PRAXAIR INC
Form 10-Q
April 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
PRAXAIR, INC.
(Exact name of registrant as specified in its charter)
DELAWARE
(State or other jurisdiction of incorporation)

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

(203) 837-2000
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
At March 31, 2016, 285,264,902 shares of common stock ($0.01 par value) of the Registrant were outstanding.

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

	Quarter Ended March 31,	
	2016	2015
SALES	$ 2,509	$ 2,757
Cost of sales, exclusive of depreciation and amortization	1,381	1,530
Selling, general and administrative	274	299
Depreciation and amortization	272	277
Research and development	23	24
Other income (expense) - net	(5)	(4)
OPERATING PROFIT	554	623
Interest expense - net	65	44
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	489	579
Income taxes	133	162
INCOME BEFORE EQUITY INVESTMENTS	356	417
Income from equity investments	10	11
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	366	428
Less: noncontrolling interests	(10)	(12)
NET INCOME - PRAXAIR, INC.	$ 356	$ 416
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	$ 1.25	$ 1.44
Diluted earnings per share	$ 1.24	$ 1.43
Cash dividends per share	$ 0.75	$ 0.715
WEIGHTED AVERAGE SHARES OUTSTANDING (000’s):		
Basic shares outstanding	285,429	289,143
Diluted shares outstanding	286,665	291,652

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

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PRAXAIR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Millions of dollars)
(UNAUDITED)

	Quarter Ended March 31,	
	2016	2015
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	$ 366	$ 428
OTHER COMPREHENSIVE INCOME (LOSS)		
Translation adjustments:		
Foreign currency translation adjustments	342	(644)
Income taxes	16	(34)
Translation adjustments	358	(678)
Funded status - retirement obligations (Note 11):		
Retirement program remeasurements	(5)	9
Reclassifications to net income	14	19
Income taxes	(5)	(10)
Funded status - retirement obligations	4	18
Derivative instruments (Note 6):		
Current quarter unrealized gain (loss)	—	—
Reclassifications to net income	—	—
Income taxes	—	—
Derivative instruments	—	—
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	362	(660)
COMPREHENSIVE INCOME (LOSS) (INCLUDING NONCONTROLLING INTERESTS)	728	(232)
Less: noncontrolling interests	(26)	18
COMPREHENSIVE INCOME (LOSS) - PRAXAIR, INC.	$ 702	$ (214)

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

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

	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$221	$147
Accounts receivable - net	1,685	1,601
Inventories	553	531
Prepaid and other current assets	411	347
TOTAL CURRENT ASSETS	2,870	2,626
Property, plant and equipment (less accumulated depreciation of $12,189 in 2016 and $11,696 in 2015)	11,314	10,998
Goodwill	3,071	2,986
Other intangible assets - net	576	568
Other long-term assets	1,194	1,141
TOTAL ASSETS	$19,025	$18,319
LIABILITIES AND EQUITY		
Accounts payable	$796	$791
Short-term debt	174	250
Current portion of long-term debt	8	6
Other current liabilities	821	846
TOTAL CURRENT LIABILITIES	1,799	1,893
Long-term debt	9,222	8,975
Other long-term liabilities	2,580	2,545
TOTAL LIABILITIES	13,601	13,413
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests (Note 14)	119	113
Praxair, Inc. Shareholders' Equity:		
Common stock $0.01 par value, authorized - 800,000,000 shares, issued 2016 and 2015 - 383,230,625 shares	4	4
Additional paid-in capital	3,998	4,005
Retained earnings	12,371	12,229
Accumulated other comprehensive income (loss) (Note 14)	(4,250)	(4,596)
Less: Treasury stock, at cost (2016 - 97,965,723 shares and 2015 - 98,351,546 shares)	(7,235)	(7,253)
Total Praxair, Inc. Shareholders' Equity	4,888	4,389
Noncontrolling interests	417	404
TOTAL EQUITY	5,305	4,793
TOTAL LIABILITIES AND EQUITY	$19,025	$18,319

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

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

	Three Months Ended March 31,	
	2016	2015
OPERATIONS		
Net income - Praxair, Inc.	$356	$416
Noncontrolling interests	10	12
Net income (including noncontrolling interests)	366	428
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	272	277
Deferred income taxes	9	14
Share-based compensation	8	7
Working capital:		
Accounts receivable	(20)	(50)
Inventory	(7)	(6)
Prepaid and other current assets	1	2
Payables and accruals	(77)	(66)
Pension contributions	(2)	(11)
Long-term assets, liabilities and other	(3)	(87)
Net cash provided by operating activities	547	508
INVESTING		
Capital expenditures	(323)	(397)
Acquisitions, net of cash acquired	(63)	(5)
Divestitures and asset sales	2	2
Net cash used for investing activities	(384)	(400)
FINANCING		
Short-term debt borrowings (repayments) - net	(77)	38
Long-term debt borrowings	898	753
Long-term debt repayments	(726)	(501)
Issuances of common stock	34	44
Purchases of common stock	(32)	(235)
Cash dividends - Praxair, Inc. shareholders	(214)	(207)
Excess tax benefit on share-based compensation	6	14
Noncontrolling interest transactions and other	(2)	(6)
Net cash (used for) provided by financing activities	(113)	(100)
Effect of exchange rate changes on cash and cash equivalents	24	(17)
Change in cash and cash equivalents	74	(9)
Cash and cash equivalents, beginning-of-period	147	126
Cash and cash equivalents, end-of-period	$221	$117

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

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

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PRAXAIR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Summary of Significant Accounting Policies

Presentation of Condensed Consolidated Financial Statements - In the opinion of Praxair, Inc. (Praxair) management, the accompanying condensed consolidated financial statements include all adjustments necessary for a fair presentation of the results for the interim periods presented and such adjustments are of a normal recurring nature. The accompanying condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements of Praxair, Inc. and subsidiaries in Praxair's 2015 Annual Report on Form 10-K. There have been no material changes to the company's significant accounting policies during 2016.

Accounting Standards Implemented in 2016

The following standard was effective for Praxair in 2016 and its adoption did not have a significant impact on the condensed consolidated financial statements:

- Accounting for Share-based Compensation - In June 2014, the FASB issued updated guidance on the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The adoption of this guidance did not have a significant impact on the condensed consolidated financial statements.

Accounting Standards to be Implemented

- Revenue Recognition – In May 2014, the FASB issued updated guidance on the reporting and disclosure of revenue. The new guidance requires the evaluation of contracts with customers to determine the recognition of revenue when or as the entity satisfies a performance obligation, and would require expanded disclosures. Subsequently, the FASB has issued amendments to certain aspects of the guidance including the effective date. This guidance is required to be effective beginning in the first quarter 2018 (with early adoption beginning in 2017 optional) and includes several transition options. Praxair is currently in the process of reviewing the new guidance and will provide updates on the expected impact to Praxair in future filings, as determined.
- Simplifying the Measurement of Inventory – In July 2015, the FASB issued updated guidance on the measurement of inventory. The new guidance requires that inventory be measured at the lower of cost or net realizable value. Currently inventory is measured at the lower of cost or market. This new guidance will be effective for Praxair beginning in the first quarter 2017 on a prospective basis, with early adoption optional. Praxair does not expect this requirement to have a material impact.
- Balance Sheet Classification of Deferred Taxes - In November 2015, the FASB issued updated guidance on the balance sheet classification of deferred taxes. Currently deferred income tax liabilities and assets are required to be separated and classified as current or non-current in a classified balance sheet. The amendments in this update require that deferred tax liabilities and assets be classified as non-current in a classified balance sheet. This new guidance will be effective for Praxair beginning in the first quarter 2017, with early adoption optional. The new guidance may be applied either prospectively or retrospectively. Praxair does not expect this requirement to have a material impact.
- Leases – In February 2016, the FASB issued updated guidance on the accounting and financial statement presentation of leases. The new guidance requires lessees to recognize a right-of-use asset and lease liability for all leases, except those that meet certain scope exceptions, and would require expanded quantitative and qualitative disclosures. This guidance will be effective for Praxair beginning in the first quarter 2019, with early adoption optional, and requires companies to transition using a modified retrospective approach. Praxair is in the early stages of reviewing the new guidance and will provide updates on the expected impact to Praxair in future filings, as determined.
- Improvements to Employee Share-Based Payment Accounting – In March 2016, the FASB issued updated guidance on the accounting for employee share-based payments. The new guidance requires that all excess tax benefits and deficiencies associated with share-based payment awards be recorded through the statement of income in the period in which they occur, and within operating cash flows in the statement of cash flows. Currently such excess tax benefits are recorded as direct credits to equity (not via the statement of income) and within financing cash flows. The new update also provides guidance relating to the accounting for forfeitures, statutory tax withholding requirements, and earnings per share calculations. This guidance will be effective for Praxair beginning in the first quarter 2017, with

early adoption optional. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

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

2. Cost Reduction Program and Other Charges

2015 Cost Reduction Program

In the second quarter of 2015, Praxair recorded pre-tax charges totaling $146 million ($112 million after-tax and noncontrolling interests or $0.39 per diluted share) and in the third quarter recorded pre-tax charges totaling $19 million ($13 million after-tax or $0.04 per diluted share). The charges related primarily to severance and other costs associated with a cost reduction program, which was initiated in response to lower volumes resulting from economic slowdown in emerging markets and energy related end-markets.

The following table summarizes the activities related to the first quarter of 2016:

(millions of dollars)	Severance costs	Other Charges	Total
Balance, January 1, 2016	$ 30	$ 20	$ 50
Less: Cash payments	(11)	(2)	(13)
Less: Non-cash asset write-offs	—	—	—
Foreign currency translation	1	—	1
Balance, March 31, 2016	$ 20	$ 18	$ 38

For further details regarding the cost reduction program and other charges, refer to Note 2 to the consolidated financial statements of Praxair's 2015 Annual Report on Form 10-K.

3. Acquisitions

2016 Acquisitions

During the three months ended March 31, 2016, Praxair had acquisitions totaling $63 million, primarily acquisitions of packaged gases businesses in North America and Europe. These transactions resulted in goodwill and other intangible assets of $34 million and $15 million, respectively (see Note 9).

2015 Acquisitions

During the three months ended March 31, 2015, Praxair had acquisitions totaling $5 million. This was due primarily to the acquisition of a packaged gas business in South America.

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4. Supplemental Information
Inventories
The following is a summary of Praxair's consolidated inventories:

(Millions of dollars)	March 31, 2016	December 31, 2015
Inventories		
Raw materials and supplies	$ 204	$ 202
Work in process	49	48
Finished goods	300	281
Total inventories	$ 553	$ 531

Long-term receivables
Long-term receivables are not material and are largely reserved. Such long-term receivables are included within other long-term assets in the condensed consolidated balance sheets and totaled $35 million and $33 million at March 31, 2016 and December 31, 2015, respectively. These amounts are net of reserves of $37 million and $35 million, respectively. The amounts in both periods relate primarily to government receivables in Brazil and other long-term notes receivable from customers. Collectability is reviewed regularly and uncollectible amounts are written-off as appropriate. The account balance changes during 2016 were primarily due to foreign exchange rate movements.

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5. Debt

The following is a summary of Praxair’s outstanding debt at March 31, 2016 and December 31, 2015:

(Millions of dollars)	March 31, 2016	December 31, 2015
SHORT-TERM		
Commercial paper and U.S. bank borrowings	$ 6	$ 87
Other bank borrowings (primarily international)	168	163
Total short-term debt	174	250
LONG-TERM (a)		
U.S. borrowings (U.S. dollar denominated unless otherwise noted)		
0.75% Notes due 2016 (b)	—	400
5.20% Notes due 2017 (b)	—	325
Floating Rate Notes due 2017 (c)	150	150
1.05% Notes due 2017	399	399
1.20% Notes due 2018	499	499
1.25% Notes due 2018 (d)	485	480
4.50% Notes due 2019	597	597
1.90% Notes due 2019	499	499
1.50% Euro-denominated notes due 2020	677	646
2.25% Notes due 2020	298	298
4.05% Notes due 2021	497	497
3.00% Notes due 2021	496	496
2.45% Notes due 2022	597	596
2.20% Notes due 2022	498	497
2.70% Notes due 2023	497	497
1.20% Euro-denominated notes due 2024 (e)	622	—
2.65% Notes due 2025	397	396
1.625% Euro-denominated notes due 2025	561	535
3.20% Notes due 2026 (e)	725	446
3.55% Notes due 2042	661	661
Other	2	3
International bank borrowings	65	57
Obligations under capital leases	8	7
	9,230	8,981
Less: current portion of long-term debt	(8)	(6)
Total long-term debt	9,222	8,975
Total debt	$ 9,404	$ 9,231

(a) Amounts are net of unamortized discounts, premiums and/or debt issuance costs as applicable.

(b) In February 2016, Praxair repaid $400 million of 0.75% notes that became due. Also in February 2016, Praxair redeemed $325 million of 5.20% notes due March 2017 resulting in a $16 million interest charge ($10 million after-tax, or $0.04 per diluted share).

(c) Classified as long-term because of the company’s intent to refinance this debt on a long-term basis and the availability of such financing under the terms of an existing $2.5 billion long-term credit facility.

(d) March 31, 2016 and December 31, 2015 include a $11 million and $6 million fair value increase, respectively, related to hedge accounting. See Note 6 for additional information.

(e) In February 2016, Praxair issued €550 million of 1.20% Euro-denominated notes due 2024. In addition, Praxair issued $275 million of 3.20% notes due 2026. The proceeds of these debt issuances were used for general corporate purposes, including acquisitions, repayment of debt and share repurchases under the company's share repurchase program.

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6. Financial Instruments

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

There are three types of derivatives that the company enters into: (i) those relating to fair-value exposures, (ii) those relating to cash-flow exposures, and (iii) those relating to foreign currency net investment exposures. Fair-value exposures relate to recognized assets or liabilities, and firm commitments; cash-flow exposures relate to the variability of future cash flows associated with recognized assets or liabilities, or forecasted transactions; and net investment exposures relate to the impact of foreign currency exchange rate changes on the carrying value of net assets denominated in foreign currencies.

When a derivative is executed and hedge accounting is appropriate, it is designated as either a fair-value hedge, cash-flow hedge, or a net investment hedge. Currently, Praxair designates all interest-rate and treasury-rate locks as hedges for accounting purposes; however, currency contracts are generally not designated as hedges for accounting purposes unless they are related to forecasted transactions. Whether designated as hedges for accounting purposes or not, all derivatives are linked to an appropriate underlying exposure. On an ongoing basis, the company assesses the hedge effectiveness of all derivatives designated as hedges for accounting purposes to determine if they continue to be highly effective in offsetting changes in fair values or cash flows of the underlying hedged items. If it is determined that the hedge is not highly effective, then hedge accounting will be discontinued prospectively.

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

The following table is a summary of the notional amount and fair value of derivatives outstanding at March 31, 2016 and December 31, 2015 for consolidated subsidiaries:

	Notional Amounts		Fair Value Assets		Liabilities	
(Millions of dollars)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Derivatives Not Designated as Hedging Instruments:						
Currency contracts:						
Balance sheet items (a)	$2,573	$ 2,548	$76	$ 15	$11	$ 11
Derivatives Designated as Hedging Instruments:						
Currency contracts:						
Balance sheet items (a)	$38	$ 38	$—	$ 1	$—	$ —
Interest rate contracts:						
Interest rate swaps (b)	475	475	11	6	—	—
Total Hedges	$513	$ 513	$11	$ 7	$—	$ —
Total Derivatives	$3,086	$ 3,061	$87	$ 22	$11	$ 11

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

Currency Contracts

Foreign currency contracts related to balance sheet items consist of forward contracts entered into to manage the exposure to fluctuations in foreign-currency exchange rates on recorded balance sheet assets and liabilities denominated in currencies other than the functional currency of the related operating unit. Certain forward currency contracts are entered into to protect underlying monetary assets and liabilities denominated in foreign currencies from foreign exchange risk and are not designated as hedging instruments. The fair value adjustments on these contracts are offset by the fair value adjustments recorded on the underlying monetary assets and liabilities. Praxair also enters into forward currency contracts, which are designated as hedging

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instruments, to limit the cash flow exposure on certain foreign-currency denominated intercompany loans. The fair value adjustments on these contracts are recorded to AOCI, with the effective portion immediately reclassified to earnings to offset the fair value adjustments on the underlying debt instrument.

Net Investment Hedge

In 2014 Praxair designated the €600 million ($677 million as of March 31, 2016) 1.50% Euro-denominated notes due 2020 and the €500 million ($561 million as of March 31, 2016) 1.625% Euro-denominated notes due 2025, as a hedge of the net investment position in its European operations. In 2016 Praxair designated an incremental €550 million ($622 million as of March 31, 2016) 1.20% Euro-denominated notes due 2024 as an additional hedge of the net investment position in its European operations. These Euro-denominated debt instruments reduce the company's exposure to changes in the currency exchange rate on investments in foreign subsidiaries with Euro functional currencies. Since hedge inception, exchange rate movements have reduced long-term debt by $197 million (long-term debt increased by $64 million during the first quarter of 2016), with the offsetting gain shown within the cumulative translation component of AOCI in the condensed consolidated balance sheets and the condensed consolidated statements of comprehensive income.

Interest Rate Contracts

Outstanding Interest Rate Swaps

At March 31, 2016, Praxair had one outstanding interest rate swap agreement with a $475 million notional amount related to the $475 million 1.25% notes that mature in 2018. The interest rate swap effectively converts fixed-rate interest to variable-rate interest and is designated as a fair value hedge. Fair value adjustments are recognized in earnings along with an equally offsetting charge / benefit to earnings for the changes in the fair value of the underlying debt instrument. At March 31, 2016, $11 million was recognized as an increase in the fair value of these notes ($6 million at December 31, 2015).

Terminated Treasury Rate Locks

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

(Millions of dollars)	Year Terminated	Original Gain / (Loss)	Unrecognized Gain / (Loss) (a) March 31, 2016	December 31, 2015
Treasury Rate Locks				
Underlying debt instrument:				
$500 million 2.20% fixed-rate notes that mature in 2022 (b)	2012	$ (2)	$ (1)	$ (1)
$500 million 3.00% fixed-rate notes that mature in 2021 (b)	2011	(11)	(6)	(6)
$600 million 4.50% fixed-rate notes that mature in 2019 (b)	2009	16	6	6
Total - pre-tax			$ (1)	$ (1)
Less: income taxes			—	—
After- tax amounts			$ (1)	$ (1)

(a) The unrecognized gains / (losses) for the treasury rate locks are shown in accumulated other comprehensive income (“AOCI”) and are being recognized on a straight line basis to interest expense – net over the term of the underlying debt agreements. Refer to the table below summarizing the impact on the company’s consolidated statements of income and AOCI for current period gain (loss) recognition.

(b) The notional amount of the treasury rate lock contracts are equal to the underlying debt instrument with the exception of the treasury rate lock contract entered into to hedge the $600 million 4.50% fixed-rate notes that mature in 2019. The notional amount of this contract was $500 million.

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

(Millions of dollars)	Amount of Pre-Tax Gain (Loss) Recognized in Earnings * Quarter Ended March 31, 2016	2015
Derivatives Not Designated as Hedging Instruments		
Currency contracts:		
Balance sheet items		
Debt-related	$ 67	$ (79)
Other balance sheet items	2	(6)
Total	$ 69	$ (85)

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

The following tables summarize the impacts of the company's derivatives designated as hedging instruments that impact AOCI:

Derivatives Designated as Hedging Instruments **

	Quarter Ended			
	Amount of Gain (Loss) Recognized in AOCI		Amount of Gain (Loss) Reclassified from AOCI to the Consolidated Statement of Income	
(Millions of dollars)	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Currency contracts:				
Balance sheet items	$ —	$ —	$ —	$ —
Net Investment Hedge	$ (4)	$ —	$ —	$ —
Interest rate contracts:				
Treasury rate lock contracts	—	—	—	—
Total - pre tax	$ (4)	$ —	$ —	$ —
Less: income taxes	1	—	—	—
Total - Net of Taxes	$ (3)	$ —	$ —	$ —

**The gains (losses) on net investment hedges are recorded as a component of AOCI within foreign currency translation adjustments in the condensed consolidated balance sheets and the condensed consolidated statements of comprehensive income. The gains (losses) on treasury rate locks are recorded as a component of AOCI within derivative instruments in the condensed consolidated balance sheets and the condensed consolidated statements of comprehensive income. There was no ineffectiveness for these instruments during 2016 or 2015. The gains (losses) on net investment hedges are reclassified to earnings only when the related currency translation adjustments are required to be reclassified, usually upon sale or liquidation of the investment. The gains (losses) for interest rate contracts are reclassified to earnings as interest expense –net on a straight-line basis over the remaining maturity of the underlying debt. Net losses of less than $2 million are expected to be reclassified to earnings during the next twelve months.

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7. Fair Value Disclosures

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Fair Value Measurements Using					
	Level 1		Level 2		Level 3	
(Millions of dollars)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Assets						
Derivatives	—	—	$ 87	$ 22	—	—
Liabilities						
Derivatives	—	—	$ 11	$ 11	—	—

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

The fair values of cash and cash equivalents, short-term debt, accounts receivable-net, and accounts payable approximate carrying amounts because of the short maturities of these instruments. The fair value of long-term debt is estimated based on the quoted market prices for similar issues, which is deemed a level 2 measurement. At March 31, 2016, the estimated fair value of Praxair's long-term debt portfolio was $9,560 million versus a carrying value of $9,230 million. At December 31, 2015, the estimated fair value of Praxair's long-term debt portfolio was $9,069 million versus a carrying value of $8,981 million. Differences from carrying amounts are attributable to interest-rate changes subsequent to when the debt was issued.

8. Earnings Per Share – Praxair, Inc. Shareholders

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

	Quarter Ended March 31,	
	2016	2015
Numerator (Millions of dollars)		
Net income - Praxair, Inc.	$ 356	$ 416
Denominator (Thousands of shares)		
Weighted average shares outstanding	285,049	288,748
Shares earned and issuable under compensation plans	380	395
Weighted average shares used in basic earnings per share	285,429	289,143
Effect of dilutive securities		
Stock options and awards	1,236	2,509
Weighted average shares used in diluted earnings per share	286,665	291,652
Basic Earnings Per Share	$ 1.25	$ 1.44
Diluted Earnings Per Share	$ 1.24	$ 1.43

Stock options of 5,236,570 and 2,800,555 were antidilutive and therefore excluded in the computation of diluted earnings per share for the quarters ended March 31, 2016 and 2015, respectively.

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9. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the three months ended March 31, 2016 were as follows:

(Millions of dollars)	North America	South America	Europe	Asia	Surface Technologies	Total
Balance, December 31, 2015	$ 2,111	$ 98	$ 582	$ 59	$ 136	$ 2,986
Acquisitions (Note 3)	34	—	—	—	—	34
Purchase adjustments & other	4	—	—	—	—	