31, 2011

Table of Contents*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.

| | June 30, 2012 | December 31, 2011 |
|--|--------------------------|------------------------------|
| <i>(Dollar amounts in millions)</i> | | |
| Total debt | 6,995 | 6,562 |
| Equity and redeemable noncontrolling interests | | |
| Redeemable noncontrolling interests | 232 | 220 |
| Praxair, Inc. shareholders' equity | 5,615 | 5,488 |
| Noncontrolling interests | 279 | 309 |
| Total equity and redeemable noncontrolling interests | 6,126 | 6,017 |
| Total capital | 13,121 | 12,579 |
| DEBT-TO-CAPITAL RATIO | 53.3% | 52.2% |

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).

| | Quarter Ended June 30, | |
|--|-------------------------------|-------------|
| | 2012 | 2011 |
| <i>(Dollar amounts in millions)</i> | | |
| Operating profit | 636 | 627 |
| Less: income taxes | (169) | (163) |
| Less: tax benefit on interest expense* | (9) | (10) |
| Add: equity income | 10 | 11 |
| Net operating profit after-tax (NOPAT) | \$ 468 | \$ 465 |
| Beginning capital | \$ 13,355 | \$ 12,375 |
| Ending capital | \$ 13,121 | \$ 12,889 |
| Average capital | \$ 13,238 | \$ 12,632 |
| ROC% | 3.5% | 3.7% |
| ROC% (annualized) | 14.2% | 14.7% |

* Tax benefit on interest expense is computed using the effective rate. The effective tax rate used was 28% for 2012 and 2011.

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 June 30, | |
|--|-------------------------------|-------------|
| | 2012 | 2011 |
| <i>(Dollar amounts in millions)</i> | | |
| Net income - Praxair, Inc. | \$ 429 | \$ 425 |
| Beginning Praxair, Inc. shareholders' equity | \$ 5,940 | \$ 6,165 |
| Ending Praxair, Inc. shareholders' equity | \$ 5,615 | \$ 6,400 |
| Average Praxair, Inc. shareholders' equity | \$ 5,778 | \$ 6,283 |
| ROE% | 7.4% | 6.8% |
| ROE% (annualized) | 29.7% | 27.1% |

EBITDA and Debt-to-EBITDA Ratio

These measures are used by investors, financial analysts and management to assess a company's ability to meet its financial obligations.

| | Quarter Ended June 30, | |
|--|-------------------------------|---------------|
| | 2012 | 2011 |
| <i>(Dollar amounts in millions)</i> | | |
| Net Income - Praxair, Inc. | \$ 429 | \$ 425 |
| Add: noncontrolling interests | 15 | 14 |
| Add: interest expense - net | 33 | 36 |
| Add: income taxes | 169 | 163 |
| Add: depreciation and amortization | 247 | 254 |
| EBITDA | \$ 893 | \$ 892 |
| Beginning total debt | \$ 6,856 | \$ 5,838 |
| Ending total debt | \$ 6,995 | \$ 6,119 |
| Average total debt | \$ 6,926 | \$ 5,979 |
| DEBT-TO-EBITDA RATIO | 7.8 | 6.7 |
| DEBT-TO-EBITDA RATIO (annualized) | 1.9 | 1.7 |

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New Accounting Standards

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

Outlook

Diluted earnings per share for the third quarter of 2012 are expected to be in the range of \$1.35 to \$1.40, and for the full year 2012 are expected to be in the range of \$5.60 to \$5.70. This guidance excludes the impact of potential restructuring and pension settlement costs and assumes an effective tax rate of about 28%. For the full year of 2012, Praxair expects sales in the range of \$11.2 to \$11.5 billion. As of June 30, 2012, full-year capital expenditures are expected to be in the range of \$2.1 to \$2.4 billion.

At June 30, 2012 Praxair's backlog of large plants under construction was \$2.5 billion. This represents the total estimated capital cost of large plants under construction. The company's core business is to build, own, and operate industrial gas plants in order to supply atmospheric and process gases to customers. As such, Praxair believes that its backlog is an indicator of future sales growth.

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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to Item 7A. to Part II of Praxair's 2011 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.

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PART II - OTHER INFORMATION

Praxair, Inc. and Subsidiaries

Item 1. Legal Proceedings

See Note 10 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 50 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. In addition, many of the company's customers are in businesses that are cyclical in nature, such as the chemicals, electronics, metals and refining industries. Downturns in these industries may adversely impact the company during these cycles. 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.

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. Large customer contracts typically have escalation and pass-through clauses to recover energy and feedstock costs. 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 can sell its products, reducing the U.S. dollar value of revenue from international operations or otherwise having an

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adverse effect on its business. In particular, due to government actions related to business and currency regulations, there is considerable risk associated with operations in Venezuela. At June 30, 2012, 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 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

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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 2011 Annual Report on Form 10-K.

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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. As a result of these efforts, the company develops new and proprietary technologies and employs necessary measures to protect such technologies within the global geographies in which the company operates. These technologies help Praxair to create a competitive advantage and to provide a platform for the company to grow its business at greater percentages than the rate of industrial production growth in such geographies. If Praxair's research and development activities do not keep pace with competitors or if it does not create new technologies that benefit customers, 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

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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 2011 Annual Report on Form 10-K.

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 2011 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.

Information Technology Systems - The Company may be subject to information technology system failures, network disruptions and breaches in data security.

Praxair utilizes an enterprise resource planning system and other technologies for the exchange of information both within the company and in communicating with third parties. These systems are susceptible to outages due to fire, floods, power loss, telecommunications failures, viruses, break-ins and similar events, or breaches of security. The occurrence of these or other events could disrupt or damage the company's information technology systems and inhibit the ability to access Praxair's information systems. Management has taken steps to address these risks and concerns by implementing advanced security technologies, internal controls, network and data center resiliency and recovery processes. Despite these steps, however, a failure of the company's information technology systems could have a material adverse impact on Praxair's operations, reputation and 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;

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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 June 30, 2012 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) |
|---------------------|---|---|--|--|
| April 2012 | 622 | \$ 112.64 | 622 | \$ 1,365 |
| May 2012 | 409 | \$ 111.79 | 409 | \$ 1,319 |
| June 2012 | 149 | \$ 104.18 | 149 | \$ 1,304 |
| Second Quarter 2012 | 1,180 | \$ 111.28 | 1,180 | \$ 1,304 |

- (1) On January 24, 2012, the company's board of directors approved the repurchase of an additional \$1.5 billion of its common stock (2012 program) 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. The 2012 program does not have any stated expiration date.
- (2) As of June 30, 2012, the Company purchased \$196 million of its common stock pursuant to the 2012 program, leaving an additional \$1,304 million remaining authorized under the 2012 program. The 2012 program does not have any stated expiration date.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits:

| | |
|---------|--|
| 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.

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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: July 25, 2012

By: /s/ Elizabeth T. Hirsch

Elizabeth T. Hirsch
Vice President and Controller
(On behalf of the Registrant
and as Chief Accounting Officer)