

PRAXAIR INC
Form 10-Q
October 27, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 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

(Commission File Number)

06-1249050

(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 No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At September 30, 2016, 285,388,991 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 September	
	30,	
	2016	2015
SALES	\$ 2,716	\$ 2,686
Cost of sales, exclusive of depreciation and amortization	1,533	1,488
Selling, general and administrative	291	281
Depreciation and amortization	284	276
Research and development	22	23
Cost reduction program and other charges	100	26
Other income (expense) - net	11	2
OPERATING PROFIT	497	594
Interest expense - net	43	35
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	454	559
Income taxes	120	156
INCOME BEFORE EQUITY INVESTMENTS	334	403
Income from equity investments	10	10
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	344	413
Less: noncontrolling interests	(5	) (12
NET INCOME - PRAXAIR, INC.	\$ 339	\$ 401
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	\$ 1.19	\$ 1.40
Diluted earnings per share	\$ 1.18	\$ 1.40
Cash dividends per share	\$ 0.75	\$ 0.715
WEIGHTED AVERAGE SHARES OUTSTANDING (000's):		
Basic shares outstanding	285,858	285,651
Diluted shares outstanding	288,195	287,311

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

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

	Nine Months Ended September 30,	
	2016	2015
SALES	\$7,890	\$8,181
Cost of sales, exclusive of depreciation and amortization	4,382	4,534
Selling, general and administrative	873	877
Depreciation and amortization	837	831
Research and development	69	70
Cost reduction program and other charges	100	172
Other income (expense) - net	10	—
OPERATING PROFIT	1,639	1,697
Interest expense - net	152	119
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	1,487	1,578
Income taxes	399	449
INCOME BEFORE EQUITY INVESTMENTS	1,088	1,129
Income from equity investments	31	31
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	1,119	1,160
Less: noncontrolling interests	(25)	(35)
NET INCOME - PRAXAIR, INC.	\$1,094	\$1,125
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	\$3.83	\$3.91
Diluted earnings per share	\$3.80	\$3.88
Cash dividends per share	\$2.25	\$2.145
WEIGHTED AVERAGE SHARES OUTSTANDING (000's):		
Basic shares outstanding	285,663	287,578
Diluted shares outstanding	287,727	289,835
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 September	
	30,	
	2016	2015
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	\$ 344	\$ 413
OTHER COMPREHENSIVE INCOME (LOSS)		
Translation adjustments:		
Foreign currency translation adjustments	(47)	(792)
Income taxes	8	28
Translation adjustments	(39)	(764)
Funded status - retirement obligations (Note 11):		
Retirement program remeasurements	(11)	16
Reclassifications to net income	18	27
Income taxes	(2)	(10)
Funded status - retirement obligations	5	33
Derivative instruments (Note 6):		
Current quarter unrealized gain (loss)	—	(1)
Reclassifications to net income	—	1
Income taxes	—	—
Derivative instruments	—	—
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(34)	(731)
COMPREHENSIVE INCOME (LOSS) (INCLUDING NONCONTROLLING INTERESTS)	310	(318)
Less: noncontrolling interests	(8)	5
COMPREHENSIVE INCOME (LOSS) - PRAXAIR, INC.	\$ 302	\$ (313)

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

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

	Nine Months Ended September 30,	
	2016	2015
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	\$1,119	\$1,160
OTHER COMPREHENSIVE INCOME (LOSS)		
Translation adjustments:		
Foreign currency translation adjustments	392	(1,366)
Income taxes	(3)	15)
Translation adjustments	389	(1,351)
Funded status - retirement obligations (Note 11):		
Retirement program remeasurements	(35)	(7)
Reclassifications to net income	47	66
Income taxes	(5)	(16)
Funded status - retirement obligations	7	43
Derivative instruments (Note 6):		
Current period unrealized gain (loss)	—	(1)
Reclassifications to net income	1	1
Income taxes	(1)	—
Derivative instruments	—	—
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	396	(1,308)
COMPREHENSIVE INCOME (INCLUDING NONCONTROLLING INTERESTS)	1,515	(148)
Less: noncontrolling interests	(36)	2
COMPREHENSIVE INCOME - PRAXAIR, INC.	\$1,479	\$(146)

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)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 627	\$ 147
Accounts receivable - net	1,699	1,601
Inventories	538	531
Prepaid and other current assets	398	347
TOTAL CURRENT ASSETS	3,262	2,626
Property, plant and equipment (less accumulated depreciation of \$12,560 in 2016 and \$11,696 in 2015)	11,635	10,998
Goodwill	3,163	2,986
Other intangible assets - net	595	568
Other long-term assets	1,231	1,141
TOTAL ASSETS	\$ 19,886	\$ 18,319
LIABILITIES AND EQUITY		
Accounts payable	\$ 867	\$ 791
Short-term debt	606	250
Current portion of long-term debt	11	6
Other current liabilities	950	846
TOTAL CURRENT LIABILITIES	2,434	1,893
Long-term debt	9,225	8,975
Other long-term liabilities	2,578	2,545
TOTAL LIABILITIES	14,237	13,413
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests (Note 14)	11	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	4,027	4,005
Retained earnings	12,686	12,229
Accumulated other comprehensive income (loss) (Note 14)	(4,211)	(4,596)
Less: Treasury stock, at cost (2016 - 97,841,634 shares and 2015 - 98,351,546 shares)	(7,261)	(7,253)
Total Praxair, Inc. Shareholders' Equity	5,245	4,389
Noncontrolling interests	393	404
TOTAL EQUITY	5,638	4,793
TOTAL LIABILITIES AND EQUITY	\$ 19,886	\$ 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)

	Nine Months Ended September 30,	
	2016	2015
OPERATIONS		
Net income - Praxair, Inc.	\$1,094	\$1,125
Noncontrolling interests	25	35
Net income (including noncontrolling interests)	1,119	1,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Cost reduction program and other charges, net of payments	93	139
Depreciation and amortization	837	831
Deferred income taxes	(30)	) 25
Share-based compensation	36	25
Working capital:		
Accounts receivable	(44)	) (57)
Inventory	11	(14)
Prepaid and other current assets	(32)	) (37)
Payables and accruals	6	(20)
Pension contributions	(8)	) (13)
Long-term assets, liabilities and other	59	(135)
Net cash provided by operating activities	2,047	1,904
INVESTING		
Capital expenditures	(1,056)	) (1,154)
Acquisitions, net of cash acquired	(345)	) (43)
Divestitures and asset sales	41	245
Net cash used for investing activities	(1,360)	) (952)
FINANCING		
Short-term debt borrowings (repayments) - net	359	(126)
Long-term debt borrowings	925	1,496
Long-term debt repayments	(728)	) (999)
Issuances of common stock	109	74
Purchases of common stock	(133)	) (704)
Cash dividends - Praxair, Inc. shareholders	(642)	) (615)
Excess tax benefit on share-based compensation	—	18
Noncontrolling interest transactions and other	(122)	) (44)
Net cash provided by (used for) financing activities	(232)	) (900)
Effect of exchange rate changes on cash and cash equivalents	25	(42)
Change in cash and cash equivalents	480	10
Cash and cash equivalents, beginning-of-period	147	126
Cash and cash equivalents, end-of-period	\$627	\$136

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

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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

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.

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, among other changes, requires that all excess tax benefits and deficiencies associated with share-based payment awards be recorded in Income taxes in the statement of income in the period in which they occur, and within operating cash flows. Previously, such excess tax benefits were recorded as direct credits to equity (not via the statement of income), and as financing cash flows. Effective in the second quarter 2016, Praxair elected to adopt the requirements of this new accounting standard.

Accordingly, income tax expense for the quarter and nine months ended September 30, 2016, and operating cash flows for the quarter and nine months ended September 30, 2016 include \$5 million and \$15 million of excess tax benefits, respectively. For this change relating to excess tax benefits, Praxair did not adjust the 2016 first-quarter amounts because the impact was not material, and the Company elected not to adjust prior-year cash flow presentations.

The new standard also amends the condensed consolidated statement of cash flows by requiring that cash paid to taxing authorities at settlement arising from the withholding of shares from employees be classified in cash flows from financing activities (such amounts were previously included in cash flows from operating activities). This portion of the standard was required to be adopted on a retrospective basis. Accordingly, \$6 million of such cash paid to taxing authorities during the first quarter 2016 was reclassified from operating to financing cash flows, and \$13 million was similarly reclassified for the nine months ended September 30, 2015.

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

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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.

Classification of Certain Cash Receipts and Cash Payments – In August 2016, the FASB issued updated guidance on the classification of certain cash receipts and cash payments within the statement of cash flows. The update provides accounting guidance for specific cash flow issues with the objective of reducing diversity in practice. This new guidance will be effective for Praxair beginning in the first quarter 2018 on a retrospective basis, with early adoption optional. Praxair does not expect this requirement to have a material impact.

Reclassifications – Certain prior years' amounts have been reclassified to conform to the current year's presentation, including reclassifications to the condensed consolidated statement of cash flows due to the adoption of the new share-based payment accounting standard.

2. 2016 and 2015 Cost Reduction Program and Other Charges

2016 Cost Reduction Program and Other Charges

In the third quarter of 2016, Praxair recorded pre-tax charges totaling \$96 million (\$63 million after-tax and noncontrolling interests or \$0.22 per diluted share). Following is a summary of the pre-tax charge by reportable segment:

(millions of dollars)	Severance costs	Other Charges	Total
North America	\$ 14	\$ 29	\$ 43
Europe	12	3	15
South America	5	7	12
Asia	6	13	19
Surface Technologies	3	4	7
Total	\$ 40	\$ 56	\$ 96

The severance costs of \$40 million are for the elimination of 730 positions. The other charges of \$56 million are primarily related to (i) the consolidation of operations for efficiencies and cost reduction primarily in North America and Surface Technologies, (ii) integration costs for recent acquisitions in Europe and North America, and (iii) asset write-downs and other charges related to the impacts of weaker underlying industrial activity, primarily in the Americas and Asia. Amounts related to asset write-downs are net of expected sale proceeds, which are not significant. The total cash requirement of the cost reduction program and other charges are estimated to be approximately \$57 million, of which \$3 million was paid through September 30, 2016.

2016 Pension Settlement Charge

In 2015 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, in the third quarter of 2016, Praxair recorded a pension settlement charge related to net unrecognized actuarial losses of \$4 million (\$3 million after-tax or \$0.01 per diluted share).

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2015 Charges

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 \$26 million, including \$19 million for a cost reduction program and \$7 million for a pension settlement charge (\$18 million after-tax or \$0.06 per diluted share). 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.

Reconciliation

The following table summarizes the activities related to the company's cost reduction and other charges for the nine months ended September 30, 2016:

(millions of dollars)	Severance costs	Other Charges	Total
Balance, January 1, 2016	\$ 30	\$ 20	\$ 50
2016 Cost Reduction Program and Other Charges	40	56	96
Less: Cash payments	(24)	(4)	(28)
Less: Non-cash charges	—	(39)	(39)
Foreign currency translation	1	—	1
Balance, September 30, 2016	\$ 47	\$ 33	\$ 80

Classification in the condensed consolidated financial statements

The pre-tax charges for each year are shown within operating profit in a separate line item on the consolidated statements of income. In the condensed consolidated balance sheets, reductions in assets are recorded against the carrying value of the related assets and unpaid amounts are recorded primarily as short-term liabilities. On the condensed consolidated statement of cash flows, the pre-tax impact of these charges, net of cash payments, is shown as an adjustment to reconcile net income to net cash provided by operating activities. In Note 13 - Segments, Praxair excluded these charges from its management definition of segment operating profit; a reconciliation of segments operating profit to consolidated operating profit is shown within the segment operating profit table.

3. Acquisitions

2016 Acquisitions

During the nine months ended September 30, 2016, Praxair had acquisitions totaling \$345 million, primarily the acquisition of Yara International ASA's European carbon dioxide business ("European CO2 business") and packaged gases businesses in North America and Europe. These transactions resulted in goodwill and other intangible assets of \$129 million and \$71 million, respectively (see Note 9). In addition, Praxair purchased a remaining 34% share in a Scandinavian joint venture for \$104 million (see Note 14).

European CO2 Acquisition

On June 1, 2016 Praxair, Inc. completed an acquisition of a European CO2 business, which is a leading supplier of liquid CO2 and dry ice primarily to the European food and beverage industries. The business operates CO2 liquefaction plants and dry ice production facilities across the UK, Ireland, Norway, Denmark, Germany, Netherlands, Belgium, France and Italy. This acquisition was accounted for as a business combination; accordingly, the results of operations were consolidated from June 1, 2016 in the European business segment.

The purchase price for the acquisition was approximately \$230 million (€206 million) and resulted in \$126 million of intangible assets. The intangible assets primarily consist of \$69 million of Goodwill and \$53 million of customer relationships that will be amortized over their estimated useful life of 20 years. The allocation of the purchase price is based on preliminary estimates and assumptions, which are subject to revision based on final information received,

including appraisals and other analysis that support underlying estimates. Currently, any potential adjustments are not expected to be material.

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2015 Acquisitions

During the nine months ended September 30, 2015, Praxair had acquisitions totaling \$43 million, primarily acquisitions of packaged gases businesses in North and South America. These transactions resulted in goodwill and other intangible assets of \$28 million and \$10 million, respectively.

4. Supplemental Information

Inventories

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

(Millions of dollars)	September 30, 2016	December 31, 2015
Inventories		
Raw materials and supplies	\$ 188	\$ 202
Work in process	47	48
Finished goods	303	281
Total inventories	\$ 538	\$ 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 \$39 million and \$33 million at September 30, 2016 and December 31, 2015, respectively. These amounts are net of reserves of \$49 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 additional government receivables in Brazil and foreign exchange rate movements.

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5. Debt

The following is a summary of Praxair's outstanding debt at September 30, 2016 and December 31, 2015:

(Millions of dollars)	September 30, December 31,	
	2016	2015
SHORT-TERM		
Commercial paper and U.S. bank borrowings	\$ 486	\$ 87
Other bank borrowings (primarily international)	120	163
Total short-term debt	606	250
LONG-TERM (a)		
U.S. borrowings (U.S. dollar denominated unless otherwise noted)		
0.75% Notes due 2016 (b, c)	—	400
5.20% Notes due 2017 (b)	—	325
Floating Rate Notes due 2017 (c)	150	150
1.05% Notes due 2017	400	399
1.20% Notes due 2018	499	499
1.25% Notes due 2018 (d)	482	480
4.50% Notes due 2019	598	597
1.90% Notes due 2019	499	499
1.50% Euro-denominated notes due 2020	669	646
2.25% Notes due 2020	299	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)	615	—
2.65% Notes due 2025	397	396
1.625% Euro-denominated notes due 2025	554	535
3.20% Notes due 2026 (e)	725	446
3.55% Notes due 2042	662	661
Other	12	3
International bank borrowings	83	57
Obligations under capital leases	7	7
	9,236	8,981
Less: current portion of long-term debt	(11	) (6
Total long-term debt	9,225	8,975
Total debt	\$ 9,842	\$ 9,231

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

In February 2016, Praxair repaid \$400 million of 0.75% notes that became due. Also in February 2016, Praxair (b) 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) September 30, 2016 and December 31, 2015 include an \$8 million and \$6 million fair value increase, respectively, related to hedge accounting. See Note 6 for additional information.

In February 2016, Praxair issued €550 million of 1.20% Euro-denominated notes due 2024. In addition, Praxair (e) issued \$275 million of 3.20% notes due 2026. The proceeds of these debt issuances were used for general corporate purposes.

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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 September 30, 2016 and December 31, 2015 for consolidated subsidiaries:

(Millions of dollars)	Notional Amounts		Fair Value			
	September 30, 2016	December 31, 2015	Assets September 30, 2016	Assets December 31, 2015	Liabilities September 30, 2016	Liabilities December 31, 2015
Derivatives Not Designated as Hedging Instruments:						
Currency contracts:						
Balance sheet items (a)	\$2,098	\$ 2,548	\$9	\$ 15	\$ 12	\$ 11
Derivatives Designated as Hedging Instruments:						
Currency contracts:						
Balance sheet items (a)	\$38	\$ 38	\$—	\$ 1	\$ —	\$ —
Interest rate contracts:						
Interest rate swaps (b)	475	475	8	6	—	—
Total Hedges	\$513	\$ 513	\$8	\$ 7	\$ —	\$ —
Total Derivatives	\$2,611	\$ 3,061	\$17	\$ 22	\$ 12	\$ 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 (\$669 million as of September 30, 2016) 1.50% Euro-denominated notes due 2020 and the €500 million (\$554 million as of September 30, 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 (\$615 million as of September 30, 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 \$221 million (long-term debt increased by \$40 million during the nine months ended September 30, 2016), with the offsetting gain shown within the cumulative translation component of AOCI in the condensed consolidated balance sheets and the consolidated statements of comprehensive income.

Interest Rate Contracts

Outstanding Interest Rate Swaps

At September 30, 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 September 30, 2016, \$8 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 September 30, 2016	Gain / (Loss) (a) 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	5	6
Total - pre-tax			\$ (2)	\$ (1)
Less: income taxes			1	—
After- tax amounts			\$ (1)	\$ (1)

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 (a) 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.

The notional amount of the treasury rate lock contracts are equal to the underlying debt instrument with the (b) 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Derivatives Not Designated as Hedging Instruments				
Currency contracts:				
Balance sheet items				
Debt-related	\$ (10)	\$ (93)	\$ 73	\$ (171)
Other balance sheet items	(1)	(6)	2	(11)
Total	\$ (11)	\$ (99)	\$ 75	\$ (182)

* 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 **

(Millions of dollars)	Quarter Ended			
	Amount of Gain (Loss) Recognized in AOCI		Amount of Gain (Loss) Reclassified from AOCI to the Consolidated Statement of Income	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Currency contracts:				
Balance sheet items	\$ —	\$ (1)	\$ —	\$ (1)
Net Investment Hedge	—	—	—	—
Interest rate contracts:				
Treasury rate lock contracts	—	—	—	—
Total - pre tax	\$ —	\$ (1)	\$ —	\$ (1)
Less: income taxes	—	—	—	—
Total - Net of Taxes	\$ —	\$ (1)	\$ —	\$ (1)
	Nine Months Ended			
	Amount of Gain (Loss) Recognized in AOCI		Amount of Gain (Loss) Reclassified from AOCI to the Consolidated Statement of Income	
(Millions of dollars)				

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	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Currency contracts:				
Balance sheet items	\$—	\$ (1)	\$ —	\$ (1)
Net Investment Hedge	(4)	—	—	—
Interest rate contracts:				
Treasury rate lock contracts	—	—	(1)	—
Total - pre tax	\$(4)	\$ (1)	\$ (1)	\$ (1)
Less: income taxes	1	—	1	—
Total - Net of Taxes	\$(3)	\$ (1)	\$ —	\$ (1)

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**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 \$2 million are expected to be reclassified to earnings during the next twelve months.

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:

(Millions of dollars)	Fair Value Measurements Using				
	Level 1	Level 2		Level 3	
	September 30, 2016	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Assets					
Derivatives	—	\$ 17	\$ 22	—	—
Liabilities					
Derivatives	—	\$ 12	\$ 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 September 30, 2016, the estimated fair value of Praxair's long-term debt portfolio was \$9,708 million versus a carrying value of \$9,236 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.

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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 September		Nine Months	
	30,		Ended	
	2016	2015	September 30,	September 30,
			2016	2015
Numerator (Millions of dollars)				
Net income - Praxair, Inc.	\$ 339	\$ 401	\$1,094	\$ 1,125
Denominator (Thousands of shares)				
Weighted average shares outstanding	285,467	285,253	285,277	287,179
Shares earned and issuable under compensation plans	391	398	386	399
Weighted average shares used in basic earnings per share	285,858	285,651	285,663	287,578
Effect of dilutive securities				
Stock options and awards	2,337	1,660	2,064	2,257
Weighted average shares used in diluted earnings per share	288,195	287,311	287,727	289,835
Basic Earnings Per Share	\$ 1.19	\$ 1.40	\$3.83	\$ 3.91
Diluted Earnings Per Share	\$ 1.18	\$ 1.40	\$3.80	\$ 3.88

Stock options of 2,624,190 and 2,625,825 for the quarter and nine months ended September 30, 2016 and stock options of 3,893,857 and 2,712,895 for the quarter and nine months ended September 30, 2015 were antidilutive and therefore excluded in the computation of diluted earnings per share.

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9. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended September 30, 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)	58	—	71	—	—	129
Purchase adjustments & other	6	—	—	—	2	8
Foreign currency translation	(5)	25	20	—	—	40
Balance, September 30, 2016	\$ 2,170	\$ 123	\$ 673	\$ 59	\$ 138	\$ 3,163

Praxair has performed its goodwill impairment tests annually during the second quarter of each year, and historically has determined that the fair value of each of its reporting units was substantially in excess of its carrying value. For the 2016 test completed last quarter, Praxair applied the FASB's accounting guidance (refer to Note 1 to the consolidated financial statements of Praxair's 2015 Annual Report on Form 10-K) which allows the Company to first assess qualitative factors to determine the extent of additional quantitative analysis, if any, that may be required to test goodwill for impairment. Based on the qualitative assessments performed, Praxair concluded that it was more likely than not that the fair value of each reporting unit substantially exceeded its carrying value and therefore, further quantitative analysis was not required. As a result, no impairment was recorded. There were no indicators of impairment through September 30, 2016.

Changes in the carrying amounts of other intangibles for the nine months ended September 30, 2016 were as follows:

(Millions of dollars)	Customer & License/Use Agreements	Non-compete Agreements	Patents & Other	Total
Cost:				
Balance, December 31, 2015	\$ 698	\$ 38	\$ 47	\$ 783
Additions (Note 3)	62	4	5	71
Foreign currency translation	(3)	—	(1)	(4)
Other	(3)	(8)	—	(11)
Balance, September 30, 2016	\$ 754	\$ 34	\$ 51	\$ 839
Less: Accumulated amortization				
Balance, December 31, 2015	\$ (179)	\$ (23)	\$ (13)	\$ (215)
Amortization expense	(30)	(4)	(3)	(37)
Foreign currency translation	1	—	—	1
Other	—	7	—	7
Balance, September 30, 2016	\$ (208)	\$ (20)	\$ (16)	\$ (244)
Net balance at September 30, 2016	\$ 546	\$ 14	\$ 35	\$ 595

There are no expected residual values related to these intangible assets. The remaining weighted-average amortization period for intangible assets is approximately 18 years.

Total estimated annual amortization expense is as follows:

(Millions of dollars)	
Remaining 2016	\$ 15
2017	47
2018	42
2019	40
2020	38
Thereafter	413
	\$ 595

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10. Share-Based Compensation

Share-based compensation of \$14 million (\$10 million after-tax) and \$8 million (\$6 million after-tax) was recognized during the quarters ended September 30, 2016 and 2015, respectively. Share-based compensation of \$36 million (\$26 million after-tax) and \$25 million (\$18 million after-tax) was recognized during the nine months ended September 30, 2016 and 2015, respectively. Expense amounts reflect current estimates of achieving performance targets relating to performance-based compensation. The expense was recorded primarily in selling, general and administrative expenses. There was no share-based compensation cost that was capitalized. For further details regarding Praxair's share-based compensation arrangements and prior-year grants, refer to Note 15 to the consolidated financial statements of Praxair's 2015 Annual Report on Form 10-K.

Stock Options

The weighted-average fair value of options granted during the nine months ended September 30, 2016 was \$8.91 (\$11.99 in 2015) based on the Black-Scholes Options-Pricing model. The decrease in grant date fair value year-over-year was primarily attributable to a decrease in the company's stock price.

The following weighted-average assumptions were used to value the grants in 2016 and 2015:

	Nine Months Ended September 30, 2016 2015	
Dividend yield	2.9 %	2.2 %
Volatility	14.4%	13.5%
Risk-free interest rate	1.41%	1.51%
Expected term years	6	5

The following table summarizes option activity under the plans as of September 30, 2016 and changes during the nine-month period then ended (averages are calculated on a weighted basis; life in years; intrinsic value expressed in millions):

	Number of Options (000's)	Average Exercise Price	Average Remaining Life	Aggregate Intrinsic Value
Outstanding at January 1, 2016	11,273	\$ 96.58		
Granted	2,473	102.23		
Exercised	(1,443)	69.82		
Cancelled or Expired	(162)	110.62		
Outstanding at September 30, 2016	12,141	100.69	5.7	\$ 265
Exercisable at September 30, 2016	8,391	\$ 95.77	4.3	\$ 220

The aggregate intrinsic value represents the difference between the company's closing stock price of \$120.83 as of September 30, 2016 and the exercise price multiplied by the number of in the money options outstanding as of that date. The total intrinsic value of stock options exercised during the quarter and nine months ended September 30, 2016 was \$22 million and \$64 million, respectively (\$6 million and \$57 million during the same periods in 2015, respectively).

Cash received from option exercises under all share-based payment arrangements for the quarter and nine months ended September 30, 2016 was \$41 million and \$101 million, respectively (\$9 million and \$60 million for the same time periods in 2015, respectively). The cash tax benefit realized from share-based compensation totaled \$7 million and \$26 million for the quarter and nine months ended September 30, 2016 (\$2 million and \$31 million cash tax benefit for the same periods in 2015).

As of September 30, 2016, \$23 million of unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted-average period of approximately 1 year.

Performance-Based and Restricted Stock Awards

During the nine months ended September 30, 2016, the company granted performance-based stock awards to employees of 240,505 shares that vest, subject to the attainment of pre-established minimum performance criteria, principally on the third anniversary of their date of grant. These awards are tied to either return on capital ("ROC") performance or relative total shareholder return ("TSR") performance versus that of the S&P 500. The actual number of shares issued in settlement of a vested award can range from zero to 200 percent of the target number of shares granted based upon the company's attainment of specified performance targets at the end of a three-year period. Compensation expense related to these awards is recognized over the three-year performance period based on the fair value of the closing market price of the company's common stock on

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the date of the grant and the estimated performance that will be achieved. Compensation expense will be adjusted during the three-year performance period based upon the estimated performance levels that will be achieved. During the nine months ended September 30, 2016, the company also granted restricted stock units to employees of 97,542 shares. The majority of the restricted stock units vest at the end of a three-year service period. Compensation expense related to the restricted stock units is recognized on a straight line basis over the vesting period. The weighted-average fair value of ROC performance-based stock awards and restricted stock units granted during the nine months ended September 30, 2016 was \$93.46 and \$98.12, respectively (\$120.04 and \$120.32 for the same periods in 2015). These fair values are based on the closing market price of Praxair's common stock on the grant date adjusted for dividends that will not be paid during the vesting period. The weighted-average fair value of performance-based stock tied to relative TSR performance granted during the nine months ended September 30, 2016 was \$124.18 (none in 2015), and was estimated using a Monte Carlo simulation performed as of the grant date. The following table summarizes non-vested performance-based and restricted stock award activity as of September 30, 2016 and changes during the nine months then ended (shares based on target amounts, averages are calculated on a weighted basis):

	Performance-Based		Restricted Stock	
	Number of Shares (000's)	Average Grant Date Fair Value	Number of Shares (000's)	Average Grant Date Fair Value
Non-vested at January 1, 2016	802	\$ 114.41	286	\$ 112.48
Granted	241	105.34	98	98.12
Vested	(107)	103.46	(90)	105.58
Cancelled and Forfeited	(208)	104.54	(15)	114.29
Non-vested at September 30, 2016	728	\$ 115.80	279	\$ 109.58

There are approximately 12 thousand performance-based shares and 11 thousand restricted stock shares that are non-vested at September 30, 2016 which will be settled in cash due to foreign regulatory limitations. The liability related to these grants reflects the current estimate of performance that will be achieved and the current common stock price.

As of September 30, 2016, based on current estimates of future performance, \$26 million of unrecognized compensation cost related to performance-based awards is expected to be recognized through the first quarter of 2019 and \$14 million of unrecognized compensation cost related to the restricted stock awards is expected to be recognized primarily through the first quarter of 2019.

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11. Retirement Programs

The components of net pension and postretirement benefits other than pensions ("OPEB") costs for the quarter and nine months ended September 30, 2016 and 2015 are shown below:

(Millions of dollars)	Quarter Ended September 30,				Nine Months Ended September 30,			
	Pensions		OPEB		Pensions		OPEB	
	2016	2015	2016	2015	2016	2015	2016	2015
Service cost	\$ 11	\$ 13	\$ —	\$ —	\$ 35	\$ 41	\$ 2	\$ 2
Interest cost	27	28	2	2	76	85	4	6
Expected return on plan assets	(39)	(38)	—	—	(117)	(116)	—	—
Net amortization and deferral	14	20	—	—	45	61	(2)	(2)
Net periodic benefit cost	\$ 13	\$ 23	\$ 2	\$ 2	\$ 39	\$ 71	\$ 4	\$ 6
Pension settlement charge (Note 2)	4	7	—	—	4	7	—	—
Net periodic benefit cost	\$ 17	\$ 30	\$ 2	\$ 2	\$ 43	\$ 78	\$ 4	\$ 6

Praxair estimates that 2016 required contributions to its pension plans will be in the range of \$10 million to \$15 million, of which \$8 million have been made through September 30, 2016. At the end of 2015, the Company changed the approach used to measure service and interest costs for significant pension and OPEB plans by applying specific spot rates along the yield curve rather than a single weighted-average rate derived from the yield curve (the "spot rate approach"). This change was accounted for as a change in accounting estimate and, as such, is applied on a prospective basis starting in 2016.

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12. Commitments and Contingencies

Contingent Liabilities

Praxair is subject to various lawsuits and government investigations that arise from time to time in the ordinary course of business. These actions are based upon alleged environmental, tax, antitrust and personal injury claims, among others. Praxair has strong defenses in these cases and intends to defend itself vigorously. It is possible that the company may incur losses in connection with some of these actions in excess of accrued liabilities. Management does not anticipate that in the aggregate such losses would have a material adverse effect on the company's consolidated financial position or liquidity; however, it is possible that the final outcomes could have a significant impact on the company's reported results of operations in any given period (see Note 17 to the consolidated financial statements of Praxair's 2015 Annual Report on Form 10-K).

Significant matters are:

During May 2009, the Brazilian government published Law 11941/2009 instituting a new voluntary amnesty program ("Refis Program") which allowed Brazilian companies to settle certain federal tax disputes at reduced amounts. During the 2009 third quarter, Praxair decided that it was economically beneficial to settle many of its outstanding federal tax disputes and such disputes were enrolled in the Refis Program, subject to final calculation and review by the Brazilian federal government. The Company recorded estimated liabilities based on the terms of the Refis Program. Since 2009, Praxair has been unable to reach final agreement on the calculations and recently initiated litigation against the government in an attempt to resolve certain items. Open issues relate to the following matters: (i) application of cash deposits and net operating loss carryforwards to satisfy obligations, and (ii) the amount of tax reductions available under the Refis Program. It is difficult to estimate the timing of resolution of legal matters in Brazil.

At September 30, 2016 the most significant non-income and income tax claims in Brazil, after enrollment in the Refis Program, relate to state VAT tax matters and a federal income tax matter where the taxing authorities are challenging the tax rate that should be applied to income generated by a subsidiary company. The total estimated exposure relating to such claims, including interest and penalties, as appropriate, is approximately \$220 million. Praxair has not recorded any liabilities related to such claims based on management judgments, after considering judgments and opinions of outside counsel. Because litigation in Brazil historically takes many years to resolve, it is very difficult to estimate the timing of resolution of these matters; however, it is possible that certain of these matters may be resolved within the near term. The company is vigorously defending against the proceedings.

On September 1, 2010, CADE (Brazilian Administrative Council for Economic Defense) announced alleged anticompetitive activity on the part of five industrial gas companies in Brazil and imposed fines on all five companies. Originally, CADE imposed a civil fine of R\$2.2 billion Brazilian reais (US\$678 million) against White Martins, the Brazil-based subsidiary of Praxair, Inc. In response to a motion for clarification, the fine was reduced to R\$1.7 billion Brazilian reais (US\$524 million) due to a calculation error made by CADE. The amount of the fine is subject to indexation using SELIC. On September 2, 2010, Praxair issued a press release and filed a report on Form 8-K rejecting all claims and stating that the fine represents a gross and arbitrary disregard of Brazilian law.

On October 19, 2010, White Martins filed an annulment petition ("appeal") with the Federal Court in Brasilia seeking to have the fine against White Martins entirely overturned. In order to suspend payment of the fine pending the completion of the appeal process, Brazilian law required that the company tender a form of guarantee in the amount of the fine as security. Initially, 50% of the guarantee was satisfied by letters of credit with a financial institution and 50% by equity of a Brazilian subsidiary. On April 15, 2016, the Ninth Federal Court in Brasilia allowed White Martins to withdraw and cancel the letters of credit. Accordingly, the guarantee is currently satisfied solely by equity of a Brazilian subsidiary.

On September 14, 2015, the Ninth Federal Court of Brasilia overturned the fine against White Martins and declared the original CADE administrative proceeding to be null and void. On June 30, 2016, CADE filed an appeal against this decision with the Federal Circuit Court in Brasilia.

Praxair strongly believes that the allegations are without merit and that the fine will be entirely overturned during the appeal process. The company further believes that it has strong defenses and will vigorously defend against the allegations and related fine up to such levels of the Federal Courts in Brazil as may be necessary. Because appeals in Brazil historically take many years to resolve, it is very difficult to estimate when the appeal will be finally decided.

Based on management judgments, after considering judgments and opinions of outside counsel, no reserve has been recorded for this proceeding as management does not believe that a loss is probable.

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13. Segments

Sales and operating profit by segment for the quarters and nine months ended September 30, 2016 and 2015 are shown below. For a description of Praxair's operating segments, refer to Note 18 to the consolidated financial statements of Praxair's 2015 Annual Report on Form 10-K.

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Millions of dollars)	2016	2015	2016	2015
SALES^(a)				
North America	\$ 1,431	\$ 1,463	\$4,195	\$4,444
Europe	366	338	1,041	995
South America	378	343	1,047	1,132
Asia	391	395	1,160	1,153
Surface Technologies	150	147	447	457
Total sales	\$ 2,716	\$ 2,686	\$7,890	\$8,181
	Quarter Ended September 30,		Nine Months Ended September 30,	
(Millions of dollars)	2016	2015	2016	2015
OPERATING PROFIT				
North America	\$ 363	\$ 385	\$1,071	\$1,152
Europe	72	63	202	188
South America	68	70	193	236
Asia	68	77	198	215
Surface Technologies	26	25	75	78