PRAXAIR INC
Form 10-K
February 25, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from to

Commission file number 1-11037

Praxair, Inc.

Praxair, Inc.	
39 Old Ridgebury Road	State of incorporation: Delaware
Danbury, Connecticut 06810-5113	IRS identification number: 06-124 9050
Tel. (203) 837-2000	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Registered on:
Common Stock ($0.01 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 þ 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 Act). Yes ¨ No þ

The aggregate market value of the voting and non-voting common stock held by non-affiliates as of June 30, 2013, was approximately $34 billion (based on the closing sale price of the stock on that date as reported on the New York Stock Exchange).

At January 31, 2014, 293,974,931 shares of common stock of Praxair, Inc. were outstanding.

Documents incorporated by reference:

Portions of the Proxy Statement of Praxair, Inc., for its 2014 Annual Meeting of Shareholders, are incorporated in Part III of this report.

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Praxair, Inc. and Subsidiaries
PART I
ITEM 1. BUSINESS
General
Praxair, Inc. (Praxair or the company) was founded in 1907 and became an independent publicly traded company in 1992. Praxair was the first company in the United States to produce oxygen from air using a cryogenic process and continues to be a major technological innovator in the industrial gases industry.
Praxair is the largest industrial gas supplier in North and South America, is rapidly growing in Asia, and has strong, well-established businesses in Europe. Praxair's primary products in its industrial gases business are atmospheric gases (oxygen, nitrogen, argon, rare gases) and process gases (carbon dioxide, helium, hydrogen, electronic gases, specialty gases, acetylene). The company also designs, engineers, and builds equipment that produces industrial gases primarily for internal use. The company's surface technologies segment, operated through Praxair Surface Technologies, Inc., supplies wear-resistant and high-temperature corrosion-resistant metallic and ceramic coatings and powders. Praxair's sales were $11,925 million, $11,224 million, and $11,252 million for 2013, 2012, and 2011, respectively. Refer to Note 18 to the consolidated financial statements for additional information related to Praxair's reportable segments.
Praxair serves approximately 25 industries as diverse as healthcare, petroleum refining, computer-chip manufacturing, beverage carbonation, fiber-optics, steel making, aerospace, chemicals and water treatment. In 2013, 95% of sales were generated in four geographic segments (North America, Europe, South America and Asia) primarily from the sale of industrial gases, with the balance generated from the surface technologies segment. Praxair provides a competitive advantage to its customers by continuously developing new products and applications, which allow them to improve their productivity, energy efficiency and environmental performance.
Industrial Gases Products and Manufacturing Processes
Atmospheric gases are the highest volume products produced by Praxair. Using air as its raw material, Praxair produces oxygen, nitrogen and argon through several air separation processes of which cryogenic air separation is the most prevalent. As a pioneer in the industrial gases industry, Praxair is a leader in developing a wide range of proprietary and patented applications and supply systems technology. Praxair also led the development and commercialization of non-cryogenic air separation technologies for the production of industrial gases. These technologies open important new markets and optimize production capacity for the company by lowering the cost of supplying industrial gases. These technologies include proprietary vacuum pressure swing adsorption ("VPSA") and membrane separation to produce gaseous oxygen and nitrogen, respectively. Praxair also manufactures precious metal and ceramic sputtering targets used primarily in the production of semiconductors.
Process gases, including carbon dioxide, hydrogen, carbon monoxide, helium, specialty gases and acetylene are produced by methods other than air separation. Most carbon dioxide is purchased from by-product sources, including chemical plants, refineries and industrial processes and is recovered from carbon dioxide wells. Carbon dioxide is processed in Praxair's plants to produce commercial and food-grade carbon dioxide. Hydrogen and carbon monoxide are produced by either steam methane reforming of natural gas or by purifying by-product sources obtained from the chemical and petrochemical industries. Most of the helium sold by Praxair is sourced from certain helium-rich natural gas streams in the United States, with additional supplies being acquired from outside the United States. Acetylene can be produced from calcium carbide and water. Praxair purchases a significant percentage as a chemical by-product.
Industrial Gases Distribution
There are three basic distribution methods for industrial gases: (i) on-site or tonnage; (ii) merchant or bulk liquid; and (iii) packaged or cylinder gases. These distribution methods are often integrated, with products from all three supply modes coming from the same plant. The method of supply is generally determined by the lowest cost means of meeting the customer's needs, depending upon factors such as volume requirements, purity, pattern of usage, and the form in which the product is used (as a gas or as a cryogenic liquid). Additionally, Praxair provides a number of services, such as maintenance of equipment, which are ancillary to the process of supplying product to customers.
On-site. Customers that require the largest volumes of product (typically oxygen, nitrogen and hydrogen) and that have a relatively constant demand pattern are supplied by cryogenic and process gas on-site plants. Praxair constructs plants on or adjacent to these customers' sites and supplies the product directly to customers by pipeline. On-site

product supply contracts generally are total requirement contracts with terms typically ranging from 10-20 years and containing minimum purchase requirements and price escalation provisions. Many of the cryogenic on-site plants also produce liquid products for the merchant market. Therefore, plants are typically not dedicated to a single customer. Advanced air separation processes allow on-site delivery to customers with smaller volume requirements. Customers using these systems usually enter into requirement contracts with terms typically ranging from 5-15 years.

Merchant. The merchant business is generally associated with distributable liquid oxygen, nitrogen, argon, carbon dioxide, hydrogen and helium. The deliveries generally are made from Praxair’s plants by tanker trucks to storage containers at the customer's site which are owned and maintained by Praxair and leased to the customer. Due to distribution cost, merchant oxygen and nitrogen generally have a relatively small distribution radius from the plants at which they are produced. Merchant argon, hydrogen and helium can be shipped much longer distances. The customer agreements used in the merchant business are usually three-to five-year requirement contracts.

Packaged Gases. Customers requiring small volumes are supplied products in metal containers called cylinders, under medium to high pressure. Packaged gases include atmospheric gases, carbon dioxide, hydrogen, helium, acetylene and related. Praxair also produces and distributes in cylinders a wide range of specialty gases and mixtures. Cylinders may be delivered to the customer’s site or picked up by the customer at a packaging facility or retail store. Packaged gases are generally sold under one to three-year supply contracts and through purchase orders.

A substantial amount of the cylinder gases sold in the United States is distributed by independent distributors that buy merchant gases in liquid form and repackage the products in their facilities. Packaged gas distributors, including Praxair, also distribute hardgoods and welding equipment purchased from independent manufacturers. Over time, Praxair has acquired a number of independent industrial gases and welding products distributors at various locations in the United States and continues to sell merchant gases to other independent distributors. Between its own distribution business, joint ventures and sales to independent distributors, Praxair is represented in 48 states, the District of Columbia and Puerto Rico.

Surface Technologies

Praxair Surface Technologies is a leading worldwide supplier of coatings services and thermal spray consumables to customers in the aircraft, energy, printing, primary metals, petrochemical, textile, and other industries. Its coatings are used to provide wear resistance, corrosion protection, thermal insulation, and many other surface-enhancing functions which serve to extend component life, enable optimal performance, and reduce operating costs. It also manufactures a complete line of electric arc, plasma and wire spray, and high-velocity oxy-fuel ("HVOF") equipment.

Inventories – Praxair carries inventories of merchant and cylinder gases, hardgoods and coatings materials to supply products to its customers on a reasonable delivery schedule. On-site plants and pipeline complexes have limited inventory. Inventory obsolescence is not material to Praxair’s business.

Customers – Praxair is not dependent upon a single customer or a few customers.

International – Praxair is a global enterprise with approximately 60% of its 2013 sales outside of the United States. It conducts industrial gases business through consolidated companies in Argentina, Bahrain, Belgium, Bolivia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Denmark, Dominican Republic, France, Germany, Ghana, India, Italy, Japan, Mexico, the Netherlands, Norway, Paraguay, Peru, Portugal, Puerto Rico, Russia, South Korea, Spain, Sweden, Taiwan, Thailand, United Arab Emirates, the United Kingdom, Uruguay and Venezuela. Societa Italiana Acetilene & Derivati S.p.A. ("S.I.A.D."), an Italian company accounted for as an equity company, also has established positions in Austria, Bosnia, Bulgaria, Croatia, the Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine. Refrigeration and Oxygen Company Limited ("ROC"), a Middle Eastern company accounted for as an equity company, has operations in the United Arab Emirates, Kuwait and Qatar. Praxair’s surface technologies segment has operations in Brazil, Canada, China, France, Germany, India, Italy, Japan, Singapore, South Korea and the United Kingdom.

Praxair’s international business is subject to risks customarily encountered in foreign operations, including fluctuations in foreign currency exchange rates, import and export controls, and other economic, political and regulatory policies of local governments. Also, see Item 1A. “Risk Factors” and Item 7A. “Quantitative and Qualitative Disclosures About Market Risk.”

Seasonality – Praxair’s business is generally not subject to seasonal fluctuations to any significant extent.

Research and Development – 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 these gases. This results in the development of new advanced air separation and hydrogen process technologies and the frequent introduction of new industrial gas applications. Research and development for industrial gases is principally conducted at Tonawanda, New York; Burr Ridge, Illinois; Shanghai, China; and Bangalore, India. Praxair 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. Surface technologies research is conducted at Indianapolis, Indiana.

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Patents and Trademarks – Praxair owns or licenses a large number of United States and foreign patents that relate to a wide variety of products and processes. Praxair's patents expire at various times over the next 20 years. While these patents and licenses are considered important to our individual businesses, Praxair does not consider its business as a whole to be materially dependent upon any one particular patent, or patent license, or family of patents. Praxair also owns a large number of valuable trademarks. Only the "Praxair" trademark is important to our business as a whole.

Raw Materials and Energy Costs – Energy is the single largest cost item in the production and distribution of industrial gases. Most of Praxair's energy requirements are in the form of electricity, natural gas and diesel fuel for distribution. The supply of energy has not been a significant issue in the geographic areas where the company conducts business. However, energy availability and price is unpredictable and may pose unforeseen future risks.

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

Competition – Praxair operates within a highly competitive environment. Some of its competitors are larger in size and capital base than Praxair. Competition is based on price, product quality, delivery, reliability, technology and service to customers.

Major competitors in the industrial gases industry both in the United States and worldwide include Air Products and Chemicals, Inc., Airgas Inc., L'Air Liquide S.A., and Linde AG. Principal competitors for the surface businesses are Chromalloy Gas Turbine Corporation, a subsidiary of Sequa Corporation, Bodycote, PLC, and Sulzer Ltd. There are other surface coating competitors that compete on a local geography basis.

Employees and Labor Relations – As of December 31, 2013, Praxair had 27,560 employees worldwide. Of this number, 10,298 are employed in the United States. Praxair has collective bargaining agreements with unions at numerous locations throughout the world, which expire at various dates. Praxair considers relations with its employees to be good.

Environment – Information required by this item is incorporated herein by reference to the section captioned "Management's Discussion and Analysis – Environmental Matters" in Item 7 of this 10-K.

Available Information – The company makes its periodic and current reports available, free of charge, on or through its website, www.praxair.com, as soon as practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Investors may also access from the company website other investor information such as press releases and presentations. Information on the company's website is not incorporated by reference herein.

In addition, the public may read and copy any materials filed with the SEC at the SEC's Public Reference Room located at 100 F Street NE, Washington, D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website, www.sec.gov, that contains reports, proxy information statements and other information regarding issuers that file electronically.

Executive Officers – The following Executive Officers have been elected by the Board of Directors and serve at the pleasure of the Board. It is expected that the Board will elect officers annually following each annual meeting of shareholders.

Stephen F. Angel, 58, is Chairman and Chief Executive Officer of Praxair, Inc. since 2007. Before this, Mr. Angel served as President & Chief Operating Officer from March to December 2006, and as Executive Vice President from 2001 to March 2006. Prior to joining Praxair in 2001, Mr. Angel spent 22 years in a variety of management positions with General Electric. Mr. Angel is a director of PPG Industries, Inc., (where he serves on the Compensation Committee, and the Technology and Environment Committee). He is also a member of The Business Council and the U.S. - Brazil CEO Forum and is a former director of the American Chemistry Council and the U.S. - China Business Council.

James T. Breedlove, 66, is Senior Vice President, General Counsel and Secretary of Praxair, Inc. and served as Vice President, General Counsel and Secretary from 2004 to 2006. Prior to joining Praxair in 2004, Mr. Breedlove was Senior Vice President and General Counsel at GE Equipment Services from 2002, and from 1992 to 2002 he served as a Senior Vice President of a division of General Electric Capital Corp.

Elizabeth T. Hirsch, 60, is Vice President and Controller of Praxair, Inc. since December 2010. Prior to becoming Controller, she served as Praxair's Director of Investor Relations since 2002 and as Vice President of Investor Relations since October 2010. She joined Praxair in 1995 as Director of Corporate Finance and later served as Assistant Treasurer. Previously, she had fifteen years of experience in corporate banking, primarily at Manufacturers Hanover Trust Company.

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Eduardo F. Menezes, 50, was promoted to Executive Vice President from Senior Vice President in 2012. He oversees Praxair's businesses in Europe, Mexico, and South America. From 2010 to March 2011, he was a Vice President of Praxair with responsibility for the North American Industrial Gases business. From 2007 to 2010, he was President of Praxair Europe. He served as Managing Director of Praxair's business in Mexico from 2004 to 2007, as Vice President and General Manager for Praxair Distribution, Inc. from 2003 to 2004 and as Vice President, U.S. West Region, for North American Industrial Gases, from 2000 to 2003.

Anne K. Roby, 49, was appointed Senior Vice President effective January 1, 2014. She is responsible for Global Supply Systems, Research & Development, Global Market Development, Global Operations Excellence, Global Procurement, Sustainability and Safety, Health and Environment. From 2011-2013, she served as President Praxair Asia, responsible for Praxair's industrial gases business in China, India, South Korea and Thailand as well as the electronics market globally. In 2010, Ms. Roby became President of Praxair Electronics, after having served as Vice President, Global Sales, for Praxair from 2009 - 2010. Prior to this, she was Vice President of the U.S. South Region from 2006 - 2009. Ms. Roby joined Praxair in 1991 as a development associate in the Company's R&D organization and was promoted to other positions of increasing responsibility.

Sally A. Savoia, 58, is Vice President, Human Resources of Praxair since 2002. She joined Praxair in 1981, holding positions in marketing, operations and quality before being named business manager, merchant gases, North America, in 1989. In 1993, she was named associate director, Investor Relations, and the following year became director of Praxair's worldwide re-engineering and quality programs. She was named vice president and general manager, Helium and Rare gases, in 1996 and became vice president, Healthcare, in 1998.

Scott E. Telesz, 46, was promoted to Executive Vice President from Senior Vice President in 2012. He is responsible for Praxair's U.S. atmospheric gases businesses, Praxair Canada and Praxair Surface Technologies. Before joining Praxair in 2010, he was a Vice President from 2007 to 2010 of SABIC Innovative Plastics, a major division of Riyadh-based Saudi Basic Industries Corporation, a global manufacturer of chemicals, fertilizers, plastics and metals. From 1998 to 2007, he held a variety of general management positions with General Electric, and from 1989 to 1998, Mr. Telesz held several positions, including Engagement Manager in the United States and Australia, with McKinsey & Company.

Matthew J. White, 41, was appointed Senior Vice President and Chief Financial Officer effective January 1, 2014. From 2011 through 2013 he was President of Praxair Canada. Mr. White joined Praxair in 2004 as finance director of Praxair's largest business unit, North American Industrial Gases. In 2008, he became Vice President and Controller of Praxair, Inc. , and then was named Vice President and Treasurer in 2010. Before joining Praxair, he was vice president finance, at Fisher Scientific and before that held various financial positions, including group controller, at GenTek, a manufacturing and performance chemicals company.

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 and energy efficiency initiatives. 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 Praxair 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 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 (see Note 2 to the consolidated financial statements). At December 31, 2013, Praxair's sales and net assets in Venezuela were less than 1% of Praxair's consolidated amounts. Also, the Company is monitoring developments regarding the collectability of government receivables from healthcare sales to public hospitals in Spain and Italy where economic conditions have been challenging and uncertain. Historically, collection of such government receivables has extended well beyond the contractual terms of sale; however, payment has always been received. At December 31, 2013, government receivables in Spain and Italy totaled about $82 million.

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;

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- Healthcare reimbursement regulations; and
- Conflict minerals

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 is 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 this Form 10-K.

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 extreme weather, hurricanes, floods, 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. 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

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financial position or liquidity, the litigation and other claims Praxair faces are subject to inherent uncertainties and management's view of these matters may change in the future. There exists the possibility of a material adverse impact on the company's results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

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

Praxair is subject to income and other taxes in both the United States and numerous foreign jurisdictions. The determination of the company's worldwide provision for income taxes and other tax liabilities requires judgment and is based on diverse legislative and regulatory structures that exist in the various jurisdictions where the company operates. Although management believes its estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in its financial statements and may materially affect the company's financial results for the period when such determination is made. See Notes 5 and 17 to the consolidated financial statements of this 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 this 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 ("IT") failures, network disruptions and breaches in data security.

Praxair relies on IT systems and networks for business and operational activities, and also stores and processes sensitive business and proprietary information in these systems and networks. These systems are susceptible to outages due to fire, flood, power loss, telecommunications failures, viruses, break-ins and similar events, or breaches of security. Management has taken steps to address these risks and concerns by implementing advanced security technologies, internal controls, network and data center resiliency and recovery process. Despite these steps, however, operational failures and breaches of security from increasingly sophisticated cyber threats could lead to the loss or disclosure of confidential information, result in regulatory actions and have a material adverse impact on Praxair's operations, reputation and financial results.

Acquisitions and Joint Ventures – The inability to effectively integrate acquisitions or collaborate with joint venture partners 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 and joint ventures. Many of these transactions, 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

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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;
- 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 and joint ventures 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 1B. UNRESOLVED STAFF COMMENTS

Praxair has received no written SEC staff comments regarding any of its Exchange Act reports which remain unresolved.

ITEM 2. PROPERTIES

Praxair's worldwide headquarters are located in leased office space in Danbury, Connecticut. Other principal administrative offices are owned in Tonawanda, New York, and leased in Rio de Janeiro, Brazil; Shanghai, China and Madrid, Spain.

Praxair designs, engineers, manufactures and operates facilities that produce and distribute industrial gases. These industrial gas production facilities and certain components are designed and/or manufactured at its facilities in Tonawanda, New York; Burr Ridge, Illinois; Rio de Janeiro, Brazil; Monterrey, Mexico; Shanghai, China; and Bangalore, India. Praxair's Italian equity affiliate, S.I.A.D., also has such capacity.

Due to the nature of Praxair's industrial gas products, it is generally uneconomical to transport them distances greater than a few hundred miles from the production facility. As a result, Praxair operates a significant number of production facilities spread globally throughout a number of geographic regions.

The following is a description of production facilities for Praxair by segment. No significant portion of these assets was leased at December 31, 2013. Generally, these facilities are fully utilized and are sufficient to meet our manufacturing needs.

North America

The North America segment operates production facilities in the U.S., Canada and Mexico, approximately 245 of which are cryogenic air separation plants, hydrogen plants and carbon dioxide plants. There are five major pipeline complexes in North America located in Northern Indiana, Houston, along the Gulf Coast of Texas, Detroit and Louisiana. Also located throughout North America are packaged gas facilities, specialty gas plants, helium plants and other smaller plant facilities.

Europe

The Europe segment has production facilities primarily in Italy, Spain, Germany, the Benelux region, France, Scandinavia and Russia which include more than 60 cryogenic air separation plants. There are three major pipeline complexes in Europe located in Northern Spain and the Rhine and Saar regions of Germany. These pipeline complexes are primarily supplied by cryogenic air separation plants. Also located throughout Europe are specialty gas plants, packaged gas facilities and other smaller plant facilities.

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South America

The South America segment operates more than 50 cryogenic air separation plants, primarily located in Brazil. Many of these plants support a major pipeline complex in Southern Brazil. Also located throughout South America are carbon dioxide plants, packaged gas facilities and other smaller plant facilities.

Asia

The Asia segment has production facilities located primarily in China, Korea, India and Thailand, approximately 40 of which are cryogenic air separation plants. Also located throughout Asia are noncryogenic air separation, carbon dioxide, hydrogen, packaged gas and other production facilities.

Surface Technologies

The surface technologies segment provides coating services and manufactures coating equipment at approximately 40 sites. The majority of these sites are located in the United States and Europe, with smaller operations in Asia, Brazil, India and headquarters located in Indianapolis, Indiana.

ITEM 3. LEGAL PROCEEDINGS

Information required by this item is incorporated herein by reference to the section captioned “Notes to Consolidated Financial Statements – 17 Commitments and Contingencies” in Item 8 of this 10-K.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The principal market for the company’s common stock (ticker symbol: PX) is the New York Stock Exchange ("NYSE"). At December 31, 2013 there were 13,964 shareholders of record.

NYSE quarterly stock price and dividend information

Market Price	Trading High	Trading Low	Close	Dividend Per Share
2013				
First Quarter	$114.64	$109.08	$111.54	$0.60
Second Quarter	$120.16	$107.69	$115.16	$0.60
Third Quarter	$124.41	$113.20	$120.21	$0.60
Fourth Quarter	$130.58	$117.54	$130.03	$0.60
2012				
First Quarter	$114.89	$103.54	$114.64	$0.55
Second Quarter	$116.92	$101.93	$108.73	$0.55
Third Quarter	$110.27	$102.00	$103.88	$0.55
Fourth Quarter	$110.91	$102.84	$109.45	$0.55

Praxair’s annual dividend on its common stock for 2013 was $2.40 per share. On January 28, 2014, Praxair’s Board of Directors declared a dividend of $0.65 per share for the first quarter of 2014, or $2.60 per share annualized, which may be changed as Praxair’s earnings and business prospects warrant. The declaration of dividends is a business decision made by the Board of Directors based on Praxair’s earnings and financial condition and other factors the Board of Directors considers relevant.

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 three months ended December 31, 2013 is provided below:

Period	Total Number of Shares Purchased (Thousands)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1) (Thousands)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (2) (Millions)
October 2013	207	$121.91	207	$ 507
November 2013	411	$125.10	411	$ 456
December 2013	393	$123.98	393	$ 407
Fourth Quarter 2013	1,011	$124.01	1,011	$ 407

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(1) On January 24, 2012, the Company’s board of directors approved the repurchase of $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. As of December 31, 2013, the Company had purchased $1,093 million of its common stock pursuant to the 2012 program, leaving an additional $407 million remaining authorized under the 2012 program.

(2) On January 28, 2014, the Company’s board of directors approved the repurchase of $1.5 billion of its common stock ("2014 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 2014 program does not have any stated expiration date. The 2014 program is in addition to the 2012 program.

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Peer Performance Table – The graph below compares the most recent five-year cumulative returns of Praxair's common stock with those of the Standard & Poor's 500 Index ("SPX") and the S5 Materials Index ("S5MATR") which covers 30 companies, including Praxair. The figures assume an initial investment of $100 on December 31, 2008 and that all dividends have been reinvested.

	2008	2009	2010	2011	2012	2013
PX	$100	$138	$168	$192	$201	$243
SPX	$100	$126	$146	$149	$172	$228
S5MATR	$100	$149	$182	$164	$189	$238

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ITEM 6. SELECTED FINANCIAL DATA
FIVE-YEAR FINANCIAL SUMMARY
(Dollar amounts in millions, except per share data)

Year Ended December 31,	2013(a)	2012(a)	2011(a)	2010(a)	2009(a)
From the Consolidated Statements of Income					
Sales	$11,925	$11,224	$11,252	$10,116	$8,956
Cost of sales, exclusive of depreciation and amortization	6,744	6,396	6,458	5,754	5,032
Selling, general and administrative	1,349	1,270	1,239	1,196	1,088
Depreciation and amortization	1,109	1,001	1,003	925	846
Research and development	98	98	90	79	74
Venezuela currency devaluation and other charges – net	32	65	1	85	306
Other income (expenses) – net	32	43	7	5	(35)
Operating profit	2,625	2,437	2,468	2,082	1,575
Interest expense – net	178	141	145	118	133
Income before income taxes and equity investments	2,447	2,296	2,323	1,964	1,442
Income taxes	649	586	641	768	169
Income before equity investments	1,798	1,710	1,682	1,196	1,273
Income from equity investments	38	34	40	38	24
Net income (including noncontrolling interests)	1,836	1,744	1,722	1,234	1,297
Noncontrolling interests	(81)	(52)	(50)	(39)	(43)
Net income – Praxair, Inc.	$1,755	$1,692	$1,672	$1,195	$1,254
Per Share Data – Praxair, Inc. Shareholders					
Basic earnings per share	$5.94	$5.67	$5.53	$3.90	$4.08
Diluted earnings per share	$5.87	$5.61	$5.45	$3.84	$4.01
Cash dividends per share	$2.40	$2.20	$2.00	$1.80	$1.60
Weighted Average Shares Outstanding (000's)					
Basic shares outstanding	295,523	298,316	302,237	306,720	307,676
Diluted shares outstanding	298,965	301,845	306,722	311,395	312,382
Other Information and Ratios					
Total assets	$20,255	$18,090	$16,356	$15,274	$14,317
Total debt	$8,811	$7,362	$6,562	$5,557	$5,055
Cash flow from operations	$2,917	$2,752	$2,455	$1,905	$2,168
Capital expenditures	$2,020	$2,180	$1,797	$1,388	$1,352
Acquisitions, net of cash acquired	$1,323	$280	$294	$148	$131
After-tax return on capital (b)	12.8%	13.9%	14.8%	14.5%	13.9%
Return on equity (b)	28.6%	28.9%	28.1%	26.4%	27.0%
Debt-to-capital ratio (b)	54.3%	51.9%	51.8%	47.3%	47.0%
Debt-to-adjusted EBITDA (b)	2.2	1.9	1.7	1.6	1.8
Shares outstanding (000's)	294,134	296,229	298,530	303,997	306,478
Number of employees	27,560	26,539	26,184	26,261	26,164

(a) Amounts for 2013 include: (i) a pre-tax charge of $23 million ($23 million after-tax) related to the Venezuela currency devaluation; (ii) a pre-tax charge of $9 million ($6 million after-tax) related to pension settlements; (iii) an income tax benefit of $40 million ($24 million net of noncontrolling interests) related to a realignment of the Italian legal structure; and (iv) a pre-tax charge of $18 million ($12 million after-tax) related to a bond redemption .

Amounts for 2012 include: (i) a pre-tax charge of $56 million, ($38 million after-tax and non-controlling interests) related to the 2012 cost reduction program; (ii) a pre-tax charge of $9 million ($6 million after-tax) related to pension settlement; and (iii) an income tax benefit of $55 million related to a loss on a liquidated subsidiary as a result of the divestiture of the U.S. Homecare business.

Amounts for 2011 include: (i) a pre-tax net gain on acquisition of $39 million ($37 million net income – Praxair, Inc.); and (ii) a pre-tax charge of $40 million ($31 million net income – Praxair, Inc.) relating to the 2011 cost reduction program.

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Amounts for 2010 include: (i) an income tax charge of $250 million related to a Spanish income tax settlement; (ii) a pre-tax charge of $58 million ($40 million after-tax) related to the U.S. homecare divestiture; (iii) a net repatriation tax benefit of $35 million; and (iv) a pre-tax charge of $27 million ($26 million after-tax) related to the Venezuela currency devaluation.
Amounts for 2009 include the impact of the Brazil tax amnesty program and other charges of $306 million ($7 million after-tax benefit).
See Notes 2, 5 and 11 to the consolidated financial statements.

(b) Non-GAAP measures. See the "Non-GAAP Financial Measures" section in Item 7 for definitions and reconciliation to reported amounts.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the company's financial condition and results of operations should be read together with its consolidated financial statements and notes to the consolidated financial statements included in Item 8 of this Form 10-K.

BUSINESS OVERVIEW

Praxair is the largest industrial gases supplier in North and South America, is rapidly growing in Asia, and has strong, well-established businesses in Europe. The company's primary products are oxygen, hydrogen, nitrogen, argon, carbon dioxide, helium, electronic gases and a wide range of specialty gases. Praxair Surface Technologies supplies high-performance coatings that protect metal parts from wear, corrosion and high heat. Praxair's industrial gas operations are managed on a geographical basis and in 2013, 95% of sales were generated in four geographic segments (North America, Europe, South America, and Asia). The surface technologies segment generated the remaining 5% of sales.

Praxair serves approximately 25 industries as diverse as healthcare, petroleum refining, computer-chip manufacturing, beverage carbonation, fiber-optics, steel making, aerospace, chemicals and water treatment. The diversity of end markets creates financial stability for Praxair in varied business cycles.

Praxair generates most of its revenues and earnings through the following 11 core geographies where the company has its strongest market positions and where distribution and production operations allow the company to deliver the highest level of service to its customers at the lowest cost.

North America	South America	Europe	Asia
United States	Brazil	Spain	China
Canada		Italy	India
Mexico		Germany/Benelux	Korea
			Thailand

Praxair manufactures and distributes its products through networks of hundreds of production plants, pipeline complexes, distribution centers and delivery vehicles. Major pipeline complexes are located in the United States, Brazil, Spain and Germany. These networks are a competitive advantage, providing the foundation of reliable product supply to the company's customer base. The majority of Praxair's business is conducted through long-term contracts which provide stability in cash flow and the ability to pass through changes in energy and feedstock costs to customers. The company has significant growth opportunities in diverse markets including: hydrogen for refining; oxygen for gasification and oxy-fuel applications; and nitrogen and carbon dioxide for oil and gas production.

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EXECUTIVE SUMMARY – FINANCIAL RESULTS & OUTLOOK

2013 Year in review

Praxair delivered strong results for the full year of 2013. Sales growth came primarily from strong volume growth in North America, South America and Asia and higher overall pricing. This was partially offset by the impact of negative currency translation, primarily in South America due to a weaker Brazilian Real versus the U.S. dollar. Volume growth versus 2012 came from project start-ups primarily in North America and Asia, stronger underlying customer demand in most major geographies due to improved macro-economic conditions as compared to 2012, and several acquisitions completed during the year. Operating profit and earnings per share both grew from the prior year, and the company generated record cash flow from operations.

- Sales of $11,925 million were 6% above 2012 sales of $11,224 million. Excluding negative currency impacts, sales grew 8% primarily due to organic sales growth, acquisitions and new project start-ups.
- Reported operating profit of $2,625 million increased 8% from $2,437 million in 2012. Adjusted operating profit of $2,657 million increased 6% from 2012, from higher volumes, pricing, and acquisitions, partially offset by negative currency effects.*
- Reported net income – Praxair, Inc. of $1,755 million and diluted earnings per share of $5.87 increased from $1,692 million and $5.61, respectively, in 2012. Adjusted net income – Praxair, Inc. of $1,772 million and adjusted diluted earnings per share of $5.93 increased 5% and 6% above 2012, respectively. Earnings per share grew faster than net income due to lower shares outstanding as a result of share repurchases during the year.*
- Cash flow from operations was a record $2,917 million, 6% above 2012.
- Capital expenditures were $2,020 million, primarily for the construction of new on-site production plants under long-term contract with customers around the world. Acquisition expenditures of $1,323 million primarily related to the acquisition of $NuCO_2$ Inc ("$NuCO_2$") in the United States.

2014 Outlook

- Sales are forecasted to be in the range of $12.3 to $12.8 billion.
- Diluted earnings per share are forecasted to be in the range of $6.25 to $6.55, an increase of 5% to 10% from 2013 adjusted amounts.
- Effective tax rate of about 28%.
- Capital expenditures in the range of $1.8 to $2.0 billion.
- 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. At December 31, 2013, Praxair’s backlog of 32 large projects under construction was $2.2 billion. This represents the total estimated capital cost of large plants under construction. North America and Asia each represent about one-third of the backlog. The remaining backlog resides in Europe, primarily in Russia, and in South America.

* A reconciliation of the Adjusted amounts can be found in the "Non-GAAP Financial Measures" section on this MD&A. See Notes 2, 5 and 11 to the consolidated financial statements.

The above guidance should be read in conjunction with the section entitled “Forward-Looking Statements.”

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

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CONSOLIDATED RESULTS AND OTHER INFORMATION

The following table provides selected data for 2013, 2012, and 2011:

(Dollar amounts in millions, except per share data)	2013	2012	2011	Variance 2013 vs. 2012	Variance 2012 vs. 2011
Year Ended December 31,					
Reported Amounts:					
Sales	$11,925	$11,224	$11,252	6 %	— %
Gross margin (a)	$5,181	$4,828	$4,794	7 %	1 %
As a percent of sales	43.4 %	43.0 %	42.6 %		
Selling, general and administrative	$1,349	$1,270	$1,239	6 %	3 %
As a percent of sales	11.3 %	11.3 %	11.0 %		
Depreciation and amortization	$1,109	$1,001	$1,003	11 %	— %
Venezuela currency devaluation and other charges – net (b)	$32	$65	$1		
Other income (expenses) – net	$32	$43	$7		
Operating profit	$2,625	$2,437	$2,468	8 %	(1)%
As a percent of sales	22.0 %	21.7 %	21.9 %		
Interest expense – net	$178	$141	$145	26 %	(3)%
Effective tax rate	26.5 %	25.5 %	27.6 %		
Income from equity investments	$38	$34	$40	12 %	(15)%
Noncontrolling interests	$(81)	$(52)	$(50)	56 %	4 %
Net income – Praxair, Inc.	$1,755	$1,692	$1,672	4 %	1 %
Diluted earnings per share	$5.87	$5.61	$5.45	5 %	3 %
Diluted shares outstanding	298,965	301,845	306,722	(1)%	(2)%
Number of employees	27,560	26,539	26,184		
Adjusted Amounts (c):					
Operating profit	$2,657	$2,502	$2,469	6 %	1 %
As a percent of sales	22.3 %	22.3 %	21.9 %		
Interest expense – net	$160	$141	$145	13 %	(3)%
Effective tax rate	28.0 %	28.0 %	27.8 %		
Noncontrolling interests	$(65)	$(54)	$(51)		
Net income – Praxair, Inc.	$1,772	$1,681	$1,666	5 %	1 %
Diluted earnings per share	$5.93	$5.57	$5.43	6 %	3 %

(a) Gross margin excludes depreciation and amortization expense.

(b) See Note 2 to the consolidated financial statements.

(c) Adjusted amounts are non-GAAP measures. A reconciliation of reported amounts to adjusted amounts can be found in the "Non-GAAP Financial Measures" section of this MD&A. See Notes 2, 5 and 11 to the consolidated financial statements.

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Results of Operations

The following table provides a summary of changes in consolidated sales and adjusted operating profit:

	2013 vs. 2012 % Change		2012 vs. 2011 % Change	
	Sales	Operating Profit	Sales	Operating Profit
Factors Contributing to Changes				
Volume	3 %	1 %	2 %	1 %
Price	2 %	8 %	2 %	7 %
Cost pass-through	— %	— %	(1)%	— %
Currency	(2)%	(2)%	(4)%	(5)%
Acquisitions/Divestitures	3 %	3 %	1 %	1 %
Other	— %	(2)%	— %	(5)%
Reported	6 %	8 %	— %	(1)%
Venezuela currency devaluation and other charges, net	— %	(2)%	—	2 %
Adjusted	6 %	6 %	— %	1 %

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

	% of Sales			Organic Sales* % Change	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Sales by End Markets					
Manufacturing	24 %	25 %	24 %	2 %	5 %
Metals	17 %	18 %	18 %	7 %	6 %
Energy	13 %	11 %	11 %	10 %	10 %
Chemicals	10 %	10 %	10 %	9 %	(1)%
Electronics	8 %	8 %	9 %	1 %	(5)%
Healthcare	8 %	8 %	8 %	4 %	6 %
Food & Beverage	8 %	6 %	6 %	1 %	1 %
Aerospace	3 %	3 %	3 %	4 %	11 %
Other	9 %	11 %	11 %	1 %	(6)%
	100 %	100 %	100 %		

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

	% of Sales		
	2013	2012	2011
Sales by Distribution Method**			
On-Site	27 %	26 %	26 %
Merchant	34 %	33 %	34 %
Packaged Gas	30 %	31 %	30 %
Other	9 %	10 %	10 %
	100 %	100 %	100 %

** Prior years' amounts have been reclassified to conform to current year's presentation.

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2013 Compared With 2012

Sales increased 6% to $11,925 million during 2013 compared to $11,224 million in 2012. Higher volumes, primarily in North and South America and in Asia, higher overall pricing and growth from acquisitions were partially offset by negative currency translation impacts, primarily resulting from the strengthening of the U.S. dollar against the Brazilian Real. Cost pass-through had minimal impact due to lower precious metal prices offsetting energy cost inflation.
Gross margin increased $353 million, or 7%, versus 2012. The increase was due to higher volumes and higher pricing, resulting in an increase in the gross margin percentage to 43.4%, versus 43.0% in the prior year.
Selling, general and administrative ("SG&A") expenses in 2013 were $1,349 million, or 11.3% of sales, versus $1,270 million, or 11.3% of sales, for 2012. The increase in SG&A expense of $79 million was primarily due to the impact of acquisitions ($56 million). In addition, pension expense increased $26 million due to an increase in the amortization of net actuarial losses, primarily attributable to lower discount rates. Currency effects reduced SG&A expense by $14 million.
Depreciation and amortization expense increased $108 million versus 2012. This increase was primarily due to an increase of $42 million from acquisitions and approximately $70 million from plant start-ups and asset additions, partially offset by currency effects of $13 million.
Other income (expenses) – net in 2013 was a $32 million benefit versus a $43 million benefit in 2012. Other income was higher in 2012 primarily due to a larger favorable litigation settlements in South America. See Note 7 to the consolidated financial statements for a summary of the major components of Other income (expenses) – net.
Reported operating profit of $2,625 million in 2013 was $188 million, or 8% higher than reported operating profit of $2,437 million in 2012. As a percentage of sales, reported operating profit increased to 22.0% in 2013 from 21.7% in 2012. This is primarily due to the attainment of price increases in most geographies. The 2013 period includes a $23 million charge related to the Venezuela currency devaluation and $9 million charge related to a pension settlement. The 2012 period also included a pension settlement charge of $9 million as well as a $56 million charge for cost reduction programs. Adjusted operating profit of $2,657 million in 2013 was $155 million, or 6% higher than adjusted operating profit of $2,502 million in 2012. A discussion of operating profit by segment is included in the segment discussion that follows.
Reported interest expense – net in 2013 increased $37 million, versus 2012. The increase included an $18 million charge recognized upon the early redemption of the $400 million 5.25% Notes due in 2014. Excluding this charge, adjusted interest expense increased $19 million. Higher overall debt levels to fund capital expenditures and acquisitions increased interest expense by about $45 million, and reduced benefits from the amortization of interest rate swap gains increased interest expense by $11 million versus 2012. Lower interest rates reduced interest expense by approximately $37 million dollars. See Note 7 to the consolidated financial statements for further information relating to interest expense.
The effective tax rate for 2013 was 26.5% versus 25.5% in 2012. 2013 included a $40 million benefit as a result of a realignment of Praxair's Italian legal structure, and 2012 included a $55 million income tax benefit related to the loss on a liquidated subsidiary (See Note 5 to the consolidated financial statements). The adjusted effective tax rate for both 2012 and 2013 was 28.0%.
Praxair’s significant equity investments are in the United States, China, Italy, and the Middle East. Equity income increased $4 million in 2013 related primarily to higher equity income in China.
At December 31, 2013, reported 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 the U.S. packaged gas business). The $29 million increase in reported noncontrolling interests in 2013 was primarily due to the minority shareholder's portion of the income tax benefit in Italy related to the company's legal realignment. Adjusted noncontrolling interest in 2013 was $65 million compared to $54 million in 2012. This increase is primarily driven by improved performance by the U.S. packed gas and Italian investments.
Reported net income - Praxair, Inc. in 2013 was $1,755 million, or $63 million above net income - Praxair, Inc. of $1,692 million in 2012. Adjusted net income – Praxair, Inc. of $1,772 million in 2013 was $91 million, or 5% higher

than adjusted net income – Praxair, Inc. of $1,681 million in 2012. This increase was primarily due to higher adjusted operating profit partially offset by higher interest expense and increased income tax expense.

Reported diluted earnings per share ("EPS") of $5.87 in 2013 increased $0.26 per diluted share, or 5% from $5.61 in 2012. Adjusted diluted EPS of $5.93 in 2013 increased $0.36 per diluted share, or 6%, from adjusted diluted EPS of $5.57 in 2012. The increase in adjusted diluted EPS was primarily due to higher net income – Praxair, Inc. and a 1.0% decrease in the number of diluted shares outstanding as a result of the company’s net repurchases of common stock during 2013.

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Other comprehensive loss at December 31, 2013 of $123 million includes negative currency translation adjustments of $447 million, a positive adjustment of $323 million related to the funded status of retirement obligations and a positive adjustment of $1 million related to derivative instruments. The translation adjustments reflect the impact of translating local currency foreign subsidiary financial statements to U.S. dollars (see “Currency” section of the MD&A for exchange rates). The negative translation adjustment primarily resulted from currency movements of $342 million in South America, principally related to Brazil and Argentina as well as from $137 million in North America primarily related to Canada and Mexico. The positive pension funded status impact is primarily related to the improvement of the funded status of the pension and postretirement benefits other than pensions ("OPEB") plans driven principally by actuarial gains and losses of $395 million. Of this amount $165 million relates to assets returns in excess of assumed returns. The remaining $230 million primarily relates to the impact of higher discount rates (see note 16 to the consolidated financial statements).

The number of employees at December 31, 2013 was 27,560, reflecting an increase of 1,021 employees from December 31, 2012. This increase primarily reflects the impact of the $NuCO_2$ acquisition.

2012 Compared With 2011

Sales in 2012 were comparable to 2011. Higher volumes and price, primarily in North America and Asia, were offset by negative currency translation impacts, due to the strengthening of the U.S. dollar against most global currencies, primarily the Brazilian Real and the Euro, and lower cost pass-through, primarily lower natural gas prices.

Gross margin in 2012 increased $34 million, or 1%, versus 2011. The modest increase in the gross margin percentage to 43.0% in 2012 versus 42.6% in 2011 was due primarily to the impact of lower natural gas cost pass-through to customers.

Selling, general and administrative ("SG&A") expenses in 2012 were $1,270 million, or 11.3% of sales, versus $1,239 million, or 11.0% of sales, for 2011. The increase in SG&A expense of $31 million was due to the impact of acquisitions ($44 million), and higher pension expense ($23 million) related to an increase in the amortization of net actuarial gains/losses, primarily attributable to lower discount rates. The effect of currency translation reduced SG&A expense by $48 million.

Depreciation and amortization expense in 2012 decreased $2 million versus 2011 due to currency effects.

Other income (expenses) – net in 2012 was a $43 million benefit versus a $7 million benefit in 2011. The change in 2012 versus 2011 was primarily due to gains on asset sales in North America and Asia, and a litigation settlement in South America, partially offset by business restructuring charges in South America and currency related losses. See Note 7 to the consolidated financial statements for a summary of the major components of Other income (expenses) – net.

Reported operating profit of $2,437 million in 2012 was $31 million, or 1% lower than operating profit of $2,468 million in 2011. As a percentage of sales, reported operating profit decreased to 21.7% in 2012 from 21.9% in 2011. This is primarily due to the $65 million cost reduction program and pension settlement charge in 2012. Adjusted operating profit of $2,502 million in 2012 was $33 million, or 1% higher than adjusted operating profit of $2,469 million in 2011. As a percentage of sales, adjusted operating profit improved to 22.3% in 2012 versus 21.9% in 2011. A discussion of operating profit by segment is included in the segment discussion that follows.

Interest expense – net in 2012 decreased $4 million, versus 2011. Lower interest rates reduced interest expense by approximately $30 million. Additionally, higher capitalized interest, due to higher capital expenditures, reduced interest expense by approximately $8 million. These reductions were partially offset by the impact of higher debt which increased interest expense by approximately $29 million. The remaining variance of $5 million related to miscellaneous other items, none of which were significant. See Note 7 to the consolidated financial statements for further information relating to interest expense.

The effective tax rate for 2012 was 25.5% versus 27.6% in 2011. The reduction in the effective rate in 2012 compared to 2011 was primarily driven by the $55 million income tax benefit related to the loss on a liquidated subsidiary. The adjusted effective tax rate for 2012 was 28.0%, versus 27.8% in 2011.

Praxair's significant equity investments are in the United States, China, Italy, and the Middle East. Equity income decreased $6 million in 2012 related primarily to the negative impact of currencies and the consolidation of Yara Praxair in the fourth quarter of 2011 which was previously accounted for as an equity investment.

At December 31, 2012, reported 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 the U.S. packaged gas business). The $2 million increase in noncontrolling interests in 2012 was

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primarily due to the impact of the consolidation of Yara Praxair as a result of obtaining a controlling ownership interest in the fourth quarter of 2011, partially offset by cost reduction charges in the European investments and the negative impact of currency on European and Asian investments. Adjusted noncontrolling interests was $54 million in 2012 compared to $51 million in the prior year.
Reported net income - Praxair, Inc. of in 2012 was $1,692 million, or $20 million higher than net income- Praxair, Inc. of $1,672 million in 2011. The increase in reported net income - Praxair, Inc from 2011 to 2012 was the result of a non-recurring gain on acquisition in 2011 offset by the aforementioned income tax benefit in 2012. Adjusted net income – Praxair, Inc. of $1,681 million in 2012 was $15 million, or 1% higher than adjusted net income – Praxair, Inc. of $1,666 million in 2011. The increase was due to higher adjusted operating profit and lower interest expense partially offset by lower income from equity investments.
Reported diluted EPS of $5.61 in 2012 increased $0.16 per diluted share, or 3%, from adjusted diluted EPS of $5.45 in 2011. Adjusted diluted EPS of $5.57 in 2012 increased $0.14 per diluted share, or 3%, from adjusted diluted EPS of $5.43 in 2011. The increase in both reported and adjusted diluted EPS was primarily due to higher net income – Praxair, Inc. and a 2% decrease in the number of diluted shares outstanding as a result of the company’s net repurchases of common stock during 2012.
Other comprehensive income (loss) for the year ended December 31, 2012 of $1,586 million includes positive translation adjustments of $4 million and a negative adjustment of $108 million related to the funded status of retirement obligations. The translation adjustments reflect the impact of translating local currency foreign subsidiary financial statements to U.S. dollars (see “Currency” section of the MD&A for exchange rates). The positive translation adjustments primarily resulted from currency movements in North American ($99 million related to Canada and Mexico), Asia ($40 million related primarily to Korea), and Europe ($31 million). These positive impacts were largely offset by a negative currency adjustment of $171 million in South America, primarily related to Brazil and Argentina. The negative pension funded status impact resulted primarily from current year net actuarial losses, due primarily to lower discount rates. See Note 16 to the consolidated financial statements for a summary of the pension funded status components recognized in other comprehensive income (loss).
The number of employees at December 31, 2012 was 26,539, reflecting an increase of 355 employees from December 31, 2011. This increase reflects acquisitions and additions in growing businesses, partially offset by the impact of cost reduction plans put in place during the fourth quarter of 2011 and the third quarter of 2012, primarily in Europe and South America.

Related Party Transactions

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

Environmental Matters

Praxair’s principal operations relate to the production and distribution of atmospheric and other industrial gases, which historically have not had a significant impact on the environment. However, worldwide costs relating to environmental protection may continue to grow due to increasingly stringent laws and regulations, and Praxair's ongoing commitment to rigorous internal standards.

Climate Change

Praxair operates in jurisdictions that have, or are developing, laws and/or regulations to reduce or mitigate the perceived adverse effects of greenhouse gas ("GHG") emissions and faces a highly uncertain regulatory environment in this area. For example, the U.S. Environmental Protection Agency ("EPA") has promulgated rules requiring monitoring and controlling GHG emissions and one of these rules regulates GHG emissions from light-duty vehicles and certain large manufacturing facilities, many of which are Praxair suppliers or customers. In addition to these developments in the United States, there has been regulation of GHGs in the European Union under the Emissions Trading System, which have wide implications for our customers and may impact certain operations of Praxair in Europe. There are also requirements for mandatory reporting in Quebec, Canada, which apply to certain Praxair operations and will be used in developing cap-and-trade regulations on GHG emissions, which are expected to impact certain Praxair facilities. Among other impacts, such regulations are expected to raise the costs of energy, which is a significant cost for Praxair. Nevertheless, Praxair's customer contracts routinely provide rights to recover increased electricity, natural gas, and other costs that are incurred by the company.

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Praxair anticipates continued growth in its hydrogen business, as hydrogen is essential to refineries which use it to remove sulfur from transportation fuels in order to meet ambient air quality standards in the United States. Hydrogen production plants and a large number of other manufacturing and electricity-generating plants have been identified under California law as a source of carbon dioxide emissions and these plants have also become subject to recently promulgated cap-and-trade regulations in that state. Praxair believes it will be able to mitigate the costs of these regulations through the terms of its product supply contracts. However, legislation that limits GHG emissions may impact growth by increasing operating costs and/or decreasing demand.

To manage these potential business risks from potential GHG emission regulation, Praxair actively monitors current developments, evaluates the direct and indirect business risks, and takes appropriate actions. Among others, actions include: increasing relevant resources and training; consulting with vendors, insurance providers and industry experts; incorporating GHG provisions in commercial agreements; and conducting regular reviews of the business risks with management. Although there are considerable uncertainties, Praxair believes that the business risk from potential regulations can be effectively managed through its commercial contracts. Additionally, Praxair does not anticipate any material effects regarding its plant operations or business arising from potential physical risks of climate change. Also, Praxair continuously seeks opportunities to reduce its own energy use and GHG footprint.

At the same time, Praxair may benefit from business opportunities arising from governmental regulation of GHG and other emissions; rising costs of many energy and natural resources; new technologies to extract natural gas; and the development of renewable energy alternatives. Praxair continues to develop new applications technologies that can lower emissions, including GHG emissions, in Praxair's processes and help customers lower energy consumption and increase product throughput. Stricter regulation of water quality in emerging economies such as China provide a growing market for a number of gases, e.g., oxygen for wastewater treatment. Renewable fuel standards in the European Union and U.S. create a market for second-generation biofuels which are users of industrial gases such as oxygen, carbon dioxide, and hydrogen.

Costs Relating to the Protection of the Environment

Environmental protection costs in 2013 included approximately $16 million in capital expenditures and $29 million of expenses. Praxair anticipates that future annual environmental protection expenditures will be similar to 2013, subject to any significant changes in existing laws and regulations. Based on historical results and current estimates, management does not believe that environmental expenditures will have a material adverse effect on the consolidated financial position, the consolidated results of operations or cash flows in any given year.

Legal Proceedings

See Note 17 to the consolidated financial statements for information concerning legal proceedings.

Retirement Benefits

Pensions

The net periodic benefit cost for the U.S. and International pension plans was $119 million in 2013, $93 million in 2012 and $66 million in 2011. Consolidated net periodic benefit cost included settlement charges of $9 million, $10 million and $6 million in 2013, 2012 and 2011, respectively.

The funded status (pension benefit obligation ("PBO") less the fair value of plan assets) for the U.S. plans was a deficit of $171 million as December 31, 2013 versus a deficit of $535 million at December 31, 2012. This improvement was due to higher discount rates, strong investment performance in 2013 and contributions of $35 million.

Global pension contributions were $52 million in 2013, $184 million in 2012 and $94 million in 2011. Estimates for 2014 contributions are in the area of $25 million.

Praxair assumes an expected return on plan assets for 2014 in the United States of 8.00%, which is consistent with the long-term expected return on its investment portfolio. Excluding the impact of any settlements, 2014 consolidated pension expense is expected to be approximately $75 million. The decrease is due primarily to fewer net actuarial losses to be amortized as a result of an increase in the discount rates, and the return on assets during 2013. The amortization is recognized based on the amount of net actuarial gains/losses above certain thresholds and over the periods of either the average remaining service lives or the average remaining life expectancies of the retirees.

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OPEB
The net periodic benefit cost for OPEB plans was $11 million in 2013, $9 million in 2012 and $12 million in 2011. The funded status deficit decreased $43 million during 2013 due primarily to higher discount rates.

In 2014, consolidated net periodic benefit costs for the OPEB plans is expected to be approximately $9 million.

See the Critical Accounting Policies section and Note 16 to the consolidated financial statements for a more detailed discussion of the company's retirement benefits, including a description of the various retirement plans and the assumptions used in the calculation of net periodic benefit cost and funded status.

Insurance
Praxair purchases insurance to limit a variety of property and casualty risks, including those related to property, business interruption, third-party liability and workers' compensation. Currently, the company self-retains the first $5 million per occurrence for workers' compensation, general and vehicle liability in the United States and retains $2.5 million to $5 million per occurrence at its various properties worldwide. To mitigate its aggregate loss potential above varying retentions, the company purchases insurance coverage from highly rated insurance companies at what it believes are reasonable coverage levels.

At December 31, 2013 and 2012, the company had recorded a total of $33 million and $28 million, respectively, representing an estimate of the retained liability for the ultimate cost of claims incurred and unpaid as of the balance sheet dates. The estimated liability is established using statistical analysis and is based upon historical experience, actuarial assumptions and professional judgment. These estimates are subject to the effects of trends in loss severity and frequency and are subject to a significant degree of inherent variability. If actual claims differ from the company's estimates, they will be adjusted at that time and financial results could be impacted.

Praxair recognizes estimated insurance proceeds relating to damages at the time of loss only to the extent of incurred losses. Any insurance recoveries for business interruption and for property damages in excess of the net book value of the property are recognized only when realized.

SEGMENT DISCUSSION
The following summary of sales and operating profit by segment provides a basis for the discussion that follows (for additional information concerning Praxair's segments, see Note 18 to the consolidated financial statements). Praxair evaluates the performance of its reportable segments based on operating profit, excluding the items not indicative of ongoing business trends. Accordingly, segment operating profit and the following discussion of segment results, including comparisons with prior periods, exclude the impacts of: (i) Venezuela currency devaluation and pension settlement in 2013, (ii) a cost reduction program and a pension settlement charge in 2012, (iii) the net gain on acquisition and cost reduction program in 2011. Certain prior years' amounts have been reclassified to conform to the current year's presentation.

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(Dollar amounts in millions)				Variance	
Year Ended December 31,	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Sales					
North America	$6,164	$5,598	$5,490	10 %	2 %
Europe	1,542	1,474	1,458	5 %	1 %
South America	2,042	2,082	2,308	(2)%	(10)%
Asia	1,525	1,414	1,348	8 %	5 %
Surface Technologies	652	656	648	(1)%	1 %
	$11,925	$11,224	$11,252	6 %	— %
Operating Profit					
North America	$1,538	$1,465	$1,331	5 %	10 %
Europe	270	256	272	5 %	(6)%
South America	467	429	530	9 %	(19)%
Asia	271	246	234	10 %	5 %
Surface Technologies	111	106	102	5 %	4 %
Segment operating profit	2,657	2,502	2,469	6 %	1 %
Venezuela currency devaluation and other charges (Note 2)	(32)	(65)	(1)		
Total operating profit	$2,625	$2,437	$2,468		

North America

(Dollar amounts in millions)				Variance	
Year Ended December 31,	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Sales	$6,164	$5,598	$5,490	10 %	2 %
Cost of sales, exclusive of depreciation and amortization	3,301	2,968	2,995		
Gross margin	2,863	2,630	2,495		
Operating expenses	759	667	669		
Depreciation and amortization	566	498	495		
Operating profit	$1,538	$1,465	$1,331	5 %	10 %
Margin %	25.0 %	26.2 %	24.2 %		

	2013 vs. 2012 % Change		2012 vs. 2011 % Change	
	Sales	Operating Profit	Sales	Operating Profit
Factors Contributing to Changes				
Volume	2 %	1 %	3 %	3 %
Price	2 %	8 %	2 %	8 %
Cost pass-through	1 %	— %	(3)%	— %
Currency	— %	— %	(1)%	(1)%
Acquisitions/Divestitures	5 %	5 %	1 %	1 %
Other	— %	(9)%	— %	(1)%
	10 %	5 %	2 %	10 %

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

	% of Sales			Organic Sales % Change	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Sales by End Markets					
Manufacturing	30 %	32 %	29 %	3 %	8 %
Metals	13 %	14 %	13 %	1 %	5 %
Energy	19 %	17 %	17 %	13 %	12 %
Chemicals	10 %	11 %	11 %	4 %	(6)%
Electronics	5 %	5 %	6 %	(8)%	(9)%
Healthcare	7 %	7 %	8 %	— %	— %
Food & Beverage	8 %	5 %	5 %	(1)%	— %
Aerospace	1 %	1 %	1 %	14 %	4 %
Other	7 %	8 %	10 %	— %	(1)%
	100 %	100 %	100 %		

	% of Sales		
	2013	2012	2011
Sales by Distribution Method			
On-Site	28 %	27 %	28 %
Merchant	36 %	35 %	35 %
Packaged Gas	34 %	36 %	33 %
Other	2 %	2 %	4 %
	100 %	100 %	100 %

The North America segment includes Praxair’s industrial gases operations in the United States, Canada and Mexico. Sales for 2013 increased $566 million, or 10%, versus 2012. Underlying sales growth was 4% driven primarily by higher on-site volumes from new project start-ups for hydrogen supply to refinery customers in the United States, higher merchant volumes and higher pricing. Sales grew to the energy, chemicals, manufacturing, and food and beverage end-markets. Strong sales growth to the energy end-market was primarily due to hydrogen project start-ups. Acquisitions, primarily $NuCO_2$, added 5% sales growth and contributed to the 3% increase of total sales represented by the food and beverage end-market in 2013. Higher cost pass-through, primarily higher natural gas prices passed through to hydrogen customers, increased sales by 1%. North American packaged gas sales were above prior year due to solid growth in the US business. However, with the growth in on-site sales due to the start-up of new hydrogen projects and the growth in merchant sales due to the acquisition of $NuCO_2$, packaged gas sales decreased as a percentage of total sales for the segment.

Operating profit for 2013 increased $73 million, or 5% from 2012. Higher pricing, higher volumes from project start-ups and acquisitions contributed to the growth in operating profit. Operating profit included a contract settlement for

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$23 million. The growth was partially offset by higher operating costs and the impact of a gain on asset sale in the prior year. Depreciation and amortization increased $68 million in 2013 due to acquisitions and new project start-ups.
Sales for 2012 increased $108 million, or 2%, versus 2011, due to higher volumes and price. Volume growth of 3% was driven by higher sales to the energy, manufacturing and metals end-markets which more than offset weaker sales to the electronics and chemical end-markets. Higher pricing increased sales by 2%. Negative currency impacts decreased sales by 1%. Lower cost pass-through, primarily lower natural gas prices passed through to hydrogen customers, decreased sales by 3%, with a minimal impact on operating profit. Acquisitions of packaged gas distributors, primarily in the United States, contributed 1% to sales growth.
Operating profit for 2012 increased $134 million, or 10% versus 2011, driven by higher pricing and volumes. The operating margin increased to 26.2% from 24.2% in 2011 due primarily to higher volumes and price and the impact of lower natural gas pass-through.

Europe

(Dollar amounts in millions)				Variance	
Year Ended December 31,	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Sales	$1,542	$1,474	$1,458	5 %	1 %
Cost of sales, exclusive of depreciation and amortization	881	841	849		
Gross margin	661	633	609		
Operating expenses	222	228	196		
Depreciation and amortization	169	149	141		
Operating profit	$270	$256	$272	5 %	(6)%
Margin %	17.5 %	17.4 %	18.7 %		

	2013 vs. 2012 % Change		2012 vs. 2011 % Change	
	Sales	Operating Profit	Sales	Operating Profit
Factors Contributing to Changes				
Volume	(1)%	(12)%	(2)%	(7)%
Price	1 %	6 %	1 %	3 %
Cost pass-through	(1)%	— %	(1)%	— %
Currency	3 %	3 %	(7)%	(8)%
Acquisitions/Divestitures	3 %	3 %	10 %	8 %
Other	— %	5 %	— %	(2)%
	5 %	5 %	1 %	(6)%

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

	% of Sales			Organic Sales % Change	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Sales by End Markets					
Manufacturing	22 %	23 %	22 %	(4)%	(3)%
Metals	16 %	16 %	17 %	2 %	(2)%
Energy	6 %	4 %	3 %	7 %	(11)%
Chemicals	16 %	17 %	18 %	— %	— %
Electronics	7 %	8 %	8 %	5 %	(13)%
Healthcare	11 %	11 %	12 %	(2)%	1 %
Food & Beverage	9 %	9 %	7 %	— %	(3)%
Aerospace	1 %	1 %	1 %	— %	— %
Other	12 %	11 %	12 %	(6)%	5 %
	100 %	100 %	100 %		

	% of Sales		
	2013	2012	2011
Sales by Distribution Method			
On-Site	20 %	20 %	21 %
Merchant	34 %	34 %	33 %
Packaged Gas	43 %	42 %	42 %
Other	3 %	4 %	4 %
	100 %	100 %	100 %

Praxair’s European industrial gases business is primarily in Spain, Italy, Germany, France, Russia, the United Kingdom, Scandinavia and the Benelux region.

Sales for 2013 increased $68 million, or 5% versus 2012. Sales growth was primarily driven by higher pricing, acquisitions, primarily Dominion Technology Gases Investment Limited, and favorable currency effects. Underlying sales were unchanged from the prior year as volumes were higher year over year in Germany, Russia, and Scandinavia but overall volumes in Spain and Italy were below the prior year.

Operating profit of $270 million grew 5% from 2012. Higher pricing, favorable currency effects, acquisitions, and lower costs from prior-year cost reduction actions more than offset the impact of lower volumes, primarily in Spain.

Sales for 2012 increased $16 million, or 1% versus 2011. The acquisition of an increased investment in Yara Praxair during the fourth quarter of 2011 (see Note 3 to the consolidated financial statements) which required consolidation, increased sales by 10%, versus the prior year. Underlying sales were 1% below the prior year as lower volumes offset modest price improvements. Currency reduced sales by 7%.

Operating profit for 2012 of $256 million was 6% lower when compared to 2011. The positive contribution to operating profit from the consolidation of Yara Praxair and higher pricing was offset by lower packaged gas sales in Spain, Germany and Western Europe and the negative impact of currency.

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South America

(Dollar amounts in millions)				Variance	
Year Ended December 31,	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Sales	$2,042	$2,082	$2,308	(2)%	(10)%
Cost of sales, exclusive of depreciation and amortization	1,134	1,202	1,293		
Gross margin	908	880	1,015		
Operating expenses	260	267	288		
Depreciation and amortization	181	184	197		
Operating profit	$467	$429	$530	9 %	(19)%
Margin %	22.9 %	20.6 %	23.0 %		

	2013 vs. 2012 % Change		2012 vs. 2011 % Change	
	Sales	Operating Profit	Sales	Operating Profit
Factors Contributing to Changes				
Volume	4 %	7 %	— %	(5)%
Price	3 %	13 %	2 %	9 %
Cost pass-through	— %	— %	— %	— %
Currency	(9)%	(9)%	(12)%	(14)%
Acquisitions/Divestitures	— %	— %	— %	— %
Other	— %	(2)%	— %	(9)%
	(2)%	9 %	(10)%	(19)%

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

	% of Sales			Organic Sales % Change	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Sales by End Markets					
Manufacturing	21 %	22 %	23 %	3 %	(2)%
Metals	29 %	28 %	27 %	10 %	6 %
Energy	2 %	4 %	5 %	(4)%	(9)%
Chemicals	9 %	6 %	6 %	20 %	(6)%
Electronics	— %	— %	— %	— %	— %
Healthcare	17 %	16 %	15 %	10 %	11 %
Food & Beverage	12 %	12 %	12 %	8 %	(1)%
Aerospace	— %	— %	— %	— %	— %
Other	10 %	12 %	12 %	(1)%	3 %
	100 %	100 %	100 %		

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	% of Sales 2013	2012	2011
Sales by Distribution Method			
On-Site	25 %	23 %	22 %
Merchant	43 %	43 %	44 %
Packaged Gas	30 %	31 %	32 %
Other	2 %	3 %	2 %
	100 %	100 %	100 %

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

Sales in 2013 decreased $40 million, or 2%, versus 2012. Excluding unfavorable currency translation impacts, underlying sales grew 7% from broad-based volume growth and higher pricing. Sales growth came from metals, chemicals, food and beverage and healthcare customers.

Operating profit increased $38 million or 9% versus 2012 and 18% excluding currency effects. Operating leverage was primarily due to higher volumes and pricing across the region. Operating profit included a $10 million litigation settlement in Brazil. Depreciation and amortization increased in 2013 due to the start up of new on-site production facilities but was more than offset by the impacts of currency translation.

Sales in 2012 decreased $226 million, or 10%, versus 2011 due to negative currency effects. Underlying sales grew 2% in 2012 from improved pricing. Overall volumes were flat as higher volumes from new on-site production facilities were offset by lower volumes to merchant and packaged gas customers largely attributable to the lower industrial production rates in Brazil. By end-market, sales increased to metals and healthcare, and were slightly lower to general manufacturing customers.

Operating profit decreased $101 million or 19% versus 2011, primarily due to currency translation impacts which reduced operating profit by 14%. Underlying operating profit decreased 5% versus 2011. Higher pricing in 2012 improved operating profit by 9% but this was more than offset by the impact of a lower mix of higher margin packaged gas and merchant liquid volumes, and higher operating costs primarily related to power, distribution and cost inflation. Reported operating expenses in 2012 were below prior year amounts due primarily to currency impacts. Depreciation and amortization increased in 2012 due to the start up of new on-site production facilities but was more than offset by the impacts of currency translation. 2012 included a benefit from litigation settlements, which was largely offset by charges in connection with business restructuring in Brazil, Chile and Colombia.

Asia

(Dollar amounts in millions) Year Ended December 31,	2013	2012	2011	Variance 2013 vs. 2012	2012 vs. 2011
Sales	$1,525	$1,414	$1,348	8 %	5 %
Cost of sales, exclusive of depreciation and amortization	1,005	952	893		
Gross margin	520	462	455		
Operating expenses	99	89	95		
Depreciation and amortization	150	127	126		
Operating profit	$271	$246	$234	10 %	5 %
Margin %	17.8 %	17.4 %	17.4 %		

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	2013 vs. 2012 % Change		2012 vs. 2011 % Change	
	Sales	Operating Profit	Sales	Operating Profit
Factors Contributing to Changes				
Volume	10 %	14 %	6 %	6 %
Price	(1)%	(4)%	(1)%	(4)%
Cost pass-through	(1)%	— %	2 %	— %
Currency	— %	— %	(2)%	(2)%
Other	— %	— %	— %	5 %
	8 %	10 %	5 %	5 %

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

	% of Sales			Organic Sales % Change	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Sales by End Markets					
Manufacturing	11 %	12 %	13 %	1 %	(1)%
Metals	27 %	25 %	23 %	15 %	20 %
Energy	2 %	1 %	1 %	172 %	— %
Chemicals	13 %	11 %	10 %	19 %	18 %
Electronics	34 %	37 %	39 %	— %	(1)%
Healthcare	1 %	1 %	1 %	— %	— %
Food & Beverage	2 %	3 %	4 %	(18)%	(8)%
Aerospace	— %	— %	— %	— %	— %
Other	10 %	10 %	9 %	18 %	18 %
	100 %	100 %	100 %		

	% of Sales		
	2013	2012	2011
Sales by Distribution Method			
On-Site	48 %	43 %	39 %
Merchant	29 %	29 %	31 %
Packaged Gas	11 %	12 %	14 %
Other	12 %	16 %	16 %
	100 %	100 %	100 %

The Asia segment includes Praxair’s industrial gases operations in China, India, Korea and Thailand, with smaller operations in Taiwan and the Middle East.

Sales for 2013 increased $111 million, or 8%, versus 2012. Volume growth increased sales by 10% due to new on-site sales plant start-ups in China, India and Korea. By end-market, the strongest sales growth came from metals, energy and chemicals customers. Strong growth in on-site volumes due to new plant start-ups accounted for the increase in on-site sales as a percentage of total sales. Merchant volumes in China, India and Korea also showed solid growth versus the prior year. Cost pass-through decreased sales 1% and relates to the contractual pass through of precious metals and power costs fluctuations, with minimal impact on operating profit. Lower merchant pricing, primarily due to the electronics end-market, reduced sales by 1%.

Operating profit for 2013 increased $25 million, or 10%, versus 2012. Strong on-site volume growth was partially offset by the effects of lower pricing in the electronics end-market. Operating profit included a gain related to a land sale in Korea in the fourth quarter of $13 million. Pricing reduced operating profit by 4% primarily due to lower pricing for liquid argon sales in China and electronic gas customers. Operating expenses increased $10 million primarily due to new

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plant start-ups, salary increases and other benefit costs. Depreciation and amortization expense increased $23 million as compared to the prior year primarily due to new plant start-ups.

Sales for 2012 increased $66 million, or 5%, versus 2011. Volume growth increased sales by 6% due to higher on-site sales from new plant start-ups in China partially 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 as compared to the prior year. Negative currency impacts, primarily the weakening of the Indian Rupee against the U.S. dollar, reduced sales by 2%. Cost pass-through increased sales 2% and relates to the contractual pass through of precious metals and power costs fluctuations, with minimal impact on operating profit. By end-market, sales increased to metals and chemicals customers, and decreased to manufacturing and electronics.

Operating profit for 2012 increased $12 million, or 5%, versus 2011. Higher volumes due to new plant start-ups increased operating profit; however, this was partially offset by lower sales of higher margin merchant volumes in China and Thailand. Pricing reduced operating profit by 4% primarily due to lower pricing within the electronics end-market. Operating profit included a gain on a land sale in Korea which was partially offset by inflationary cost increases.

Surface Technologies

(Dollar amounts in millions)				Variance	
Year Ended December 31,	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Sales	$652	$656	$648	(1)%	1%
Cost of sales, exclusive of depreciation and amortization	423	433	428		
Gross margin	229	223	220		
Operating expenses	75	74	74		
Depreciation and amortization	43	43	44		
Operating profit	$111	$106	$102	5%	4%
	17.0%	16.2%	15.7%		

	2013 vs. 2012 % Change		2012 vs. 2011 % Change	
	Sales	Operating Profit	Sales	Operating Profit
Factors Contributing to Changes				
Volume/Price	—%	2%	4%	13%
Cost pass-through	(1)%	—%	—%	—%
Currency	—%	—%	(3)%	(5)%
Acquisitions/Divestitures	—%	—%	—%	—%
Other	—%	3%	—%	(4)%
	(1)%	5%	1%	4%

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The following table provides sales by end-market:

	% of Sales			Organic Sales % Change	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Sales by End Markets					
Manufacturing	13 %	14 %	14 %	(2)%	6 %
Metals	8 %	8 %	10 %	4 %	(15)%
Energy	28 %	28 %	25 %	— %	14 %
Chemicals	2 %	3 %	2 %	(9)%	11 %
Electronics	1 %	— %	— %	— %	— %
Healthcare	— %	— %	— %	— %	— %
Food & Beverage	3 %	3 %	3 %	(3)%	5 %
Aerospace	34 %	34 %	31 %	(1)%	13 %
Other	11 %	10 %	15 %	2 %	(24)%
	100 %	100 %	100 %		

Surface technologies provides high-performance coatings and thermal-spray powders and equipment in the Americas, Europe, and Asia.

Sales decreased $4 million, or 1% versus 2012 due primarily to lower cost pass-through for metals for thermal-spray powders. Lower industrial coating and aviation volumes were offset by higher pricing.

Operating profit increased $5 million, or 5% versus 2012. The impact of higher pricing and lower costs, primarily due to the prior-year cost reduction program in Europe and productivity gains, offset the impact of modestly lower overall volumes.

Sales in 2012 increased $8 million, or 1% versus 2011. Underlying sales increased 4% driven by higher volumes and pricing. The underlying sales growth came from increased aerospace coatings and increased coatings for energy markets, particularly coatings for parts used in the oil and gas markets. Currency translation negatively impacted sales by 3%, due primarily to the weakening of the Euro versus the U.S. dollar.

Operating profit increased $4 million, or 4% versus 2011. Higher volumes and pricing increased operating profit by 13%. This growth was partially offset by negative currency impacts and higher costs as compared to the prior year, primarily relating to employee wages and benefit costs, incentive plans expense and general cost inflation.

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Currency

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

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 2013 Consolidated Sales (a)	Statements of Income Average Year Ended December 31, 2013	2012	2011	Balance Sheets December 31, 2013	2012
Brazil real	14 %	2.15	1.95	1.67	2.34	2.04
Euro	13 %	0.75	0.78	0.72	0.73	0.76
Canada dollar	8 %	1.03	1.00	0.99	1.06	0.99
Mexico peso	6 %	12.76	13.24	12.32	13.04	13.05
China yuan	5 %	6.16	6.31	6.48	6.05	6.29
Korea won	3 %	1,094	1,132	1,107	1,050	1,073
India rupee	2 %	58.31	53.46	46.28	61.80	54.85
Singapore dollar	1 %	1.25	1.25	1.26	1.26	1.22
Argentina peso	1 %	5.45	4.54	4.13	6.52	4.91
Colombia peso	<1%	1,868	1,797	1,846	1,927	1,768
Taiwan dollar	<1%	29.69	29.65	29.40	29.81	29.04
Thailand bhat	<1%	30.69	31.11	30.50	32.71	30.64
Venezuela bolivar (b)	<1%	5.97	4.30	4.30	6.30	4.30

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

b) On February 8, 2013, the Venezuelan government announced a devaluation of the Venezuelan bolivar from an exchange rate of 4.30 to 6.30 effective February 13, 2013 (see Note 2 to the consolidated financial statements).

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LIQUIDITY, CAPITAL RESOURCES AND OTHER FINANCIAL DATA

(Millions of dollars) Year Ended December 31,	2013	2012	2011
Net Cash Provided by (Used for)			
Operating Activities			
Net income – Praxair, Inc. plus depreciation and amortization	$2,864	$2,693	$2,675
Noncontrolling interests	81	52	50
Net income plus depreciation and amortization (including noncontrolling interests)	2,945	2,745	2,725
Adjustments to reconcile net income to net cash provided by operating activities:			
Venezuela currency devaluation and other charges – net, net of payments (a)	23	43	(5)
Deferred income taxes	101	258	(3)
Working capital	(100)	(105)	(87)
Pension contributions	(52)	(184)	(94)
Other – net	—	(5)	(81)
Total provided by operating activities	$2,917	2,752	$2,455
Investing Activities			
Capital expenditures	$(2,020)	$(2,180)	$(1,797)
Acquisitions, net of cash acquired	(1,323)	(280)	(294)
Divestitures and asset sales	106	82	86
Total used for investing	$(3,237)	$(2,378)	$(2,005)
Financing Activities			
Debt increases (reductions) – net	$1,461	$807	$914
Issuances (purchases) of common stock – net	(436)	(459)	(742)
Cash dividends – Praxair, Inc. shareholders	(708)	(655)	(602)
Excess tax benefit on stock based compensation	46	60	53
Noncontrolling interest transactions and other	(35)	(56)	(3)
Total used for financing	$328	$(303)	$(380)
Other Financial Data (b)			
Debt-to-capital ratio	54.3%	51.9%	51.8%
After-tax return on capital	12.8%	13.9%	14.8%
Return on Praxair, Inc. shareholder's equity	28.6%	28.9%	28.1%

(a) See Note 2 to the consolidated financial statements.

(b) Non-GAAP measures. See the "Non-GAAP Financial Measures" section for definitions and reconciliations to reported amounts.

Cash decreased $19 million in 2013 versus 2012. The primary sources of cash in 2013 were cash flows from operations of $2,917 million, and debt increases net of repayments of $1,461 million. The major uses of cash were capital expenditures of $2,020 million, acquisitions of $1,323 million, purchases of Praxair common stock net of issuances of $436 million, and cash dividends to shareholders of $708 million.

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Cash Flows From Operations

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* Includes Spanish income tax settlement payment of $481 million.

2013 compared with 2012

Cash flows from operations increased $165 million to $2,917 million in 2013 from $2,752 million in 2012. The increase was primarily due to higher net income plus depreciation and amortization and the impact of lower pension contributions compared to the prior-year period. These increases were partially offset by lower deferred taxes.

2012 compared with 2011

Cash flows from operations increased $297 million to $2,752 million in 2012 from $2,455 million in 2011. The increase was due to higher net income plus depreciation and amortization, other non-cash charges and lower income tax payments, partially offset by an increase in pension funding, mainly in the United States. The lower tax payments are primarily the result of a tax benefit associated with a loss on a liquidated subsidiary (see Note 2 to the consolidated financial statements), and increased deferred income tax liabilities related to fixed asset depreciation.

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Investing

2013 compared with 2012
Net cash used for investing activities of $3,237 million increased $859 million versus 2012 primarily due to higher acquisitions, net of cash acquired.
Acquisition expenditures in 2013 were $1,323 million, an increase of $1,043 million from 2012. Acquisitions consisted primarily of the acquisition of NuCO2, Inc., Dominion Technology Gases, US packaged gas distributors, and an acquisition in Russia (see Note 3 to the consolidated financial statements).
Capital expenditures in 2013 were $2,020 million, a decrease of $160 million from 2012. Capital expenditures during 2013 related largely to new production plants under contract for customers globally. Approximately half of the capital expenditures were in North American and about 20% were in Asia.
Divestitures and asset sales in 2013 totaled $106 million, which included the sale of a service business and other assets in the United States and proceeds related to a land sale in Korea.
2012 compared with 2011
Net cash used for investing activities of $2,378 million increased $373 million versus 2011 primarily due to increased capital expenditures.
Capital expenditures in 2012 were $2,180 million, an increase of $383 million from 2011. Capital expenditures during 2012 related largely to new production plants under contract for customers globally.
Acquisition expenditures in 2012 were $280 million which were in line with 2011. Acquisitions consisted primarily of the acquisition of packaged gas distributors in North America and an industrial gas business in Russia. 2011 included the acquisition of a controlling interest in Yara Praxair, several packaged gas distributors in the United States, and a 49% ownership in ROC Group’s industrial gases business operating in the United Arab Emirates.
Divestitures and asset sales in 2012 totaled $82 million, which included the sale of an electronics business in the United States and a land sale in Korea.

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Financing

Praxair’s financing strategy is to secure long-term committed funding by issuing public notes and debentures and commercial paper backed by a long-term bank credit agreement. Praxair’s international operations are funded through a combination of local borrowing and inter-company funding to minimize the total cost of funds and to manage and centralize currency exchange exposures. As deemed necessary, Praxair manages its exposure to interest-rate changes through the use of financial derivatives (see Note 12 to the consolidated financial statements and Item 7A. Quantitative and Qualitative Disclosures About Market Risk).

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. At December 31, 2013, the company’s credit ratings as reported by Standard & Poor’s and Moody’s were A-1 and P-1 for short-term debt, respectively, and A and A2 for long-term debt, respectively. Additionally, the company plans to maintain its undistributed earnings of foreign subsidiaries to support foreign growth opportunities and reduce local debt.

In February 2013, Praxair issued $400 million of 0.75% notes due 2016 and $500 million of 2.70% notes due 2023; in March 2013, Praxair issued $500 million of 1.20% notes due 2018; in April 2013, Praxair issued $475 million of 1.25% notes due 2018 and $175 million of 3.55% notes due 2042; and in November 2013, Praxair issued $500 million of 1.90% notes due 2019.

In June 2013, Praxair repaid $350 million of 3.95% notes and $500 million of 2.125% notes that became due. In December 2013, Praxair redeemed $400 million of 5.25% notes due in November 2014, see Note 11 to the consolidated financial statements.

Note 11 to the consolidated financial statements includes information with respect to the company’s debt refinancing in 2013, current debt position, debt covenants and the available credit facility; and Note 12 includes information relating to derivative financial instruments. Praxair's credit facility is with major financial institutions and is non-cancellable until maturity. Therefore, the company believes the risk of the financial institutions being unable to make required loans under the credit facility, if requested, to be low. Praxair’s major bank credit and long-term debt agreements contain standard covenants. The company was in compliance with these covenants at December 31, 2013 and expects to remain in compliance for the foreseeable future.

Cash provided by financing activities was $328 million in 2013 compared to cash used for financing $303 million in 2012. Cash dividends of $708 million increased $53 million from 2012.

Praxair’s total debt outstanding at December 31, 2013 was $8,811 million, $1,449 million higher than $7,362 million at December 31, 2012 due primarily to higher debt levels required to fund acquisitions. The December 31, 2013 debt

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balance includes $8,579 million in public securities and $232 million representing primarily worldwide bank borrowings. Praxair's global effective borrowing rate was approximately 2.7% for 2013.

Other Financial Data

Praxair's debt-to-capital ratio is 54.3% at December 31, 2013 versus 51.9% at December 31, 2012. The increase is attributable to higher debt levels, primarily to fund acquisitions.

After-tax return on capital ("ROC") decreased to 12.8% at December 31, 2013 versus 13.9% at 2012 reflecting the large amount of capital projects under construction and acquisitions made during the year.

Return on equity ("ROE") is 28.6% for the year-ended December 31, 2013 versus 28.9% during 2012.

See the "Non-GAAP Financial Measures" section for definitions and reconciliation of these non-GAAP measures to reported amounts.

CONTRACTUAL OBLIGATIONS

The following table sets forth Praxair's material contract obligations and other commercial commitments as of December 31, 2013:

(Millions of dollars)	Due or expiring by December 31,						
	2014	2015	2016	2017	2018	Thereafter	Total
Long-term debt obligations:							
Debt and capitalized lease maturities (Note 11)*	$3	$924	$1,167	$727	$1,047	$4,161	$8,029
Contractual interest	231	205	184	152	136	648	1,556
Operating leases (Note 4)*	119	103	88	69	57	51	487
Retirement obligations	61	37	36	37	36	161	368
Unconditional purchase obligations (Note 17)*	529	444	421	409	404	3,542	5,749
Construction commitments (Note 17)*	1,071	515	117	—	—	—	1,703
Total Contractual Obligations	$2,014	$2,228	$2,013	$1,394	$1,680	$8,563	$17,892

* See Notes to the consolidated financial statements for additional information.

Contractual interest on long-term debt of $1,556 million represents interest the company is contracted to pay on outstanding long-term debt, current portion of long-term debt and capital lease obligations, calculated on a basis consistent with planned debt maturities, excluding the interest impact of interest rate swaps. At December 31, 2013, Praxair had fixed-rate debt of $7,004 million and floating-rate debt of $1,807 million. The rate assumed for floating-rate debt was the rate in effect at December 31, 2013.

Retirement obligations of $368 million include estimates of pension plan contributions and expected future benefit payments for unfunded pension and OPEB plans. Pension plan contributions are forecast for 2014 only. For purposes of the table, $25 million of contributions have been included for 2014. Expected future unfunded pension and OPEB benefit payments are forecast only through 2023. Contribution and unfunded benefit payment estimates are based upon current valuation assumptions. Estimates of pension contributions after 2014 and unfunded benefit payments after 2023 are not included in the table because the timing of their resolution cannot be estimated. Retirement obligations are more fully described in Note 16 to the consolidated financial statements.

Liabilities for uncertain tax positions totaling $72 million, including interest and penalties, are not included in the table because the timing of their resolution cannot be estimated. See Note 5 to the consolidated financial statements for disclosures surrounding uncertain income tax positions.

OFF-BALANCE SHEET ARRANGEMENTS

As discussed in Note 17 to the consolidated financial statements, at December 31, 2013, Praxair had entered into various guarantees and other arrangements, and had undrawn outstanding letters of credit from financial institutions. These arrangements were entered into in connection with normal business operations and they are not reasonably likely to have a material impact on Praxair's consolidated financial condition, results of operations, or liquidity.

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CRITICAL ACCOUNTING POLICIES

The policies discussed below are considered by management to be critical to understanding Praxair's financial statements and accompanying notes prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Their application places significant importance on management's judgment as a result of the need to make estimates of matters that are inherently uncertain. Praxair's financial position, results of operations and cash flows could be materially affected if actual results differ from estimates made. These policies are determined by management and have been reviewed by Praxair's Audit Committee.

Depreciable Lives of Property, Plant and Equipment

Praxair's net property, plant and equipment at December 31, 2013 was $12,278 million, representing 61% of the company's consolidated total assets. Depreciation expense for the year ended December 31, 2013 was $1,068 million, or 11% of total operating costs. Management judgment is required in the determination of the estimated depreciable lives that are used to calculate the annual depreciation expense and accumulated depreciation.

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

Based upon the assets as of December 31, 2013, if depreciable lives of machinery and equipment, on average, were increased or decreased by one year, annual depreciation expense would be decreased by approximately $59 million or increased by approximately $67 million, respectively.

Pension Benefits

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

Several key assumptions are used in actuarial models to calculate pension expense and liability amounts recorded in the financial statements. Management believes the three most significant variables in the models are the expected long-term rate of return on plan assets, the discount rate, and the expected rate of compensation increase. The actuarial models also use assumptions for various other factors, including employee turnover, retirement age, and mortality. Praxair management believes the assumptions used in the actuarial calculations are reasonable, reflect the company's experience and expectations for the future and are within accepted practices in each of the respective geographic locations in which it operates. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors.

The weighted-average expected long-term rates of return on pension plan assets were 8.00% for U.S. plans and 7.50% for international plans for the years ended December 31, 2013 (8.25% and 8.70%, respectively at December 31, 2012). These rates are determined annually by management based on a weighted average of current and historical market trends, historical and expected portfolio performance and the current and expected portfolio mix of investments. A 0.50% change in these expected long-term rates of return, with all other variables held constant, would change Praxair's pension expense by approximately $9 million.

The company has consistently used a market-related value of assets rather than the fair value at the measurement date to determine annual pension expense. The market-related value recognizes investment gains or losses over a five-year period. As a result, changes in the fair value of assets from year to year are not immediately reflected in the company's annual pension expense. Instead, annual pension expense in future periods will be impacted as deferred investment gains or losses are recognized in the market-related value of assets over the five-year period. The consolidated market-related value of assets was $2,033 million, or $138 million lower than the fair value of assets of $2,171 million at December 31, 2013. These net deferred investment gains of $138 million will be recognized in the calculation of the market-related value of assets ratably over the next four years and will impact future pension expense. Future actual investment gains or losses will impact the market-related value of assets and, therefore, will impact future annual pension expense in a similar manner.

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The weighted-average discount rates for pension plan liabilities were 4.80% for U.S. plans and 6.30% for international plans at December 31, 2013 (3.90% and 5.80%, respectively, at December 31, 2012). These rates are used to calculate the present value of plan liabilities and are determined annually by management. The discount rate for the U.S. plans is established utilizing a cash flow matching model provided by the company's independent actuaries. The model includes a portfolio of corporate bonds graded Aa or better by at least half of the ratings agencies and matches the U.S. plan's projected cash flows to the calculated spot rates and develops the single equivalent discount rate which produces the same present value. The discount rates for the remaining international plans are based on market yields for high-quality fixed income investments representing the approximate duration of the pension liabilities on the measurement date. A 0.50% change in discount rates, with all other variables held constant, would decrease/increase Praxair's pension expense by approximately $13 million and would impact the PBO by approximately $150 million.
The weighted-average expected rate of compensation increase was 3.25% for U.S. plans and 4.00% for international plans at December 31, 2013 and 2012. The estimated annual compensation increase is determined by management every year and is based on historical trends and market indices. A 0.50% change in the expected rate of compensation increase, with all other variables held constant, would change Praxair's pension expense by approximately $6 million and would impact the PBO by approximately $28 million.

Asset Impairments

Goodwill

At December 31, 2013, the company had goodwill of $3,194 million, which represents the aggregate of the excess purchase price for acquired businesses over the fair value of the net assets acquired.
The company performs a goodwill impairment test annually in the second quarter or more frequently if events or circumstances indicate that an impairment loss may have been incurred, and no impairments were indicated. The company has continuously re-evaluated the likelihood of goodwill impairments in its reporting units subsequent to the second quarter test, and does not believe there is indication of impairment for any of its reporting units. At December 31, 2013, Praxair's enterprise value was approximately $47 billion (outstanding shares multiplied by the year-end stock price plus debt, and without any control premium) while its total capital was approximately $16 billion.
The impairment test allows an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than carrying value. If it is determined that it is more likely than not that the fair value of a reporting unit is less than carrying value then the company will estimate and compare the fair value of its reporting units to their carrying value, including goodwill. Reporting units are determined based on one level below the operating segment level. Fair value is determined through the use of projected future cash flows, multiples of earnings and sales and other factors.
Such analysis requires the use of certain market assumptions and discount factors, which are subjective in nature. As applicable, estimated values can be affected by many factors beyond the company's control such as business and economic trends, government regulation, and technological changes. Management believes that the qualitative factors used to perform its annual goodwill impairment assessment are appropriate and reasonable. Although the 2013 qualitative assessment indicated that it is more likely than not that the fair value of each reporting unit substantially exceeded its carrying value, changes in circumstances or conditions affecting this analysis could have a significant impact on the fair value determination, which could then result in a material impairment charge to the company's results of operations.

See Note 9 to the consolidated financial statements for disclosures concerning the carrying value of goodwill by reportable segment.

Property, Plant and Equipment

Property, plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an individual asset or asset group may not be recoverable. For purposes of this test, asset groups are determined based upon the lowest level for which there are identifiable cash flows. Based upon Praxair's business model, an asset group may be a single plant and related assets used to support on-site, merchant and packaged gas customers. Alternatively, the asset group may be a pipeline complex which includes multiple interdependent plants

and related assets connected by pipelines within a geographic area used to support the same distribution methods.
Income Taxes
At December 31, 2013, Praxair had deferred tax assets of $855 million (net of valuation allowances of $85 million), and deferred tax liabilities of $1,807 million. At December 31, 2013, uncertain tax positions totaled $121 million (see

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Notes 1 and 5 to the consolidated financial statements). Income tax expense was $649 million for the year ended December 31, 2013, or about 26.5% of pre-tax income.

In the preparation of consolidated financial statements, Praxair estimates income taxes based on diverse legislative and regulatory structures that exist in various jurisdictions where the company conducts business. Deferred income tax assets and liabilities represent tax benefits or obligations that arise from temporary differences due to differing treatment of certain items for accounting and income tax purposes. Praxair evaluates deferred tax assets each period to ensure that estimated future taxable income will be sufficient in character (e.g. capital gain versus ordinary income treatment), amount and timing to result in their recovery. A valuation allowance is established when management determines that it is more likely than not that a deferred tax asset will not be realized to reduce the assets to their realizable value. Considerable judgments are required in establishing deferred tax valuation allowances and in assessing exposures related to tax matters. As events and circumstances change, related reserves and valuation allowances are adjusted to income at that time. Praxair's tax returns are subject to audit and local taxing authorities could challenge the company's tax positions. The company's practice is to review tax filing positions by jurisdiction and to record provisions for uncertain income tax positions, including interest and penalties when applicable. Praxair believes it records and/or discloses such potential tax liabilities as appropriate and has reasonably estimated its income tax liabilities and recoverable tax assets. If new information becomes available, adjustments are charged or credited against income at that time. Management does not anticipate that such adjustments 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 material impact on the company's reported results of operations.

Contingencies

The company accrues liabilities for non-income tax contingencies when management believes that a loss is probable and the amounts can be reasonably estimated, while contingent gains are recognized only when realized. If new information becomes available or losses are sustained in excess of recorded amounts, adjustments are charged against income at that time. 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 material impact on the company's reported results of operations.

Praxair is subject to various claims, legal proceedings 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 (see Note 17 to the consolidated financial statements). Such contingencies are significant and the accounting requires considerable management judgments in analyzing each matter to assess the likely outcome and the need for establishing appropriate liabilities and providing adequate disclosures. Praxair believes it records and/or discloses such potential contingencies as appropriate and has reasonably estimated its liabilities.

NEW ACCOUNTING STANDARDS

See Note 1 to the consolidated financial statements for information concerning new accounting standards and the impact of the implementation of these standards on the company's financial statements.

FAIR VALUE MEASUREMENTS

Praxair does not expect changes in the aggregate fair value of its financial assets and liabilities to have a material impact on the consolidated financial statements. See Note 13 to the consolidated financial statements.

NON-GAAP FINANCIAL MEASURES

The company presents the following non-GAAP financial measures in the discussion of financial condition, results of operations and liquidity throughout the MD&A. These measures are intended to supplement investors' understanding of the company's financial information by providing information which investors, financial analysts and management use to help evaluate the company's financial leverage, return on capital employed and operating performance. Special items which the company does not believe to be indicative of on-going business performance 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.

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The following are the non-GAAP measures presented in the Selected Financial Data (Item 6) or this MD&A:

(Dollar amounts in millions, except for per share data)	2013	2012	2011	2010	2009
Year ended December 31,					
Performance Measures:					
After-tax return on capital ("ROC")	12.8 %	13.9 %	14.8 %	14.5 %	13.9 %
Return on equity ("ROE")	28.6 %	28.9 %	28.1 %	26.4 %	27.0 %
Debt-to-capital	54.3 %	51.9 %	51.8 %	47.3 %	47.0 %
Debt-to-adjusted EBITDA	2.2	1.9	1.7	1.6	1.8
Adjusted Amounts:					
Operating profit	$2,657	$2,502	$2,469	$2,167	$1,881
As a percent of sales	22.3 %	22.3 %	21.9 %	21.4 %	21.0 %
Interest expense - net	$160	$141	$145	$118	$133
Effective tax rate	28.0 %	28.0 %	27.8 %	27.9 %	27.6 %
Noncontrolling interests	$(65)	$(54)	$(51)	$(39)	$(43)
Net income – Praxair, Inc.	$1,772	$1,681	$1,666	$1,476	$1,247
Diluted earnings per share	$5.93	$5.57	$5.43	$4.74	$3.99

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 capital employed in the business. ROC measures the after-tax operating profit that the company was able to generate with the investments made by all parties in the business (debt, noncontrolling interests and Praxair, Inc. shareholders' equity).

(Dollar amounts in millions) Year Ended December 31,	2013	2012	2011	2010	2009
Adjusted operating profit (see below)	$2,657	$2,502	$2,469	$2,167	$1,881
Less: adjusted income taxes (see below)	(698)	(660)	(647)	(572)	(482)
Less: tax benefit on adjusted interest expense (a)	(44)	(39)	(41)	(33)	(37)
Add: income from equity investments	38	34	40	38	24
Net operating profit after-tax ("NOPAT")	$1,953	$1,837	$1,821	$1,600	$1,386
Beginning capital	$13,878	$12,489	$11,663	$10,658	$9,304
First quarter ending capital	$15,344	$13,248	$12,289	$10,758	$9,366
Second quarter ending capital	$15,548	$13,017	$12,809	$10,745	$10,020
Third quarter ending capital	$15,757	$13,617	$12,306	$11,336	$10,577
Year-end ending capital	$15,983	$13,878	$12,489	$11,663	$10,658
Five-quarter average capital	$15,302	$13,250	$12,311	$11,032	$9,985
After-tax return on capital	12.8 %	13.9 %	14.8 %	14.5 %	13.9 %

(a) Tax benefit on adjusted interest expense is computed using the effective rate adjusted for non-recurring income tax benefits and charges. The effective tax rates used for all periods were 28%.

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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.

(Dollar amounts in millions) Year Ended December 31,	2013	2012	2011	2010	2009
Adjusted net income – Praxair, Inc. (see below)	$1,772	$1,681	$1,666	$1,476	$1,247
Beginning Praxair, Inc. shareholders' equity	$6,064	$5,488	$5,792	$5,315	$4,009
First quarter ending Praxair, Inc. shareholders' equity	$6,169	$5,940	$6,165	$5,398	$4,073
Second quarter ending Praxair, Inc. shareholders' equity	$5,928	$5,615	$6,400	$5,452	$4,638
Third quarter ending Praxair, Inc. shareholders' equity	$6,210	$6,015	$5,753	$5,991	$5,085
Year-End ending Praxair, Inc. shareholders' equity	$6,609	$6,064	$5,488	$5,792	$5,315
Five-quarter average Praxair, Inc. shareholders' equity	$6,196	$5,824	$5,920	$5,590	$4,624
Return on Praxair, Inc. Shareholders' Equity	28.6 %	28.9 %	28.1 %	26.4 %	27.0 %

Debt-to-Capital Ratio

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

(Dollar amounts in millions) Year Ended December 31,	2013	2012	2011	2010	2009
Total debt	$8,811	$7,362	$6,562	$5,557	$5,055
Less: cash and cash equivalents	(138)	(157)	(90)	(39)	(45)
Net debt	8,673	7,205	6,472	5,518	5,010
Equity and redeemable noncontrolling interests					
Redeemable noncontrolling interests	307	252	220	—	—
Praxair, Inc. shareholders' equity	6,609	6,064	5,488	5,792	5,315
Noncontrolling interests	394	357	309	353	333
Total equity and redeemable noncontrolling interests	7,310	6,673	6,017	6,145	5,648
Total capital	$15,983	$13,878	$12,489	$11,663	$10,658
Debt-to-capital ratio	54.3 %	51.9 %	51.8 %	47.3 %	47.0 %

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Adjusted EBITDA and Debt-to-Adjusted EBITDA Ratio

(Dollar amounts in millions) Year Ended December 31,	2013	2012	2011	2010	2009
Adjusted net income - Praxair, Inc. (see below)	$1,772	$1,681	$1,666	$1,476	$1,247
Add: adjusted noncontrolling interests (see below)	65	54	51	39	43
Add: adjusted interest expense - net	160	141	145	118	133
Add: adjusted income taxes (see below)	698	660	647	572	482
Add: depreciation and amortization	1,109	1,001	1,003	925	846
Adjusted EBITDA	$3,804	$3,537	$3,512	$3,130	$2,751
Beginning Praxair, Inc. net debt	$7,205	$6,472	$5,518	$5,010	$4,993
First quarter ending Praxair, Inc. net debt	$8,563	$6,749	$5,752	$5,028	$4,991
Second quarter ending Praxair, Inc. net debt	$9,004	$6,891	$6,039	$4,978	$5,074
Third quarter ending Praxair, Inc. net debt	$8,892	$7,028	$6,185	$5,006	$5,170
Year-End ending Praxair, Inc. net debt	$8,673	$7,205	$6,472	$5,518	$5,010
Five-quarter average Praxair, Inc. net debt	$8,467	$6,869	$5,993	$5,108	$5,048
Debt-to- adjusted EBITDA ratio	2.2	1.9	1.7	1.6	1.8

Adjusted Amounts

2013 amounts are adjusted for the impact of Venezuela currency devaluation, a pension settlement, an income tax benefit related to the realignment of Praxair's Italian legal structure and a bond redemption. 2012 amounts are adjusted for the impact of the cost reduction program, a pension settlement and an income tax benefit related to US homecare divestiture. 2011 amounts are adjusted for the impact of a net gain on acquisition and the cost reduction program. 2010 amounts are adjusted for the impact of the Spanish income tax settlement, US homecare divestiture, repatriation tax benefit and Venezuela currency devaluation. 2009 amounts are adjusted for the Brazil tax amnesty program and other charges. The company does not believe these items are indicative of on-going business performance and, accordingly, their impacts are excluded from the reported amounts so that investors can better evaluate and analyze historical and future business trends on a consistent basis.

(Dollar amounts in millions, except per share data) Year Ended December 31,	2013		2012		2011		2010		2009	
Adjusted Operating Profit and Margin										
Reported operating profit	$2,625		$2,437		$2,468		$2,082		$1,575	
Add: Pension settlement charge	9		9		—		—		—	
Add: Venezuela currency devaluation	23		—		—		27		—	
Add: Cost reduction program	—		56		40		—		—	
Less: Net gain on acquisition	—		—		(39	)	—		—	
Add: US homecare divestiture	—		—		—		58		—	
Add: Brazil tax amnesty and other charges	—		—		—		—		306	
Total adjustments	32		65		1		85		306	
Adjusted operating profit	$2,657		$2,502		$2,469		$2,167		$1,881	
Reported percent change	8	%	(1	)%	19	%	32	%	(16	)%
Adjusted percent change	6	%	1	%	14	%	15	%	(9	)%
Reported sales	$11,925		$11,224		$11,252		$10,116		$8,956	
Reported operating profit margin	22.0	%	21.7	%	21.9	%	20.6	%	17.6	%
Adjusted operating profit margin	22.3	%	22.3	%	21.9	%	21.4	%	21.0	%
Adjusted Interest Expense - Net										
Reported interest expense	178		141		145		118		133	

Less: Bond redemption	(18)	—	—	—	—
Adjusted interest expense - net	$160	$141	$145	$118	$133
Adjusted Income Taxes and Effective Tax Rate					
Reported income taxes	$649	$586	$641	$768	$169
Add: Bond redemption	6	—	—	—	—
Add: Income tax benefits	40	55	—	—	—
Add: Pension settlement charge	3	3	—	—	—
Add: Venezuela currency devaluation	—	—	—	1	—
Add: Cost reduction program	—	16	9	—	—
Less: Spanish income tax settlement	—	—	—	(250)	—
Less: Net gain on acquisition	—	—	(3)	—	—
Add: US homecare divestiture	—	—	—	18	—
Add: Repatriation tax benefit	—	—	—	35	—
Add: Brazil tax amnesty and other charges	—	—	—	—	313
Total adjustments	49	74	6	(196)	313
Adjusted income taxes	$698	$660	$647	$572	$482
Reported income before income taxes and equity investments	$2,447	$2,296	$2,323	$1,964	$1,442
Add: Bond redemption	18	—	—	—	—
Add: Pension settlement charge	9	9	—	—	—
Add: Venezuela currency devaluation	23	—	—	27	—
Add: Cost reduction program	—	56	40	—	—
Less: Net gain on acquisition	—	—	(39)	—	—
Add: US homecare divestiture	—	—	—	58	—
Add: Brazil tax amnesty and other charges	—	—	—	—	306
Total adjustments	50	65	1	85	306
Adjusted income before income taxes and equity investments	$2,497	$2,361	$2,324	$2,049	$1,748
Adjusted effective tax rate	28.0%	28.0%	27.8%	27.9%	27.6%
Adjusted Noncontrolling Interests					
Reported noncontrolling interests	$81	$52	$50	$39	$43
Less: Income tax benefits	(16)	—	—	—	—
Add: Cost reduction program	—	2	—	—	—
Add: Net gain on acquisition	—	—	1	—	—
Total adjustments	(16)	2	1	—	—
Adjusted noncontrolling interests	$65	$54	$51	$39	$43
Adjusted Net Income – Praxair, Inc.					
Reported net income – Praxair, Inc.	$1,755	$1,692	$1,672	$1,195	$1,254
Add: Bond redemption	12	—	—	—	—
Less: Income tax benefits	(24)	(55)	—	—	—
Add: Pension settlement charge	6	6	—	—	—
Add: Venezuela currency devaluation	23	—	—	26	—
Add: Cost reduction program	—	38	31	—	—
Less: Net gain on acquisition	—	—	(37)	—	—
Add: Spanish tax settlement	—	—	—	250	—
Add: US homecare divestiture	—	—	—	40	—
Less: Repatriation tax benefit	—	—	—	(35)	—
Less: Brazil tax amnesty and other charges	—	—	—	—	(7)

Total adjustments	17	(11)	(6)	281	(7)
Adjusted net income – Praxair, Inc.	$1,772	$1,681	$1,666	$1,476	$1,247
Reported percent change	4 %	1 %	40 %	(5)%	4 %
Adjusted percent change	5 %	1 %	13 %	18 %	(7)%

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(Dollar amounts in millions, except per share data)	2013	2012	2011	2010	2009
Year Ended December 31,					
Adjusted Diluted Earnings Per Share					
Reported diluted earnings per share	$5.87	$5.61	$5.45	$3.84	$4.01
Add: Bond redemption	0.04	—	—	—	—
Less: Income tax benefits	(0.08)	(0.18)	—	—	—
Add: Pension settlement charge	0.02	0.02	—	—	—
Add: Venezuela currency devaluation	0.08	—	—	0.08	—
Add: Cost reduction program	—	0.12	0.10	—	—
Less: Net gain on acquisition	—	—	(0.12)	—	—
Add: Spanish income tax settlement	—	—	—	0.80	—
Add: US homecare divestiture	—	—	—	0.13	—
Less: Repatriation tax benefit	—	—	—	(0.11)	—
Less: Brazil tax amnesty program and other charges	—	—	—	—	(0.02)
Total adjustments	0.06	(0.04)	(0.02)	0.90	(0.02)
Adjusted diluted earnings per share	$5.93	$5.57	$5.43	$4.74	$3.99
Reported percent change	5%	3%	42%	(4)%	
Adjusted percent change	6%	3%	15%	19%	

2014 Diluted Earnings Per Share Outlook

	Low End	High End
2014 diluted EPS outlook	$6.25	$6.55
2013 adjusted diluted EPS (see above)	$5.93	$5.93
Percentage change	5%	10%

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; the impact of information technology system failures, network disruptions and breaches in data security; 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. Additionally, financial projections or estimates exclude the impact of special items which the company believes are not indicative of ongoing business performance.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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

To manage these risks, Praxair uses various derivative financial instruments, including interest-rate swaps, currency swaps, forward contracts, currency options and commodity contracts. Praxair only uses commonly traded and non-leveraged instruments. These contracts are entered into primarily with major banking institutions thereby minimizing the risk of credit loss. Also, see Notes 1 and 12 to the consolidated financial statements for a more complete description of Praxair's accounting policies and use of such instruments.

The following discussion presents the sensitivity of the market value, earnings and cash flows of Praxair's financial instruments to hypothetical changes in interest and exchange rates assuming these changes occurred at December 31, 2013. The range of changes chosen for these discussions reflects Praxair's view of changes which are reasonably possible over a one-year period. Market values represent the present values of projected future cash flows based on interest rate and exchange rate assumptions.

Interest Rate and Debt Sensitivity Analysis

At December 31, 2013, Praxair had debt totaling $8,811 million ($7,362 million at December 31, 2012). At December 31, 2013 there were two interest-rate swap agreements outstanding with notional amounts totaling $875 million that converts fixed-rate interest to variable-rate interest on the $400 million 3.25% notes that mature in 2015 and the $475 million 1.25% notes that mature in 2018 (only the interest-rate swap related to the $400 million 3.25% notes that mature in 2015 was outstanding at December 31, 2012) . When considered necessary, interest-rate swaps are entered into as hedges of underlying financial instruments to effectively change the characteristics of the interest rate without actually changing the underlying financial instrument.

For fixed-rate instruments, interest-rate changes affect the fair market value but do not impact earnings or cash flows. Conversely, for floating-rate instruments, interest-rate changes generally do not affect the fair market value but impact future earnings and cash flows, assuming other factors are held constant.

At December 31, 2013, Praxair had fixed-rate debt of $7,004 million and floating-rate debt of $1,807 million, representing 79% and 21%, respectively, of total debt. At December 31, 2012, Praxair had fixed-rate debt of $6,239 million and floating-rate debt of $1,123 million, representing 85% and 15%, respectively, of total debt. Holding other variables constant (such as foreign exchange rates, swaps and debt levels), a one-percentage-point decrease in interest rates would increase the unrealized fair market value of the fixed-rate debt by approximately $421 million ($368 million in 2012). At December 31, 2013 and 2012, the after-tax earnings and cash flows impact for the subsequent year resulting from a one-percentage-point increase in interest rates would be approximately $12 million and $7 million, respectively, holding other variables constant.

Exchange Rate Sensitivity Analysis

Praxair's exchange-rate exposures result primarily from its investments and ongoing operations in South America (primarily Brazil, Argentina, Colombia and Venezuela), Europe (primarily Germany, Italy, Russia, Scandinavia and Spain), Canada, Mexico, Asia (primarily China, India, Korea and Thailand) and other business transactions such as the procurement of equipment from foreign sources. From time to time, Praxair utilizes foreign exchange forward contracts to hedge these exposures. At December 31, 2013, Praxair had $2,197 million notional amount ($2,515 million at December 31, 2012) of foreign exchange contracts all of which were to hedge recorded balance sheet exposures. See Note 12 to the consolidated financial statements.

Holding other variables constant, if there were a 10% adverse change in foreign-currency exchange rates for the portfolio, the fair market value of foreign-currency contracts outstanding at December 31, 2013 and 2012 would decrease by approximately $46 million and $32 million, respectively, which would be largely offset by an offsetting gain or loss on the foreign-currency fluctuation of the underlying exposure being hedged.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Praxair maintains accounting systems, including internal accounting controls, monitored by a staff of internal auditors, that are designed to provide reasonable assurance of the reliability of financial records and the protection of assets. The concept of reasonable assurance is based on recognition that the cost of a system should not exceed the related benefits. The effectiveness of those systems depends primarily upon the careful selection of financial and other managers, clear delegation of authority and assignment of accountability, inculcation of high business ethics and conflict-of-interest standards, policies and procedures for coordinating the management of corporate resources, and the leadership and commitment of top management. In compliance with Section 404 of the Sarbanes-Oxley Act of 2002, Praxair assessed its internal control over financial reporting and issued a report (see below).

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has completed an integrated audit of Praxair's 2013, 2012 and 2011 consolidated financial statements and of its internal control over financial reporting as of December 31, 2013 in accordance with the standards of the Public Company Accounting Oversight Board (United States) as stated in their report.

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Praxair's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the company's principal executive officer and principal financial officer, the company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (often referred to as COSO). Based on this evaluation, management concluded that the company's internal control over financial reporting was effective as of December 31, 2013.

Praxair's evaluation of internal control over financial reporting as of December 31, 2013 did not include the internal control over financial reporting related to NuCO_2 Inc. and Dominion Technology Gases Investment Limited because they were acquired by Praxair in purchase business combinations consummated during 2013. Total assets and sales for these acquisitions represent 7.1% and 2.0%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2013 (See Note 3).

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has issued their opinion on the company's internal control over financial reporting as of December 31, 2013 as stated in their report.

/s/ STEPHEN F. ANGEL Stephen F. Angel Chairman, President and Chief Executive Officer	/s/ ELIZABETH T. HIRSCH Elizabeth T. Hirsch Vice President and Controller
/s/ MATTHEW J. WHITE Matthew J. White Senior Vice President and Chief Financial Officer	Danbury, Connecticut February 25, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholders of Praxair, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income (loss), equity and cash flows present fairly, in all material respects, the financial position of Praxair, Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013 based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded $NuCO_2$ Inc. and Dominion Technology Gases Investment Limited from its assessment of internal control over financial reporting as of December 31, 2013 because these businesses were acquired by the Company in purchase business combinations during 2013. We have also excluded $NuCO_2$ Inc. and Dominion Technology Gases Investment Limited from our audit of internal control over financial reporting. $NuCO_2$ Inc. and Dominion Technology Gases Investment Limited are wholly owned subsidiaries of the Company. The aggregate total assets and total sales of these entities represent 7.1% and 2.0%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2013.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers

Stamford, Connecticut

February 25, 2014

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CONSOLIDATED STATEMENTS OF INCOME
PRAXAIR, INC. AND SUBSIDIARIES
(Dollar amounts in millions, except per share data)

Year Ended December 31,	2013	2012	2011
Sales	$11,925	$11,224	$11,252
Cost of sales, exclusive of depreciation and amortization	6,744	6,396	6,458
Selling, general and administrative	1,349	1,270	1,239
Depreciation and amortization	1,109	1,001	1,003
Research and development	98	98	90
Venezuela currency devaluation and other charges – net	32	65	1
Other income (expenses) – net	32	43	7
Operating Profit	2,625	2,437	2,468
Interest expense – net	178	141	145
Income Before Income Taxes and Equity Investments	2,447	2,296	2,323
Income taxes	649	586	641
Income Before Equity Investments	1,798	1,710	1,682
Income from equity investments	38	34	40
Net Income (Including Noncontrolling Interests)	1,836	1,744	1,722
Less: noncontrolling interests	(81)	(52)	(50)
Net Income – Praxair, Inc.	$1,755	$1,692	$1,672
Per Share Data – Praxair, Inc. Shareholders			
Basic earnings per share	$5.94	$5.67	$5.53
Diluted earnings per share	$5.87	$5.61	$5.45
Weighted Average Shares Outstanding (000’s):			
Basic shares outstanding	295,523	298,316	302,237
Diluted shares outstanding	298,965	301,845	306,722

The accompanying Notes on pages 58 to 97 are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
PRAXAIR, INC. AND SUBSIDIARIES
(Dollar amounts in millions)

Year Ended December 31,	2013	2012	2011
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	$1,836	$1,744	$1,722
OTHER COMPREHENSIVE INCOME (LOSS)			
Translation adjustments:			
Foreign currency translation adjustments	(474)	(13)	(563)
Income Taxes	27	17	29
Translation adjustments	(447)	4	(534)
Funded status - retirement obligations (Note 16):			
Retirement program remeasurements	408	(228)	(347)
Reclassifications to net income	95	71	42
Income taxes	(180)	49	115
Funded status - retirement obligations	323	(108)	(190)
Derivative instruments (Note 12):			
Current year unrealized gain (loss)	1	(1)	(15)
Reclassifications to net income	—	—	—
Income taxes	—	1	6
Derivative instruments	1	—	(9)
TOTAL OTHER COMPREHENSIVE LOSS	(123)	(104)	(733)
COMPREHENSIVE INCOME (INCLUDING NONCONTROLLING INTERESTS)	1,713	1,640	989
Less: noncontrolling interests	(76)	(54)	(45)
COMPREHENSIVE INCOME - PRAXAIR, INC.	$1,637	$1,586	$944

The accompanying Notes on pages 58 to 97 are an integral part of these financial statements.

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CONSOLIDATED BALANCE SHEETS
PRAXAIR, INC. AND SUBSIDIARIES
(Dollar amounts in millions)

December 31,	2013	2012
Assets		
Cash and cash equivalents	$138	$157
Accounts receivable – net	1,892	1,834
Inventories	506	476
Prepaid and other current assets	380	325
Total Current Assets	2,916	2,792
Property, plant and equipment – net	12,278	11,453
Equity investments	702	654
Goodwill	3,194	2,507
Other intangible assets – net	596	173
Other long-term assets	569	511
Total Assets	$20,255	$18,090
Liabilities and Equity		
Accounts payable	$921	$928
Short-term debt	782	638
Current portion of long-term debt	3	39
Accrued taxes	168	123
Other current liabilities	790	751
Total Current Liabilities	2,664	2,479
Long-term debt	8,026	6,685
Other long-term liabilities	859	1,276
Deferred credits	1,396	977
Total Liabilities	12,945	11,417
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interests	307	252
Praxair, Inc. Shareholders' Equity:		
Common stock $0.01 par value, authorized – 800,000,000 shares, issued 2013 – 383,230,625 shares and 2012 – 383,073,446 shares	4	4
Additional paid-in capital	3,970	3,889
Retained earnings	10,528	9,534
Accumulated other comprehensive income (loss)	(1,981)	(1,852)
Less: Treasury stock, at cost (2013 – 89,096,761 shares and 2012 – 86,843,966 shares)	(5,912)	(5,511)
Total Praxair, Inc. Shareholders' Equity	6,609	6,064
Noncontrolling interests	394	357
Total Equity	7,003	6,421
Total Liabilities and Equity	$20,255	$18,090

The accompanying Notes on pages 58 to 97 are an integral part of these financial statements.

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

Year Ended December 31,	2013	2012	2011
Increase (Decrease) in Cash and Cash Equivalents			
Operations			
Net income – Praxair, Inc.	$1,755	$1,692	$1,672
Noncontrolling interests	81	52	50
Net income (including noncontrolling interests)	$1,836	$1,744	$1,722
Adjustments to reconcile net income to net cash provided by operating activities:			
Venezuela currency devaluation and other charges-net, net of payments	23	43	(5)
Depreciation and amortization	1,109	1,001	1,003
Deferred income taxes	101	258	(3)
Share-based compensation	70	70	62
Non-cash charges and other	(88)	(127)	(71)
Working capital			
Accounts receivable	(84)	(36)	(108)
Inventory	(54)	(18)	(31)
Prepaid and other current assets	(69)	(17)	8
Payables and accruals	107	(34)	44
Pension contributions	(52)	(184)	(94)
Long-term assets, liabilities and other	18	52	(72)
Net cash provided by operating activities	2,917	2,752	2,455
Investing			
Capital expenditures	(2,020)	(2,180)	(1,797)
Acquisitions, net of cash acquired	(1,323)	(280)	(294)
Divestitures and asset sales	106	82	86
Net cash used for investing activities	(3,237)	(2,378)	(2,005)
Financing			
Short-term debt borrowings (repayments) – net	149	293	(47)
Long-term debt borrowings	2,659	2,036	1,541
Long-term debt repayments	(1,347)	(1,522)	(580)
Issuances of common stock	154	164	195
Purchases of common stock	(590)	(623)	(937)
Cash dividends – Praxair, Inc. shareholders	(708)	(655)	(602)
Excess tax benefit on stock based compensation	46	60	53
Noncontrolling interest transactions and other	(35)	(56)	(3)
Net cash used for financing activities	328	(303)	(380)
Effect of exchange rate changes on cash and cash equivalents	(27)	(4)	(19)
Change in cash and cash equivalents	(19)	67	51
Cash and cash equivalents, beginning-of-period	157	90	39
Cash and cash equivalents, end-of-period	$138	$157	$90
Supplemental Data			
Income taxes paid	$532	$277	$515
Interest paid, net of capitalized interest (Note 7)	$184	$153	$157

The accompanying Notes on pages 58 to 97 are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF EQUITY
PRAXAIR, INC. AND SUBSIDIARIES
(Dollar amounts in millions, except per share data, shares in thousands)

	Praxair, Inc. Shareholders' Equity									
	Common Stock					Treasury Stock				
Activity	Shares	Amounts	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Note 7)	Shares	Amounts	Praxair, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2010	382,623	$ 4	$ 3,702	$7,475	$ (1,018)	78,627	$(4,371)	$ 5,792	$ 353	$6,145
Net Income				1,672				1,672	48	1,720
Other comprehensive income (loss)					(728)			(728)	(5)	(733)
Noncontrolling interests:										
Dividends and other capital reductions								—	(26)	(26)
Additions (Reductions)								—	4	4
Reclassification to redeemable noncontrolling interests (Note 14)									(65)	(65)
Redemption value adjustments (Note 14)				(35)				(35)		(35)
Dividends to Praxair, Inc. common stock ($2.00 per share)				(602)				(602)		(602)
Issuances of common stock:										
For the dividend reinvestment and stock purchase plan	71		7					7		7
For employee savings and incentive plans	160		(17)			(3,682)	215	198		198
Purchases of common stock						9,379	(933)	(933)		(933)
Tax benefit from stock options			55					55		55
Share-based compensation			62					62		62

Balance, December 31, 2011	382,854	$ 4	$ 3,809	$ 8,510	$ (1,746)	84,324	$ (5,089)	$ 5,488	$ 309	$ 5,797
Net Income				1,692				1,692	34	1,726
Other comprehensive income (loss)					(106)			(106)	2	(104)
Noncontrolling interests:										
Dividends and other capital reductions								—	(48)	(48)
Purchases of noncontrolling interests								—	44	44
Additions (Reductions)								—	16	16
Redemption value adjustments (Note 14)				(13)				(13)		(13)
Dividends to Praxair, Inc. common stock ($2.20 per share)				(655)				(655)		(655)

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	Praxair, Inc. Shareholders' Equity									
	Common Stock					Treasury Stock				
Activity	Shares	Amounts	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Note 7)	Shares	Amounts	Praxair, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
Issuances of common stock:										
For the dividend reinvestment and stock purchase plan	66		7					7		7
For employee savings and incentive plans	153		(60)			(3,298)	208	148		148
Purchases of common stock						5,818	(630)	(630)		(630)
Tax benefit from stock options			63					63		63
Share-based compensation			70					70		70
Balance, December 31, 2012	383,073	$ 4	$ 3,889	$ 9,534	$ (1,852)	86,844	$ (5,511)	$ 6,064	$ 357	$ 6,421
Net Income				1,755				1,755	57	1,812
Other comprehensive income (loss)					(129)			(129)	6	(123)
Noncontrolling interests:										
Dividends and other capital reductions								—	(41)	(41)
Additions (Reductions)								—	15	15
Redemption value adjustments (Note 14)				(53)				(53)		(53)
Dividends to Praxair, Inc. common stock ($2.40 per share)				(708)				(708)		(708)
Issuances of common stock:										
For the dividend reinvestment and stock purchase plan	47		5			(14)	2	7		7

For employee savings and incentive plans	111		(41)			(2,767)	180	139		139
Purchases of common stock						5,034	(583)	(583)		(583)
Tax benefit from stock options			47					47		47
Share-based compensation			70					70		70
Balance, December 31, 2013	383,231	$ 4	$ 3,970	$ 10,528	$ (1,981)	89,097	$ (5,912)	$ 6,609	$ 394	$ 7,003

The accompanying Notes on pages 58 to 97 are an integral part of these financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PRAXAIR, INC. AND SUBSIDIARIES
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Operations – Praxair, Inc. and its subsidiaries ("Praxair" or "the company") comprise one of the largest industrial gases companies worldwide, and the largest in North and South America. Praxair produces, sells and distributes atmospheric, process and specialty gases, and high-performance surface coatings to a diverse group of industries including aerospace, chemicals, electronics, energy, food and beverage, healthcare, manufacturing and metals.
Principles of Consolidation – The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America (" U.S. GAAP") and include the accounts of all significant subsidiaries where control exists and, in limited situations, variable-interest entities where the company is the primary beneficiary. Intercompany transactions and balances are eliminated in consolidation and any significant related-party transactions have been disclosed.
Equity investments generally consist of 20% to 50% owned operations where the company exercises significant influence, but does not have control. Equity income from equity investments in corporations is reported on an after-tax basis. Pre-tax income from equity investments that are partnerships or limited-liability corporations ("LLC") is included in other income (expenses) – net with related taxes included in Income taxes. Equity investments are reviewed for impairment whenever events or circumstances reflect that an impairment loss may have incurred. Operations less than 20% owned, where the company does not exercise significant influence, are generally carried at cost.
Changes in ownership interest that result either in consolidation or deconsolidation of an investment are recorded at fair value through earnings, including the retained ownership interest, while changes that do not result in either consolidation or deconsolidation of a subsidiary are treated as equity transactions.
Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While actual results could differ, management believes such estimates to be reasonable.
Revenue Recognition – Product sales represent approximately 89% of consolidated sales while all other sources of revenue are approximately 11% in the aggregate. Revenue is recognized when a firm sales agreement exists, collectability of a fixed or determinable sales price is reasonably assured, and when title and risks of ownership transfer to the customer for product sales or, in the case of other revenues when obligations are satisfied or services are performed. Sales returns and allowances are not a normal practice in the industry and are not significant.
A small portion of the company’s revenues relate to long-term construction contracts and are generally recognized using the percentage-of-completion method. Under this method, revenues from sales of major equipment, such as large air-separation facilities, are recognized based primarily on cost incurred to date compared with total estimated cost. Changes to total estimated cost and anticipated losses, if any, are recognized in the period determined.
For contracts that contain multiple products and/or services, amounts assigned to each component are based on its objectively determined fair value, such as the sales price for the component when it is sold separately or competitor prices for similar components.
Certain of the company’s facilities that are built to provide product to a specific customer are required to be accounted for as leases. The associated revenue streams are classified as rental revenue and are not significant.
Amounts billed for shipping and handling fees are recorded as sales, generally on FOB destination terms, and costs incurred for shipping and handling are recorded as cost of sales.
Amounts billed for sales and use taxes, value-added taxes, and certain excise and other specific transactional taxes imposed on revenue producing transactions are presented on a net basis and are not included in sales in the consolidated statement of income.
Cash Equivalents – Cash equivalents are considered to be highly liquid securities with original maturities of three months or less.
Inventories – Inventories are stated at the lower of cost or market. Cost is determined using the average-cost method for most operations and the last-in, first-out ("LIFO") method for certain U.S. operations (see Note 7).

Property, Plant and Equipment – Net – Property, plant and equipment are carried at cost, net of accumulated depreciation. The company capitalizes interest as part of the cost of constructing major facilities (see Note 7). Depreciation is calculated on the straight-line method based on the estimated useful lives of the assets, which range from 3 years to 40 years (see Note 8). Praxair uses accelerated depreciation methods for tax purposes where appropriate. Maintenance of property, plant and equipment is generally expensed as incurred.

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

Asset-Retirement Obligations – An asset-retirement obligation is recognized in the period in which sufficient information exists to determine the fair value of the liability with a corresponding increase to the carrying amount of the related property, plant and equipment which is then depreciated over its useful life. The liability is initially measured at discounted fair value and then accretion expense is recorded in each subsequent period. The company's asset-retirement obligations are primarily associated with its on-site long-term supply arrangements where the company has built a facility on land leased from the customer and is obligated to remove the facility at the end of the contract term. The company's asset-retirement obligations are not material to its consolidated financial statements.

Foreign Currency Translation – For most foreign operations, the local currency is the functional currency and translation gains and losses are reported as part of the accumulated other comprehensive income (loss) component of equity as a cumulative translation adjustment (see Note 7). For other foreign operations, the U.S. dollar is the functional currency and translation gains and losses are included in other income (expenses) – net.

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

There are two types of derivatives the company enters into: hedges of fair-value exposures and hedges of cash-flow exposures. Fair-value exposures relate to recognized assets or liabilities, and firm commitments; while cash-flow exposures relate to the variability of future cash flows associated with recognized assets or liabilities, or forecasted transactions. When a derivative is executed and hedge accounting is appropriate, it is designated as either a fair-value hedge or a cash-flow hedge. Currently, Praxair designates all interest-rate and commodity-swap agreements as hedges; however, currency contracts are generally not designated as hedges for accounting purposes. All derivatives are linked to an appropriate underlying exposure. On an ongoing basis, the company assesses the hedge effectiveness of all derivatives designated as hedges to determine if they continue to be highly effective in offsetting changes in fair values or cash flows of the underlying hedged items. If it is determined that the hedge is not highly effective, then hedge accounting will be discontinued prospectively and changes in fair value are recorded in the consolidated statements of income.

Changes in the fair value of derivatives designated as fair-value hedges are recognized in earnings as an offset to the change in the fair values of the underlying exposures being hedged. The changes in fair value of derivatives that are designated as cash-flow hedges are deferred in accumulated other comprehensive income (loss) and are reclassified to earnings as the underlying hedged transaction affects earnings. Any ineffectiveness is recognized in earnings immediately. Hedges of net investments in foreign subsidiaries are recognized in the cumulative translation adjustment component of accumulated other comprehensive income (loss) on the consolidated balance sheets to offset translation gains and losses associated with the hedged net investment. Derivatives that are entered into for risk-management purposes and are not designated as hedges (primarily related to anticipated net income and currency derivatives other than for firm commitments) are recorded at their fair market values and recognized in current earnings.

See Note 12 for additional information relating to financial instruments.

Goodwill – Acquisitions are accounted for using the acquisition method which requires allocation of the purchase price to assets acquired and liabilities assumed based on estimated fair values. Any excess of the purchase price over the fair value of the assets and liabilities acquired is recorded as goodwill. Allocations of the purchase price are based on preliminary estimates and assumptions at the date of acquisition and are subject to revision based on final information received, including appraisals and other analyses which support underlying estimates.

The company performs a goodwill impairment test annually in the second quarter or more frequently if events or circumstances indicate that an impairment loss may have been incurred. The impairment test allows an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than carrying value. If it is determined, that it is more likely than not that the fair value of a reporting unit is less than carrying value then the company will estimate and compare the fair value of its reporting units to their carrying value, including goodwill.

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Reporting units are determined based on one level below the operating segment level. As applicable, fair value is determined through the use of projected future cash flows, multiples of earnings and sales and other factors. Such analysis requires the use of certain market assumptions and discount factors, which are subjective in nature.
See Note 9 for additional information relating to goodwill.
Other Intangible Assets – Customer and license/use agreements, non-compete agreements and patents and other intangibles are amortized over the estimated period of benefit. The determination of the estimated period of benefit will be dependent upon the use and underlying characteristics of the intangible asset. Praxair evaluates the recoverability of its intangible assets subject to amortization when facts and circumstances indicate that the carrying value of the asset may not be recoverable. If the carrying value is not recoverable, impairment is measured as the amount by which the carrying value exceeds its estimated fair value. Fair value is generally estimated based on either appraised value or other valuation techniques.
See Note 10 for additional information relating to other intangible assets.
Income Taxes – Deferred income taxes are recorded for the temporary differences between the financial statement and tax bases of assets and liabilities using currently enacted tax rates. Valuation allowances are established against deferred tax assets whenever circumstances indicate that it is more likely than not that such assets will not be realized in future periods.
Under the guidance for accounting for uncertainty in income taxes, the company can recognize the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit can be recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Additionally, the company accrues interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. Interest and penalties are classified as income tax expense in the financial statements.
See Note 5 for additional information relating to income taxes.
Retirement Benefits – Most Praxair employees participate in a form of defined benefit or contribution retirement plan, and additionally certain employees are eligible to participate in various post-employment health care and life insurance benefit plans. The cost of contribution plans is recognized in the year earned while the cost of other plans is recognized over the employees' expected service period to the company, all in accordance with the applicable accounting standards. The funded status of the plans is recorded as an asset or liability in the consolidated balance sheets. Funding of retirement benefits varies and is in accordance with local laws and practices.
See Note 16 for additional information relating to retirement programs.
Share-based Compensation– The company has granted share-based awards which consist of stock options, restricted stock and performance-based stock. Share-based compensation expense is generally recognized on a straight-line basis over the stated vesting period. For stock awards granted to full-retirement-eligible employees, compensation expense is recognized over the period from the grant date to the date retirement eligibility is achieved. For performance-based awards, compensation expense is recognized only if it is probable that the performance condition will be achieved.
See Note 15 for additional disclosures relating to share-based compensation.
Recently Issued Accounting Standards
Accounting Standards Implemented in 2013
The following standards were all effective for Praxair in 2013 and their adoption did not have a significant impact on the condensed consolidated financial statements:

- Statement of Comprehensive Income - In February 2013, the Financial Accounting Standards Board ("FASB") issued updated disclosure requirements regarding the presentation of other comprehensive income. The adoption of this guidance did not have a significant impact on the consolidated financial statements. Refer to the Consolidated Statements of Comprehensive Income (Loss) following the Consolidated Statements of Income.
- 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

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disclosure of the gross amounts subject to rights of setoff, amounts offset, and the related net exposure. The adoption of this guidance did not have a significant impact on the consolidated financial statements.

Accounting Standards to Be Implemented

- Accounting for Cumulative Translation Adjustment - In March 2013, the FASB issued updated guidance on the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity, or as a result of acquisitions achieved in stages. This guidance will be effective for Praxair beginning with the first quarter 2014. Praxair does not expect this requirement to have any impact on the consolidated financial statements.
- Presentation of Unrecognized Tax Benefits - In July 2013, the FASB issued updated guidance on the presentation of unrecognized tax benefits. The new guidance requires an entity to present certain unrecognized tax benefits, or a portion therefore, as a reduction to the related deferred tax asset, primarily for loss and tax credit carryforwards. This guidance will be effective for Praxair beginning with the first quarter 2014. Praxair does not expect this requirement to have a significant impact on the consolidated financial statements.

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

NOTE 2. VENEZUELA CURRENCY DEVALUATION AND OTHER CHARGES – NET

2013 Charges

Venezuela Currency Devaluation

On February 8, 2013, Venezuela announced a devaluation of the Venezuelan Bolivar from 4.30 to 6.30 (a 32% devaluation), effective on February 13, 2013. In the first quarter Praxair recorded a $23 million pre-tax charge ($23 million after-tax) due primarily to the remeasurement of the local Venezuelan balance sheet to reflect the new official 6.30 exchange rate. The company does not expect the impact of the devaluation on future results of operations to be significant.

Pension Settlement Charge

During 2012, 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. Accordingly, Praxair recorded a settlement charge related to net unrecognized actuarial losses of $9 million ($6 million after-tax) in July 2013 when the cash payments were made to the retirees (refer to Note 16).

2012 Charges

Cost Reduction Program

In the third quarter of 2012, Praxair recorded pre-tax charges totaling $56 million ($38 million after taxes of $16 million and noncontrolling interests of $2 million), relating to severance and business restructuring actions primarily in Europe within the industrial gases and surface technologies businesses. The cost reduction program was initiated primarily in response to the continuing economic downturn in Europe.

The following is a summary of the charges by reportable segment:

(Millions of dollars)	Severance Costs	Costs Associated with Exit or Disposal Activities	Total Cost Reduction Program
North America	$1	$—	$1
Europe	28	8	36
South America	1	—	1
Asia	2	—	2
Surface Technologies	11	5	16
Total	$43	$13	$56

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The severance costs of $43 million are for the termination of approximately 410 employees, primarily in Europe (industrial gases and surface technologies). These actions reflected the continued business slow-down in Europe and resulted from a decision to eliminate and/or restructure operations and product lines. The actions are substantially completed as of December 31, 2013 and the remaining liability associated with those actions is expected to be paid during the next twelve months.

The costs associated with exit or disposal activities of $13 million include asset write-downs and other costs associated with a decision to eliminate and/or restructure operations and product lines. In Europe the costs primarily relate to the elimination and consolidation of operations in Spain. In Surface Technologies, the costs relate to the consolidation/rationalization of operations and product lines, primarily in Germany and Italy.

The following table summarizes the activities related to the company's cost reduction program through December 31, 2013:

(Millions of dollars)	Severance Costs	Costs Associated with Exit or Disposal Activities	Total Cost Reduction Program
Cost reduction program charges in the third quarter of 2012	$43	$13	$56
Less: Cash payments	$(13)	$—	$(13)
Less: Non-cash asset write-offs	$—	$(9)	$(9)
Balance, December 31, 2012	$30	$4	$34
Less: Cash payments	(16)	(4)	(20)
Foreign currency translation	1	—	1
Balance, December 31, 2013	$15	$—	$15

Pension Settlement Charge

During 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. Accordingly, Praxair recorded a settlement charge related to net unrecognized actuarial losses of $9 million ($6 million after-tax) in July 2012 when the cash payments were made (refer to Note 16).

2011 Charges – net

Gain on Acquisition

As discussed in Note 3, during the fourth quarter 2011 Praxair increased its ownership in its Yara Praxair Holding AS (“Yara Praxair”) joint venture in Scandinavia from 50% to 66% and consolidated the company. Previously, Praxair accounted for its 50% ownership interest in the joint venture as an equity method investment. In accordance with U. S. accounting rules, upon consolidation Praxair was required to fair value the entire Yara Praxair joint venture, including its original 50% ownership interest. Accordingly, Praxair recorded a net pre-tax gain of $39 million ($37 million net income – Praxair, Inc.) during the fourth quarter of 2011 primarily for the amount that the fair value of its original 50% ownership interest exceeded the equity investment book value.

Cost Reduction Program

In the fourth quarter 2011, Praxair recorded pre-tax charges totaling $40 million ($31 million after-tax), relating to severance and business restructuring actions primarily in Europe within the industrial gases and surface technologies businesses. The cost reduction program was initiated primarily in response to the economic downturn in Europe.

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The following is a summary of the charges by reportable segment.

(Millions of dollars)	Severance Costs	Costs Associated with Exit or Disposal Activities	Total Cost Reduction Program
North America	$ 1	$—	$ 1
Europe	20	1	21
South America	4	—	4
Surface Technologies	8	6	14
Total	$ 33	$ 7	$ 40

The severance costs of $33 million are for the termination of approximately 290 employees, primarily in Europe, South America and Surface technologies, of which approximately half were terminated as of December 31, 2011. At December 31, 2012, all actions have been completed. These costs include $6 million of pension settlement charges, primarily related to the closure of the surface technologies business in Switzerland.

The costs associated with exit or disposal activities of $7 million include asset write-downs and other costs primarily associated with a decision to close the company's surface technologies facility in Switzerland, and to consolidate operations in the United Kingdom.

Classification in the consolidated financial statements

The pre-tax net charges or benefits for each year are shown in operating profit in a separate line item on the consolidated statement of income. In the balance sheets, asset write-offs are recorded as a reduction to the carrying value of the related assets and unpaid amounts are recorded as short-term liabilities (See Note 7). On the consolidated statement of cash flows, the pre-tax impact of the net charges or benefits, net of cash payments, is shown as an adjustment to reconcile net income to net cash provided by operating activities. In Note 18 - Segment Information, Praxair excluded these items in its management definition of segment operating profit; a reconciliation of segment operating profit to consolidated operating profit is shown within the operating profit table.

NOTE 3. ACQUISITIONS

The results of operations of these businesses have been included in Praxair's consolidated statements of income since their respective dates of acquisition. Proforma financial statements for the following acquisitions have not been provided as the acquisitions are not material individually or in the aggregate.

2013 Acquisitions

$NuCO_2$

On March 1, 2013 Praxair acquired 100% of $NuCO_2$ Inc. ("$NuCO_2$") for $1,095 million. $NuCO_2$ is the leading national provider of beverage carbonation solutions in the United States to the restaurant and hospitality industries with 162,000 customer locations and 900 employees, and with 2012 sales of approximately $230 million. The $NuCO_2$ micro-bulk beverage carbonation solution is the service model of choice for quick service restaurants and convenience stores offering fountain beverages and represents an extension of Praxair's core industrial gas business.

The acquisition of $NuCO_2$ was accounted for as a business combination. Following the acquisition date, 100% of $NuCO_2$'s results were consolidated in the North America business segment. Praxair's 2013 consolidated income statement includes sales of $208 million related to $NuCO_2$. Pro forma results for 2013 and 2012 have not been included as the impact of the acquisition is not material to the consolidated statements of income.

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The following table summarizes the fair value of identifiable assets acquired and liabilities assumed in the acquisition of $NuCO_2$ as of the acquisition date. The allocation of the purchase price to identifiable assets and liabilities is final except for those related to income taxes. The potential adjustments are expected to be insignificant and will be recorded when the pre-acquisition tax returns are finalized in the 2014 first quarter.

(Millions of dollars)	March 1, 2013
Trade receivables, net	$17
Property, plant and equipment	199
Intangible assets	374
Deferred income taxes	(85)
Other assets and (liabilities)	(28)
Goodwill	618
Purchase price	$1,095

The identifiable intangible assets primarily consist of customer relationships that will be amortized over their estimated useful life of 25 years. The deferred income taxes relate primarily to property, plant and equipment, intangibles and operating loss carryforwards. The goodwill resulting from the acquisition is attributable to (i) expected growth from market penetration into the quick service restaurants, convenience stores and themed restaurant chains in the United States and select international markets as we leverage Praxair's customer and distribution networks worldwide, and (ii) cost synergies related to the procurement of raw materials, distribution-related expenses and administrative costs as Praxair integrates and rationalizes administration tasks and leverages its purchasing scale. The goodwill is not expected to be deductible for income tax purposes.

Other Acquisitions

On May 29, 2013 Praxair acquired Dominion Technology Gases Investment Limited (“Dominion”), a leading global supplier of diving, welding, industrial, laboratory and calibration gases and associated equipment to the offshore oil and gas industry based in Aberdeen, Scotland. Dominion provides products and services to the expanding global offshore oil and gas market.

On June 3, 2013 Praxair acquired Volgograd Oxygen Factory (“VOF”), the largest independent industrial gas business in southern Russia, expanding Praxair's production and distribution capabilities in the Volgograd region. Additionally, during 2013, Praxair acquired several smaller independent packaged gas distributors in the United States, an industrial gas business in Italy and a customer contract with operating assets in China.

The aggregate purchase price for these acquisitions was $228 million and resulted in the recognition of $194 million of intangible assets, including $101 million of goodwill and $93 million of other intangible assets, which will be amortized over their estimated useful life.

2012 Acquisitions

In November 2012, Praxair acquired Acetylene Oxygen Company ("AOC"), one of the top ten independent gas and welding products distributors in the U.S, which operates throughout central and southern Texas. The acquisition of AOC allows Praxair to further expand its packaged gases presence in this region. Also, during the twelve months ended December 31, 2012, Praxair completed a number of other smaller acquisitions, primarily North American packaged gas distributors, including PortaGas, located in Houston, Texas. The aggregate purchase price for all seventeen acquisitions was $280 million, and resulted in recognition of $122 million of goodwill.

2011 Acquisitions

In December 2011, Praxair acquired Texas Welders Supply Company, the largest independent gas and welding products distributor in the greater Houston, Texas area. This acquisition increased Praxair’s packaged gas presence in what is considered one of top five welding markets in the U.S.

In October 2011, Praxair increased its ownership in its Yara Praxair industrial gases joint venture with Yara International ASA of Norway from 50% to 66%. The Yara Praxair joint venture, formed in late 2007, comprises Yara International's former industrial gases businesses located in Norway, Denmark and Sweden. Through the third quarter of 2011, Praxair accounted for its 50% ownership interest in the joint venture as an equity method investment. As a result of the acquisition of a controlling interest, Praxair consolidated Yara Praxair within the European segment beginning in the fourth quarter of 2011 (including $50 million of sales). In accordance with U.S. accounting rules, Praxair was also required to fair value its original 50% ownership interest in Yara Praxair which resulted in a $39 million net gain (see Note 2).

On June 15, 2011, Praxair completed the acquisition of a 49% ownership interest in the ROC Group's industrial gases business operating in the United Arab Emirates. This investment has been accounted for as an equity investment in Praxair's consolidated financial statements.

Also, during the twelve months ended December 31, 2011, Praxair completed several smaller acquisitions, related primarily to North American packaged gas distributors, including American Gas Group, primarily located in Toledo, Ohio and National Alloy and Equipment, in Houston, Texas.

The aggregate net cash paid for these acquisitions was $294 million and resulted in the recognition of $396 million of goodwill. The goodwill includes the consolidation of Yara Praxair, while the cash paid only relates to Praxair's ownership increase.

NOTE 4. LEASES

In the normal course of its business, Praxair enters into various leases as the lessee, primarily involving manufacturing and distribution equipment and office space. Total lease and rental expenses under operating leases were $140 million in 2013, $120 million in 2012 and $115 million in 2011. Capital leases are not significant and are included in property, plant and equipment – net. Related obligations are included in debt.

At December 31, 2013, minimum payments due under operating leases are as follows:

(Millions of dollars)	
2014	$119
2015	103
2016	88
2017	69
2018	57
Thereafter	51
	$487

The present value of these future lease payments under operating leases is approximately $411 million.

Praxair's leases where it is the lessor are not significant.

NOTE 5. INCOME TAXES

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

(Millions of dollars) Year Ended December 31,	2013	2012	2011
United States	$890	$880	$762
Foreign	1,557	1,416	1,561
Total income before income taxes	$2,447	$2,296	$2,323

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

(Millions of dollars) Year Ended December 31,	2013	2012	2011
Current tax expense			
U.S. federal	$94	$14	$273
State and local	27	20	30
Foreign	427	294	341
	548	328	644
Deferred tax expense			
U.S. federal	164	198	(47)
State and local	8	17	3
Foreign	(71)	43	41
	101	258	(3)
Total income taxes	$649	$586	$641

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

(Dollar amounts in millions) Year Ended December 31,	2013		2012		2011	
U.S. statutory income tax rate	$856	35.0 %	$804	35.0 %	$813	35.0 %
State and local taxes – net of federal benefit	23	1.0 %	24	1.0 %	21	0.9 %
U.S. tax credits and deductions (a)	(23)	(1.0)%	(22)	(1.0)%	(21)	(0.9)%
Foreign tax differentials (b)	(150)	(6.1)%	(159)	(6.9)%	(164)	(7.0)%
Income tax benefit from realignment of Italian legal structure (c)	(40)	(1.6)%	—	— %	—	— %
Income tax benefit from liquidation of subsidiary (d)	—	— %	(55)	(2.4)%	—	— %
Other – net	(17)	(0.8)%	(6)	(0.2)%	(8)	(0.4)%
Provision for income taxes	$649	26.5 %	$586	25.5 %	$641	27.6 %

(a) U.S. tax credits and deductions relate to manufacturing deductions and to the research and experimentation tax credit.

(b) Primarily related to differences between the U.S. tax rate of 35% and the statutory tax rate in the countries where Praxair operates. Other tax rate changes were not significant.

(c) In December of 2013, Praxair's Italian legal structure was realigned. As a result of the new structure, an income tax benefit of $40 million ($24 million net of noncontrolling interests) was recorded. The benefit is recorded as $56 million in foreign current tax expense and $(96) million included in federal deferred tax expense.

(d) In 2011 Praxair requested a pre-filing agreement (“PFA”) with the U.S. Internal Revenue Service (“IRS”) related to a loss on a liquidated subsidiary resulting from the divestiture of the U.S. Homecare Business. During the third quarter of 2012, the IRS approved the PFA resulting in a net income tax benefit of $55 million. The benefit is recorded in U.S. current federal tax expense.

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Net deferred tax liabilities included in the consolidated balance sheet are comprised of the following:

(Millions of dollars) December 31,	2013	2012
Deferred tax liabilities		
Fixed assets	$1,374	$1,153
Exchange gains	61	92
Goodwill	127	84
Other intangible assets	112	—
Other	133	121
	$1,807	$1,450
Deferred tax assets		
Carryforwards	$323	$294
Benefit plans and related (a)	285	433
Inventory	20	20
Accruals and other (b)	312	206
	$940	$953
Less: Valuation allowances (c)	(85)	(86)
	$855	$867
Net deferred tax liabilities	$952	$583
Recorded in the consolidated balance sheets as (See Note 7):		
Prepaid and other current assets	$181	$185
Other long-term assets	72	—
Deferred credits	1,205	768
	$952	$583

(a) Includes deferred taxes of $247 million and $427 million in 2013 and 2012, respectively, related to pension / OPEB funded status (Note 16).

(b) Includes $112 million and $77 million in 2013 and 2012, respectively, related to research and development costs and $70 million in 2013 related to goodwill.

(c) Summary of valuation allowances relating to deferred tax assets follows (millions of dollars):

	2013	2012	2011
Balance, January 1,	$(86)	$(107)	$(111)
Income tax (charge) benefit:			
U.S.			