PRAXAIR INC
Form 10-Q
July 26, 2018
Table of Contents

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 June 30, 2018
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.)
10 Riverview Drive, DANBURY, CT	06810-6268
(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)

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
1.50% Euro notes due 2020 New York Stock Exchange
1.20% Euro notes due 2024 New York Stock Exchange
1.625% Euro notes due 2025 New York Stock Exchange

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

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, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer ¨

Non-accelerated filer	¨	Smaller reporting company	¨
			¨
		Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.	¨

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 June 30, 2018, 287,575,784 shares of common stock ($0.01 par value) of the Registrant were outstanding.

Table of Contents

INDEX

Table of Contents

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

	Quarter Ended June 30,	
	2018	2017
SALES	$3,061	$2,834
Cost of sales, exclusive of depreciation and amortization	1,723	1,599
Selling, general and administrative	307	305
Depreciation and amortization	311	292
Research and development	24	23
Transaction costs and other charges	24	15
Other income (expense) - net	17	6
OPERATING PROFIT	689	606
Interest expense - net	44	38
Net pension and OPEB cost (benefit), excluding service cost	2	2
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	643	566
Income taxes	158	157
INCOME BEFORE EQUITY INVESTMENTS	485	409
Income from equity investments	14	11
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	499	420
Less: noncontrolling interests	(19)	(14)
NET INCOME - PRAXAIR, INC.	$480	$406
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	$1.67	$1.42
Diluted earnings per share	$1.65	$1.41
Cash dividends per share	$0.825	$0.7875
WEIGHTED AVERAGE SHARES OUTSTANDING (000’s):		
Basic shares outstanding	287,803	286,090
Diluted shares outstanding	290,908	288,535

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

Table of Contents

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

	Six months ended June 30,	
	2018	2017
SALES	$6,060	$5,562
Cost of sales, exclusive of depreciation and amortization	3,400	3,148
Selling, general and administrative	617	595
Depreciation and amortization	622	579
Research and development	48	46
Transaction costs and other charges	43	21
Other income (expense) - net	12	—
OPERATING PROFIT	1,342	1,173
Interest expense - net	90	79
Net pension and OPEB cost (benefit), excluding service cost	4	(13)
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	1,248	1,107
Income taxes	306	306
INCOME BEFORE EQUITY INVESTMENTS	942	801
Income from equity investments	29	23
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	971	824
Less: noncontrolling interests	(29)	(29)
NET INCOME - PRAXAIR, INC.	$942	$795
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	$3.27	$2.78
Diluted earnings per share	$3.24	$2.76
Cash dividends per share	$1.65	$1.575
WEIGHTED AVERAGE SHARES OUTSTANDING (000’s):		
Basic shares outstanding	287,654	285,799
Diluted shares outstanding	290,926	288,067

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

Table of Contents

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

	Quarter Ended June 30,	
	2018	2017
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	$ 499	$ 420
OTHER COMPREHENSIVE INCOME (LOSS)		
Translation adjustments:		
Foreign currency translation adjustments	(640)	(1)
Income taxes	(3)	55
Translation adjustments	(643)	54
Funded status - retirement obligations (Note 11):		
Retirement program remeasurements	(9)	(17)
Reclassifications to net income	17	16
Income taxes	(2)	1
Funded status - retirement obligations	6	—
Derivative instruments (Note 6):		
Current quarter unrealized gain (loss)	—	1
Reclassifications to net income	—	—
Income taxes	—	(1)
Derivative instruments	—	—
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(637)	54
COMPREHENSIVE INCOME (LOSS) (INCLUDING NONCONTROLLING INTERESTS)	(138)	474
Less: noncontrolling interests	2	(27)
COMPREHENSIVE INCOME (LOSS) - PRAXAIR, INC.	$ (136)	$ 447

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

Table of Contents

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

	Six months ended June 30,	
	2018	2017
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	$971	$824
OTHER COMPREHENSIVE INCOME (LOSS)		
Translation adjustments:		
Foreign currency translation adjustments	(534)	316
Income taxes	6	58
Translation adjustments	(528)	374
Funded status - retirement obligations (Note 11):		
Retirement program remeasurements	(8)	(20)
Reclassifications to net income	34	20
Income taxes	(6)	—
Funded status - retirement obligations	20	—
Derivative instruments (Note 6):		
Current period unrealized gain (loss)	—	—
Reclassifications to net income	—	—
Income taxes	—	—
Derivative instruments	—	—
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(508)	374
COMPREHENSIVE INCOME (INCLUDING NONCONTROLLING INTERESTS)	463	1,198
Less: noncontrolling interests	(19)	(47)
COMPREHENSIVE INCOME - PRAXAIR, INC.	$444	$1,151

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

Table of Contents

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

	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$479	$617
Accounts receivable - net	1,877	1,804
Inventories	606	614
Prepaid and other current assets	202	250
TOTAL CURRENT ASSETS	3,164	3,285
Property, plant and equipment (less accumulated depreciation of $13,821 in 2018 and $13,819 in 2017)	11,701	12,057
Goodwill	3,200	3,233
Other intangible assets - net	525	553
Other long-term assets	1,246	1,308
TOTAL ASSETS	$19,836	$20,436
LIABILITIES AND EQUITY		
Accounts payable	$967	$972
Short-term debt	250	238
Current portion of long-term debt	979	979
Other current liabilities	1,083	1,118
TOTAL CURRENT LIABILITIES	3,279	3,307
Long-term debt	7,229	7,783
Other long-term liabilities	2,786	2,824
TOTAL LIABILITIES	13,294	13,914
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests (Note 14)	14	11
Praxair, Inc. Shareholders' Equity:		
Common stock $0.01 par value, authorized - 800,000,000 shares, issued 2018 and 2017 - 383,230,625 shares	4	4
Additional paid-in capital	4,066	4,084
Retained earnings	13,690	13,224
Accumulated other comprehensive income (loss) (Note 14)	(4,596)	(4,098)
Less: Treasury stock, at cost (2018 - 95,654,841 shares and 2017 - 96,453,634 shares)	(7,137)	(7,196)
Total Praxair, Inc. Shareholders' Equity	6,027	6,018
Noncontrolling interests	501	493
TOTAL EQUITY	6,528	6,511
TOTAL LIABILITIES AND EQUITY	$19,836	$20,436

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

Table of Contents

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

	Six months ended June 30,	
	2018	2017
OPERATIONS		
Net income - Praxair, Inc.	$942	$795
Noncontrolling interests	29	29
Net income (including noncontrolling interests)	971	824
Adjustments to reconcile net income to net cash provided by operating activities:		
Transaction costs and other charges, net of payments	15	17
Depreciation and amortization	622	579
Deferred income taxes	10	48
Share-based compensation	21	28
Working capital:		
Accounts receivable	(147)	(95)
Inventory	(10)	(5)
Prepaid and other current assets	25	(40)
Payables and accruals	(6)	(24)
Pension contributions	(10)	(6)
Long-term assets, liabilities and other	(13)	85
Net cash provided by operating activities	1,478	1,411
INVESTING		
Capital expenditures	(676)	(652)
Acquisitions, net of cash acquired	—	(2)
Divestitures and asset sales	69	17
Net cash used for investing activities	(607)	(637)
FINANCING		
Short-term debt borrowings (repayments) - net	13	(157)
Long-term debt borrowings	—	10
Long-term debt repayments	(505)	(158)
Issuances of common stock	44	70
Purchases of common stock	(1)	(11)
Cash dividends - Praxair, Inc. shareholders	(474)	(450)
Noncontrolling interest transactions and other	(22)	(84)
Net cash provided by (used for) financing activities	(945)	(780)
Effect of exchange rate changes on cash and cash equivalents	(64)	17
Change in cash and cash equivalents	(138)	11
Cash and cash equivalents, beginning-of-period	617	524
Cash and cash equivalents, end-of-period	$479	$535

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

Table of Contents

INDEX TO NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Notes to Condensed Consolidated Financial Statements - Praxair, Inc. and Subsidiaries (Unaudited)

Table of Contents

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 2017 Annual Report on Form 10-K. There have been no material changes to the company’s significant accounting policies during 2018.

Accounting Standards Implemented in 2018

- Revenue Recognition – In May 2014, the FASB issued updated guidance on the reporting and disclosure of revenue. Effective January 1, 2018, Praxair has adopted this guidance using the modified retrospective transition method. No material differences in revenue recognition accounting were identified under the new guidance compared with the Company's historic revenue recognition accounting (see Note 15).
- 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. The adoption of this guidance did not have a material impact on the financial statements.
- Intra-Entity Asset Transfers – In October 2016, the FASB issued updated guidance for income tax accounting of intra-entity transfers of assets other than inventory. The update requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory in the period when the transfer occurs. The adoption of this guidance did not have a material impact on the financial statements.
- Pension Costs - In March 2017, the FASB issued updated guidance on the presentation of net periodic pension cost and net periodic postretirement benefit cost. The new guidance requires the service cost component be reported in the same line item or items as other compensation costs arising from services rendered by employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and not included within operating profit. This guidance was adopted in the first quarter 2018. Accordingly, non-service related components of net periodic pension and postretirement benefit costs were reclassified out of "Operating Profit" to "Net pension and OPEB cost (benefit), excluding service cost" using the practical expedient to use the amounts disclosed in the retirement benefits note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements (see Note 11).

Accounting Standards to be Implemented

- 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 and requires companies to transition using a modified retrospective approach. Praxair is in the process of implementing the new guidance and will provide updates on the expected impact to Praxair in future filings, as appropriate.
- Credit Losses on Financial Instruments – In June 2016, the FASB issued an update on the measurement of credit losses. The guidance introduces a new accounting model for expected credit losses on financial instruments, including trade receivables, based on estimates of current expected credit losses. This guidance will be effective for Praxair beginning in the first quarter 2020, with early adoption permitted beginning in the first quarter 2019 and requires companies to apply the change in accounting on a prospective basis. We are currently evaluating the impact this update will have on our consolidated financial statements.
- Simplifying the Test for Goodwill Impairment – In January 2017, the FASB issued updated guidance on the measurement of goodwill. The new guidance eliminates the requirement to calculate the implied fair value of

goodwill to measure a goodwill impairment charge. The guidance will be effective for Praxair beginning in the first quarter 2020. Praxair does not expect this guidance to have a material impact.

Table of Contents

- Derivatives and Hedging - In August 2017, the FASB issued updated guidance on accounting for hedging activities. The new guidance changes both the designation and measurement for qualifying hedging relationships and the presentation of hedge results. This guidance will be effective for Praxair beginning in the first quarter 2019, with early adoption optional. Praxair is currently evaluating the impact this update will have on our consolidated financial statements.
- Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income – In February 2018, the FASB issued updated guidance which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This new guidance will be effective for Praxair beginning in the first quarter 2019 on a retrospective basis, with early adoption optional. Praxair is currently assessing the impact and timing of adoption.

Reclassifications – Certain prior years' amounts have been reclassified to conform to the current year's presentation including reclassifications on the consolidated statements of income and segment operating profit relating to the adoption of accounting guidance on the presentation of net periodic pension and postretirement benefit costs.

2. Transaction Costs and Other Charges

On June 1, 2017 Praxair and Linde AG ("Linde") entered into a business combination agreement, pursuant to which they agreed to combine their respective businesses subject to shareholder and regulatory approvals (see Note 17). Praxair incurred transaction costs and other charges primarily in connection with the intended business combination totaling $24 million and $43 million for the quarter and six months ended June 30, 2018 ($21 million and $39 million after-tax and noncontrolling interests, or $0.07 and $0.13 per diluted share), respectively. Praxair incurred transaction costs which totaled $15 million and $21 million after-tax for the quarter and six months ended June 30, 2017 ($0.05 and $0.07 per diluted share), respectively.

Classification in the condensed consolidated financial statements

The costs are shown within operating profit in a separate line item on the consolidated statements of income. On the condensed consolidated statement of cash flows, the impact of these costs, 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 costs 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

Acquisition activity was immaterial for the quarter and six month periods ending June 30, 2018 and June 30, 2017.

4. Supplemental Information

Inventories

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

(Millions of dollars)	June 30, 2018	December 31, 2017
Inventories		
Raw materials and supplies	$ 222	$ 224
Work in process	54	57
Finished goods	330	333
Total inventories	$ 606	$ 614

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 $32 million and $54 million at June 30, 2018 and December 31, 2017, respectively. These amounts are net of reserves of $46 million and $51 million, respectively. The amounts

11

Table of Contents

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.

5. Debt

The following is a summary of Praxair’s outstanding debt at June 30, 2018 and December 31, 2017:

(Millions of dollars)	June 30, 2018	December 31, 2017
SHORT-TERM		
Commercial paper and U.S. bank borrowings	$214	$ 202
Other bank borrowings (primarily international)	36	36
Total short-term debt	250	238
LONG-TERM (a)		
U.S. borrowings (U.S. dollar denominated unless otherwise noted)		
1.20% Notes due 2018 (b)	—	498
1.25% Notes due 2018 (c)	474	475
1.90% Notes due 2019	500	500
4.50% Notes due 2019	599	599
1.50% Euro-denominated notes due 2020	699	717
2.25% Notes due 2020	299	299
4.05% Notes due 2021	498	498
3.00% Notes due 2021	498	497
2.45% Notes due 2022	598	598
2.20% Notes due 2022	498	498
2.70% Notes due 2023	498	498
1.20% Euro-denominated notes due 2024	640	658
2.65% Notes due 2025	398	397
1.625% Euro-denominated notes due 2025	578	594
3.20% Notes due 2026	725	725
3.55% Notes due 2042	662	662
Other	10	12
International bank borrowings	30	33
Obligations under capital leases	4	4
	8,208	8,762
Less: current portion of long-term debt	(979)	(979)
Total long-term debt	7,229	7,783
Total debt	$8,458	$ 9,000

(a) Amounts are net of unamortized discounts, premiums and/or debt issuance costs as applicable.
(b) In March 2018, Praxair repaid $500 million of 1.20% notes that became due.
(c) June 30, 2018 and December 31, 2017 include a $1 million fair value decrease and a less than $1 million increase, respectively, related to hedge accounting. See Note 6 for additional information.

In June 2018, the company's $500 million 364-day revolving credit facility with a syndicate of banks expired and was not renewed.

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 June 30, 2018 and December 31, 2017 for consolidated subsidiaries:

(Millions of dollars)	Notional Amounts June 30, 2018	Notional Amounts December 31, 2017	Fair Value Assets June 30, 2018	Fair Value Assets December 31, 2017	Fair Value Liabilities June 30, 2018	Fair Value Liabilities December 31, 2017
Derivatives Not Designated as Hedging Instruments:						
Currency contracts:						
Balance sheet items (a)	$2,266	$ 2,693	$6	$ 16	$25	$ 16
Derivatives Designated as Hedging Instruments:						
Currency contracts:						
Balance sheet items (a)	$—	$ 38	$—	$ —	$—	$ 2
Forecasted purchases (a)	2	4	—	1	—	—
Interest rate contracts:						
Interest rate swaps (a)	475	475	—	—	1	—
Total Hedges	$477	$ 517	$—	$ 1	$1	$ 2
Total Derivatives	$2,743	$ 3,210	$6	$ 17	$26	$ 18

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

Currency Contracts

Balance Sheet Items

Foreign currency contracts related to balance sheet items consist of forward contracts entered into to manage the exposure to fluctuations in foreign-currency exchange rates on recorded balance sheet assets and liabilities denominated in currencies other than the functional currency of the related operating unit. 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

13

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 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.

Forecasted Purchases

Foreign currency contracts related to forecasted purchases consist of forward contracts entered into to manage the exposure to fluctuations in foreign-currency exchange rates on forecasted purchases of capital-related equipment and services denominated in currencies other than the functional currency of the related operating units. These forward contracts were designated and accounted for as cash flow hedges.

Net Investment Hedge

As of June 30, 2018, the Company has €1.65 billion ($1.92 billion) of Euro-denominated notes, of which €1.57 billion ($1.83 billion) is designated as a 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 $148 million (long-term debt decreased by $51 million during the first six months of 2018), 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 June 30, 2018, 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 June 30, 2018, $1 million was recognized as a decrease in the fair value of these notes (increase in the fair value of less than $1 million at December 31, 2017).

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) June 30, 2018	December 31, 2017
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)	(3)	(4)
$600 million 4.50% fixed-rate notes that mature in 2019 (b)	2009	16	2	3
Total - pre-tax			$ (2)	$ (2)
Less: income taxes			1	1
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.

14

The following table summarizes the impact of the company’s derivatives on the consolidated statements of income:

	Amount of Pre-Tax Gain (Loss) Recognized in Earnings *			
	Quarter Ended June 30,		Six Months Ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
Derivatives Not Designated as Hedging Instruments				
Currency contracts:				
Balance sheet items				
Debt-related	$ (68)	$ 30	$ (32)	$ 109
Other balance sheet items	(1)	1	1	2
Total	$ (69)	$ 31	$ (31)	$ 111

* 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 table summarizes 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)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Currency contracts:				
Balance sheet items	$ —	$ —	$ —	$ —
Forecasted purchases	—	1	—	—
Interest rate contracts:				
Treasury rate lock contracts	—	—	—	—
Total - pre tax	$ —	$ 1	$ —	$ —
Less: income taxes	—	(1)	—	—
Total - Net of Taxes	$ —	$ —	$ —	$ —

	Six 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)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Currency contracts:				

Balance sheet items	$ —	$ (1)	$ —	$ —
Forecasted purchases	—	1	—	—
Interest rate contracts:				
Treasury rate lock contracts	—	—	—	—
Total - pre tax	$ —	$ —	$ —	$ —
Less: income taxes	—	—	—	—
Total - Net of Taxes	$ —	$ —	$ —	$ —

**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 2018 or 2017. 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 $1 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	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Assets						
Derivatives	—	—	$ 6	$ 17	—	—
Liabilities						
Derivatives	—	—	$ 26	$ 18	—	—

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 June 30, 2018, the estimated fair value of Praxair’s long-term debt portfolio was $8,216 million versus a carrying value of $8,208 million. At December 31, 2017, the estimated fair value of Praxair’s long-term debt portfolio was $8,969 million versus a carrying value of $8,762 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:

Table of Contents

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator (Millions of dollars)				
Net income - Praxair, Inc.	$ 480	$ 406	$ 942	$ 795
Denominator (Thousands of shares)				
Weighted average shares outstanding	287,467	285,719	287,321	285,429
Shares earned and issuable under compensation plans	336	371	333	370
Weighted average shares used in basic earnings per share	287,803	286,090	287,654	285,799
Effect of dilutive securities				
Stock options and awards	3,105	2,445	3,272	2,268
Weighted average shares used in diluted earnings per share	290,908	288,535	290,926	288,067
Basic Earnings Per Share	$ 1.67	$ 1.42	$ 3.27	$ 2.78
Diluted Earnings Per Share	$ 1.65	$ 1.41	$ 3.24	$ 2.76

There were no antidilutive shares for the quarter and six months ended June 30, 2018. Stock options of 2,508,472 and 2,509,162 for the quarter and six months ended June 30, 2017 were antidilutive and therefore excluded in the computation of diluted earnings per share.

9. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the six months ended June 30, 2018 were as follows:

(Millions of dollars)	North America	South America	Europe	Asia	Surface Technologies	Total
Balance, December 31, 2017	$ 2,202	$ 129	$ 698	$ 61	$ 143	$ 3,233
Acquisitions	—	—	—	—	—	—
Purchase adjustments & other	12	—	—	—	—	12
Foreign currency translation	(7)	(22)	(12)	(1)	(3)	(45)
Balance, June 30, 2018	$ 2,207	$ 107	$ 686	$ 60	$ 140	$ 3,200

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 2018 test completed this quarter, Praxair applied the FASB's accounting guidance 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 (refer to Note 1 to the consolidated financial statements of Praxair's 2017 Annual Report on Form 10-K). Based on the qualitative assessments performed in the second quarter of 2018, 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 June 30, 2018.

Changes in the carrying amounts of other intangibles for the six months ended June 30, 2018 were as follows:

Table of Contents

(Millions of dollars)	Customer & License/Use Agreements	Non-compete Agreements	Patents & Other	Total
Cost:				
Balance, December 31, 2017	$ 772	$ 28	$ 52	$852
Additions	—	—	—	—
Foreign currency translation	(6)	—	—	(6)
Other*	(20)	(5)	—	(25)
Balance, June 30, 2018	$ 746	$ 23	$ 52	$821
Less: Accumulated amortization				
Balance, December 31, 2017	$ (260)	$ (18)	$ (21)	$(299)
Amortization expense	(19)	(2)	(2)	(23)
Foreign currency translation	2	—	—	2
Other*	19	5	—	24
Balance, June 30, 2018	$ (258)	$ (15)	$ (23)	$(296)
Net balance at June 30, 2018	$ 488	$ 8	$ 29	$525

* Other primarily relates to the write-off of fully amortized assets.

There are no expected residual values related to these intangible assets. The remaining weighted-average amortization period for intangible assets is approximately 16 years.

Total estimated annual amortization expense is as follows:

(Millions of dollars)	
Remaining 2018	$22
2019	43
2020	41
2021	39
2022	38
Thereafter	342
	$525

Table of Contents

10. Share-Based Compensation

Share-based compensation expense of $17 million ($12 million after-tax) and $16 million ($1 million after-tax) was recognized during the quarters ended June 30, 2018 and 2017, respectively. The 2018 and 2017 quarters include $2 million and $10 million of excess tax benefits, respectively. Share-based compensation of $21 million ($2 million after-tax) and $28 million ($5 million after-tax) was recognized during the six months ended June 30, 2018 and 2017, respectively. The 2018 and 2017 six-month periods include $15 million and $14 million, respectively, of excess tax benefits. 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 2017 Annual Report on Form 10-K.

Stock Options

The weighted-average fair value of options granted during the six months ended June 30, 2018 was $19.29 ($12.40 in 2017) based on the Black-Scholes Options-Pricing model. The increase in grant date fair value year-over-year was primarily attributable to an increase in the company's stock price.

The following weighted-average assumptions were used to value the grants in 2018 and 2017:

	Six months ended June 30, 2018	2017
Dividend yield	2.1 %	2.7 %
Volatility	14.4%	14.0%
Risk-free interest rate	2.67%	2.13%
Expected term years	5	6

The following table summarizes option activity under the plans as of June 30, 2018 and changes during the six-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, 2018	10,787	$ 108.70		
Granted	1,625	154.00		
Exercised	(1,136)	92.29		
Cancelled or Expired	(35)	126.27		
Outstanding at June 30, 2018	11,241	116.86	6.3	$ 464
Exercisable at June 30, 2018	7,521	$ 110.02	5.2	$ 362

The aggregate intrinsic value represents the difference between the company's closing stock price of $158.15 as of June 30, 2018 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 six months ended June 30, 2018 was $14 million and $77 million, respectively ($45 million and $63 million during the same periods in 2017, respectively).

Cash received from option exercises under all share-based payment arrangements for the quarter and six months ended June 30, 2018 was $12 million and $38 million, respectively ($44 million and $63 million for the same periods in 2017). The cash tax benefit realized from share-based compensation totaled $5 million and $19 million for the quarter and six months ended June 30, 2018, respectively ($18 million and $26 million for the same periods in 2017, respectively).

As of June 30, 2018, $33 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 six months ended June 30, 2018, the company granted restricted stock units to employees of 269,433 shares. There were no performance-based stock awards granted to employees during the six months ended June 30, 2018 as restricted stock units were granted in place of performance-based stock awards. Compensation expense related to the restricted stock units is recognized over the vesting period, which is up to three years, based on the grant date fair value.

As of June 30, 2018 the company had performance-based stock awards outstanding, 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

19

Table of Contents

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 the date of the grant and the estimated performance that will be achieved. Compensation expense for ROC awards will be adjusted during the three-year performance period based upon the estimated performance levels that will be achieved. TSR awards are measured at their grant date fair value and not subsequently re-measured.

The weighted-average fair value of restricted stock units granted during the six months ended June 30, 2018 was $144.79 ($111.69 for the same period in 2017). 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 ROC performance-based stock awards granted during the six months ended June 30, 2017 was $109.68.

The weighted-average fair value of performance-based stock tied to relative TSR performance granted during six months ended June 30, 2017 was $124.12 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 June 30, 2018 and changes during the six months then ended (shares based on target amounts, averages are calculated on a weighted basis):

	Performance-Based		Restricted Stock	
	Number of Shares (000's)	Average Grant Date Fair Value	Number of Shares (000's)	Average Grant Date Fair Value
Non-vested at January 1, 2018	665	$ 113.40	264	$ 107.56
Granted	—	—	269	144.79
Vested	(78)	119.98	(89)	116.29
Cancelled and Forfeited	(150)	110.12	(14)	92.93
Non-vested at June 30, 2018	437	$ 110.02	430	$ 129.49

There are approximately 6 thousand performance-based shares and 3 thousand restricted stock shares that are non-vested at June 30, 2018 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 June 30, 2018, based on current estimates of future performance, $11 million of unrecognized compensation cost related to performance-based awards is expected to be recognized through the first quarter of 2020 and $36 million of unrecognized compensation cost related to the restricted stock awards is expected to be recognized primarily through the first quarter of 2021.

Table of Contents

11. Retirement Programs

The components of net pension and postretirement benefits other than pensions ("OPEB") costs for the quarter and six months ended June 30, 2018 and 2017 are shown below:

	Quarter Ended June 30,				Six Months Ended June 30,			
	Pensions		OPEB		Pensions		OPEB	
(Millions of dollars)	2018	2017	2018	2017	2018	2017	2018	2017
Amount recognized in Operating Profit								
Service cost	$12	$12	$1	$1	$24	$23	$1	$2
Amount recognized in Net pension and OPEB cost (benefit), excluding service cost								
Interest cost	25	25	1	1	51	51	2	2
Expected return on plan assets	(41)	(40)	—	—	(83)	(80)	—	—
Net amortization and deferral	18	17	(1)	(1)	36	34	(2)	(2)
Curtailment gain (a)	—	—	—	—	—	—	—	(18)
	$2	$2	$—	$—	$4	$5	$—	$(18)
Net periodic benefit cost (benefit)	$14	$14	$1	$1	$28	$28	$1	$(16)

(a) The curtailment gain recorded in the first quarter of 2017 resulted from the termination of an OPEB plan in South America.

Praxair estimates that 2018 required contributions to its pension plans will be in the range of $15 million to $20 million, of which $10 million have been made through June 30, 2018.

Table of Contents

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 2017 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 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 June 30, 2018 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 $210 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$570 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$440 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.

Table of Contents

13. Segments

For a description of Praxair's operating segments, refer to Note 18 to the consolidated financial statements of Praxair's 2017 Annual Report on Form 10-K.

Sales and operating profit by segment for the quarters and six months ended June 30, 2018 and 2017 are shown below. 2017 segment operating profit has been reclassified to conform with current year presentation as a result of the adoption of new accounting guidance on the presentation of net periodic pension and postretirement benefit costs (see Note 1).

	Quarter Ended June 30,		Six Months Ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
SALES[(a)]				
North America	$ 1,594	$ 1,505	$3,157	$2,963
Europe	444	383	872	739
South America	349	373	714	742
Asia	502	422	978	817
Surface Technologies	172	151	339	301
Total sales	$ 3,061	$ 2,834	$6,060	$5,562

	Quarter Ended June 30,		Six Months Ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
OPERATING PROFIT				
North America	$ 432	$ 378	$838	$735
Europe	87	74	167	141
South America	56	64	110	112
Asia	107	80	211	155
Surface Technologies	31	25	59	51
Segment operating profit	713	621	1,385	1,194
Transaction costs and other charges (Note 2)	(24)	(15)	(43)	(21)
Total operating profit	$ 689	$ 606	$1,342	$1,173

(a) Sales reflect external sales only. Intersegment sales, primarily from North America to other segments, were not material.

Table of Contents

14. Equity and Redeemable Noncontrolling Interests

Equity

A summary of the changes in total equity for the quarters and six months ended June 30, 2018 and 2017 is provided below:

(Millions of dollars)	Quarter Ended June 30, 2018			2017		
Activity	Praxair, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity	Praxair, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, beginning of period	$6,368	$ 516	$6,884	$5,529	$ 436	$5,965
Net income (a)	480	18	498	406	13	419
Other comprehensive income (loss)	(616)	(21)	(637)	41	13	54
Noncontrolling interests:						
Additions (reductions)	—	1	1	—	7	7
Dividends and other capital changes	—	(13)	(13)	—	(16)	(16)
Redemption value adjustments	—	—	—	—	—	—
Dividends to Praxair, Inc. common stock holders ($0.825 per share in 2018 and $0.7875 per share in 2017)	(237)	—	(237)	(225)	—	(225)
Issuances of common stock:						
For the dividend reinvestment and stock purchase plan	1	—	1	1	—	1
For employee savings and incentive plans	15	—	15	39	—	39
Purchases of common stock	(1)	—	(1)	—	—	—
Share-based compensation	17	—	17	16	—	16
Balance, end of period	$6,027	$ 501	$6,528	$5,807	$ 453	$6,260

Table of Contents

(Millions of dollars)	Six Months Ended June 30, 2018			2017		
Activity	Praxair, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity	Praxair, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, beginning of period	$6,018	$ 493	$6,511	$5,021	$ 420	$5,441
Net income (a)	942	27	969	795	28	823
Other comprehensive income (loss)	(498)	(10)	(508)	356	18	374
Noncontrolling interests:						
Additions (reductions)	—	7	7	—	7	7
Dividends and other capital changes	—	(16)	(16)	—	(20)	(20)
Redemption value adjustments	(2)	—	(2)	—	—	—
Dividends to Praxair, Inc. common stock holders ($1.65 per share in 2018 and $1.575 per share in 2017)	(474)	—	(474)	(450)	—	(450)
Issuances of common stock:						
For the dividend reinvestment and stock purchase plan	3	—	3	3	—	3
For employee savings and incentive plans	18	—	18	54	—	54
Other	—	—	—	—	—	—
Purchases of common stock	(1)	—	(1)	—	—	—
Share-based compensation	21	—	21	28	—	28
Balance, end of period	$6,027	$ 501	$6,528	$5,807	$ 453	$6,260

(a) Net income for noncontrolling interests excludes Net income related to redeemable noncontrolling interests of $2 million for the six months ended June 30, 2018 ($1 million for the same time period in 2017) which is not part of total equity (see redeemable noncontrolling interests section below).

The components of AOCI are as follows:

(Millions of dollars)	June 30, 2018	December 31, 2017
Cumulative translation adjustment - net of taxes:		
North America	$(940)	$(885)
South America	(2,319)	(2,004)
Europe	(433)	(398)
Asia	(254)	(151)
Surface Technologies	(27)	(17)
	(3,973)	(3,455)
Derivatives - net of taxes	(1)	(1)
Pension / OPEB funded status obligation (net of $341 million and $347 million tax benefit in June 30, 2018 and December 31, 2017, respectively)	(622)	(642)
	$(4,596)	$(4,098)

Redeemable Noncontrolling Interests

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

does not impact net income.
At June 30, 2018 and 2017, redeemable noncontrolling interests includes one packaged gas distributor in the United States where the noncontrolling shareholder has a put option.

Table of Contents

Following is a summary of the changes in redeemable noncontrolling interests for the six months ended June 30, 2018 and 2017:

(Millions of dollars)	2018	2017
Balance, January 1	$11	$11
Net income	2	1
Distributions to noncontrolling interest and other	(1)	(2)
Redemption value adjustments/accretion	2	—
Balance, June 30	$14	$10

15. Revenue Recognition

Effective January 1, 2018, Praxair adopted the FASB's Accounting Standards Update No. 2014-09 ("ASC 606") relating to Revenue Recognition using the modified retrospective transition method. The new accounting standard requires revenue to be recognized as control of goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled to receive in exchange for the goods or services. No material differences in revenue recognition were identified as compared to the Company's historical revenue recognition accounting; accordingly, there is no adjustment to opening retained earnings at January 1, 2018 and therefore no need to present comparable revenue in accordance with the prior accounting policy. The following sections include updated accounting policies and disclosures required by ASC 606. Praxair's significant accounting policies for periods through December 31, 2017 are summarized in Note 1 to its 2017 Annual Report on Form 10-K.

Contracts with Customers

Approximately 94% of Praxair’s consolidated sales are generated from industrial gases and related products in four geographic segments (North America, Europe, South America and Asia) and the remaining 6% is related to the global surface technologies segment. Praxair serves a diverse group of industries including healthcare, petroleum refining, manufacturing, food, beverage carbonation, fiber-optics, steel making, aerospace, chemicals and water treatment.

Industrial Gases

Within each of the Company’s geographic segments for industrial gases, there are three basic distribution methods: (i) on-site or tonnage; (ii) merchant or bulk liquid; and (iii) packaged or cylinder gases. The distribution method used by Praxair to supply a customer is determined by many factors, including the customer’s volume requirements and location. The distribution method generally determines the contract terms with the customer and, accordingly, the revenue recognition accounting practices. 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). These products are generally sold through one of the three distribution methods.

Following is a description of each of the three industrial gases distribution methods and the respective revenue recognition policies:

On-site. Customers that require the largest volumes of product 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. Where there are large concentrations of customers, a single pipeline may be connected to several plants and customers. On-site product supply contracts generally are total requirement contracts with terms typically ranging from 10-20 years and contain 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. Additionally, Praxair is responsible for the design, construction, operations and maintenance of the plants and our customers typically have no involvement in these activities. Advanced air separation processes also allow on-site delivery to customers with smaller volume requirements.

The Company’s performance obligations related to on-site customers are satisfied over time as customers receive and obtain control of the product. Praxair has elected to apply the practical expedient for measuring progress towards the completion of a performance obligation and recognizes revenue as the company has the right to invoice each customer, which generally corresponds with product delivery. Accordingly, revenue is recognized when product is delivered to the customer and the Company has the right to invoice the customer in accordance with the contract terms. Consideration in these contracts is generally based on pricing which fluctuates with various price indices. Variable components of consideration exist within on-site contracts but are considered constrained.

Merchant. Merchant deliveries generally are made from Praxair’s plants by tanker trucks to storage containers at the customer's site. Due to the relatively high 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 seven-year supply agreements based on the requirements of the customer. These contracts generally do not contain minimum purchase requirements or volume commitments.

The Company’s performance obligations related to merchant customers are generally satisfied at a point in time as the customers receive and obtain control of the product. Revenue is recognized when product is delivered to the customer and the Company has the right to invoice the customer in accordance with the contract terms. Any variable components of consideration within merchant contracts are constrained however this consideration is not significant.

Packaged Gases. Customers requiring small volumes are supplied products in containers called cylinders, under medium to high pressure. Praxair distributes merchant gases from its production plants to Company-owned cylinder filling plants where cylinders are then filled for distribution to customers. Cylinders may be delivered to the customer’s site or picked up by the customer at a packaging facility or retail store. Praxair invoices the customer for the industrial gases and the use of the cylinder container(s). The Company also sells hardgoods and welding equipment purchased from independent manufacturers. Packaged gases are generally sold under one to three-year supply contracts and purchase orders and do not contain minimum purchase requirements or volume commitments.

The Company’s performance obligations related to packaged gases are satisfied at a point in time. Accordingly, revenue is recognized when product is delivered to the customer or when the customer picks up product from a packaged gas facility or retail store, and the Company has the right to payment from the customer in accordance with the contract terms. Any variable consideration is constrained and will be recognized when the uncertainty related to the consideration is resolved.

Surface Technologies

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 Surface Technologies is a leading global 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.

The Company’s performance obligation related to surface technologies customers are generally satisfied at a point in time when the customer receives and takes control of product. Accordingly, revenue is recognized when product is delivered to the customer or when the customer picks up the product from the Company’s facility, and the Company has the right to invoice the customer in accordance with the contract terms.

Payment Terms and Other

Praxair generally receives payment after performance obligations are satisfied, and customer prepayments are not typical. Payment terms vary based on the country where sales originate and local customary payment practices. Praxair does not offer extended financing outside of customary payment terms. Contract asset and liability balances and the changes in these balances are not material. 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 within the consolidated statement of income. Additionally, sales returns and allowances are not a normal practice in the industry and are not significant.

Disaggregated Revenues Information

As described above and in Note 18 of the 2017 10-K, the Company manages its industrial gases business on a geographic basis, while the surface technologies business is managed on a global basis. Further, the Company believes that reporting sales by distribution method by reportable geographic segment best illustrates the nature, timing, type of customer, and contract terms for its revenues, including terms and pricing.

The following table shows sales by distribution method for each reportable segment and at the consolidated level for the quarter and six months ended June 30, 2018.

Table of Contents

Quarter Ended June 30,

(Dollars in Millions)	Industrial Gases						
Sales	North America	Europe	South America	Asia	Surface Technologies	Total	%
Merchant	$ 591	$ 152	$ 131	$ 164	$ —	$ 1,038	34 %
On-Site	458	77	117	250	—	902	29 %
Packaged Gas	508	199	93	57	—	857	28 %
Other	37	16	8	31	172	264	9 %
	$ 1,594	$ 444	$ 349	$ 502	$ 172	$ 3,061	100 %

Six Months Ended June 30,

(Dollars in Millions)	Industrial Gases						
Sales	North America	Europe	South America	Asia	Surface Technologies	Total	%
Merchant	$ 1,164	$ 300	$ 274	$ 311	$ —	$ 2,049	34 %
On-Site	918	157	231	496	—	1,802	30 %
Packaged Gas	1,001	380	191	111	—	1,683	28 %
Other	74	35	18	60	339	526	8 %
	$ 3,157	$ 872	$ 714	$ 978	$ 339	$ 6,060	100 %

Remaining Performance Obligations

As described above, Praxair’s contracts with on-site customers are under long-term supply arrangements which generally require the customer to purchase their requirements from Praxair and also have minimum purchase requirements. The Company estimates the consideration related to minimum purchase requirements is approximately $17 billion. This amount excludes all sales above minimum purchase requirements, which can be significant depending on customer needs. In the future, actual amounts will be different due to impacts from several factors, many of which are beyond the Company’s control including, but not limited to, timing of newly signed, terminated and renewed contracts, inflationary price escalations, currency exchange rates, and pass-through costs related to natural gas and electricity. The actual duration of long-term supply contracts ranges up to twenty years. The Company estimates that approximately half of the revenue related to minimum purchase requirements are estimated to be earned in the next five years and the remaining thereafter.

Note 16. Income Taxes

U.S. Tax Cuts and Jobs Act (Tax Act)

On December 22, 2017 the U.S. government enacted the Tax Cuts and Jobs Act (Tax Act). This comprehensive tax legislation significantly revises the U.S. corporate income tax rules by, among other things, lowering the corporate income tax rate from 35% to 21%, implementing a territorial tax system and imposing a one-time tax on accumulated earnings of foreign subsidiaries. Given the substantial uncertainties surrounding the Tax Act and the short period of time between December 22, 2017 and December 31, 2017 to calculate the U.S. Federal, U.S. state, and non-U.S. tax impacts of the Tax Act, the Company is accounting for its income tax charge on a provisional (estimated) basis as allowed by SEC Staff Accounting Bulletin No. 118. In 2017, the Company recorded a net provisional income tax charge of $394 million with three main components: (i) an estimated $467 million U.S. federal and state tax charge for deemed repatriation of accumulated foreign earnings; (ii) an estimated $260 million charge for foreign withholding taxes related to anticipated future repatriation of foreign earnings; and (iii) an estimated $333 million deferred tax benefit for the revaluation of net deferred tax liabilities from 35% to the new 21% tax rate. Refer to Note 5 to the consolidated financial statements of Praxair's 2017 Annual Report on Form 10-K.

During 2018, the Company will continue to evaluate the Tax Act, additional guidance from the Internal Revenue Service, its historical foreign earnings and taxes and other items that could impact its net provisional tax charge. Additionally, the Company will continue to review its foreign capital structures, organizational cash needs and the foreign withholding tax cost of planned repatriation. As new information becomes available, the Company will update its provisional estimate and record

Table of Contents

any changes to its income tax expense at that time. As of June 30, 2018, there have been no adjustments to the net provisional income tax charge recognized in 2017.

17. Proposed Business Combination with Linde AG

On June 1, 2017, Praxair, Inc. and Linde AG entered into a definitive Business Combination Agreement, as amended (the "Business Combination Agreement"), pursuant to which, among other things, Praxair, Inc. and Linde AG agreed to combine their respective businesses through an all-stock transaction, and become subsidiaries of a new holding company incorporated in Ireland, Linde plc. In connection with the proposed business combination, Linde plc filed a Registration Statement on Form S-4 which was declared effective by the U. S. Securities and Exchange Commission ("SEC") on August 14, 2017.

Linde plc has also filed an offer document with the German Federal Financial Supervisory Authority (Bundesanstalt fuer Finanzdienstleistungsaufsicht) (“BaFin”) which was approved for publication by BaFin on August 14, 2017 and published by Linde plc on August 15, 2017. Pursuant to the offer document, Linde plc made an offer to exchange each issued and outstanding no-par value bearer share of Linde AG for 1.540 ordinary shares of Linde plc (the “Exchange Offer”). In addition, Zamalight Subco, Inc., an indirect wholly-owned Delaware subsidiary of Linde plc, will merge with and into Praxair, Inc., with Praxair, Inc. surviving the merger (the “Merger”, and together with the Exchange Offer, the “Business Combination”). In the Merger, each share of Praxair, Inc. common stock will be converted into the right to receive one Linde plc ordinary share. Praxair Inc.’s stockholders approved the Merger at Praxair Inc.’s special meeting held on September 27, 2017, and on November 24, 2017, the tender period for the Exchange Offer expired with approximately 92% of all Linde AG shares entitled to voting rights being tendered. The parties currently expect the Business Combination to be completed in the second half of 2018. In connection with the completion of the Business Combination, Linde plc will apply to list its ordinary shares on the New York Stock Exchange and the Frankfurt Stock Exchange, and will seek inclusion in the S&P 500 and DAX 30 indices.

Completion of the Business Combination remains subject to approval by requisite governmental regulators and authorities under applicable competition laws.

The Business Combination Agreement, or certain covenants contained therein, may be terminated for, or may terminate as a result of, certain reasons, including, among others, (a) the mutual consent of Praxair, Inc. and Linde AG to termination, (b) a permanent injunction or order by any governmental entity in Ireland, the United Kingdom, Germany or the United States that prohibits or makes illegal the completion of the Business Combination, (c) the occurrence of a change, event, occurrence or effect that has had or is reasonably expected to have a “material adverse change” (as defined in the Business Combination Agreement) on Linde AG or Praxair, Inc. or (d) the failure to obtain approval by requisite governmental regulators and authorities described in the preceding paragraph.

For additional information related to the Business Combination Agreement, please refer to the proxy statement/prospectus filed by Praxair, Inc. on Schedule 14A with the SEC on August 16, 2017.

Subsequent Event
On July 5, 2018, Praxair, Inc. agreed to sell the majority of its businesses in Europe to Taiyo Nippon Sanso Corporation (“Taiyo”) pursuant to a Sale and Purchase Agreement, dated July 5, 2018, by and among Praxair Inc., Taiyo and Linde plc (the “SPA”).

The SPA was entered into in connection with the antitrust regulatory review by the European Commission of the transactions contemplated by the Business Combination Agreement. The purchase price for the European businesses pursuant to the SPA is 5.0 billion euros in cash consideration and is subject to customary adjustments at closing. The completion of the transactions contemplated by the SPA is conditioned upon, and subject to, (i) the successful completion of the Business Combination, (ii) Praxair, Inc. having received confirmation from the European Commission in writing that the European Commission (x) approves Taiyo as a suitable purchaser of the European businesses or does not object to the identity of Taiyo and (y) approves the sale of the European businesses pursuant to the SPA as an adequate remedy to concerns that the Business Combination could impede competition in the European Economic Area, and (iii) the transactions contemplated by the SPA having received competition approvals or expiry of the statutory waiting periods in the European Union and Brazil.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table provides summary data for the quarter and six months ended June 30, 2018 and 2017:

	Quarter Ended June 30,			Six Months Ended June 30,		
(Dollar amounts in millions, except per share data)	2018	2017 (c)	Variance	2018	2017 (c)	Variance
Reported Amounts						
Sales	$3,061	$2,834	8 %	$6,060	$5,562	9 %
Cost of sales, exclusive of depreciation and amortization	$1,723	$1,599	8 %	$3,400	$3,148	8 %
Gross margin (a)	$1,338	$1,235	8 %	$2,660	$2,414	10 %
As a percent of sales	43.7 %	43.6 %		43.9 %	43.4 %	
Selling, general and administrative	$307	$305	1 %	$617	$595	4 %
As a percent of sales	10.0 %	10.8 %		10.2 %	10.7 %	
Depreciation and amortization	$311	$292	7 %	$622	$579	7 %
Transaction costs and other charges (b)	$24	$15		$43	$21	
Other income (expense) - net	$17	$6		$12	$—	
Operating profit	$689	$606	14 %	$1,342	$1,173	14 %
Operating margin	22.5 %	21.4 %		22.1 %	21.1 %	
Interest expense - net	$44	$38	16 %	$90	$79	14 %
Net pension and OPEB cost (benefit), excluding service cost	$2	$2		$4	$(13)	
Effective tax rate	24.6 %	27.7 %		24.5 %	27.6 %	
Income from equity investments	$14	$11	27 %	$29	$23	26 %
Noncontrolling interests	$(19)	$(14)	36 %	$(29)	$(29)	— %
Net income - Praxair, Inc.	$480	$406	18 %	$942	$795	18 %
Diluted earnings per share	$1.65	$1.41	17 %	$3.24	$2.76	17 %
Diluted shares outstanding	290,908	288,535	1 %	290,926	288,067	1 %
Number of employees	26,658	26,487		26,658	26,487	
Adjusted Amounts (b)						
Operating profit	$713	$621	15 %	$1,385	$1,194	16 %
Operating margin	23.3 %	21.9 %		22.9 %	21.5 %	
Effective tax rate	24.1 %	27.0 %		24.1 %	27.1 %	
Noncontrolling interests	$(19)	$(14)	36 %	$(28)	$(29)	(3)%
Net income - Praxair, Inc.	$501	$421	19 %	$981	$816	20 %
Diluted earnings per share	$1.72	$1.46	18 %	$3.37	$2.83	19 %
Other Financial Data (b)						
EBITDA	$1,014	$909		$1,993	$1,775	
EBITDA Margin	33.1 %	32.1 %		32.9 %	31.9 %	
Adjusted EBITDA	$1,038	$924		$2,036	$1,796	
Adjusted EBITDA Margin	33.9 %	32.6 %		33.6 %	32.3 %	

(a) Gross margin excludes depreciation and amortization expense.

(b) Adjusted amounts and other financial data are non-GAAP performance measures. A reconciliation of reported amounts to adjusted amounts and other financial data can be found in the "Non-GAAP Financial Measures" section of this MD&A. See Note 2 to the condensed consolidated financial statements.

(c) Prior period information has been reclassified to conform with current year presentation as a result of the adoption of new accounting guidance on the presentation of net periodic pension and postretirement benefit costs. See Note 1 to the condensed consolidation financial statements.

Table of Contents

Consolidated Results

In the second quarter of 2018, Praxair’s sales were $3,061 million, 8% above the prior–year quarter. Excluding higher cost pass-through which increased sales by 1% with minimal impact on operating profit, sales growth of 7% was driven by higher volumes across all segments, including new project start-ups, and price attainment. Reported operating profit for the second quarter of 2018 of $689 million, 22.5% of sales, was 14% above the prior-year quarter. Operating profit included transaction costs and other charges of $24 million primarily related to the potential Linde merger. Excluding these costs, adjusted operating profit was $713 million, 23.3% of sales and 15% above the 2017 adjusted second quarter driven by higher volumes and price. The company's EBITDA margin was 33.1% and adjusted EBITDA margin was 33.9%. The reported effective tax rate ("ETR") was 24.6% versus 27.7% in the second quarter of 2017. The adjusted ETR was 24.1% versus 27.0% in the second quarter of 2017, reflecting the impact of U.S. tax reform. Diluted earnings per share ("EPS") was $1.65, 17% above reported EPS of $1.41 in the second quarter of 2017. On an adjusted basis, EPS was $1.72, 18% above the 2017 EPS of $1.46, driven by higher adjusted net income and a lower adjusted ETR.

Outlook

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 one indicator of future sales growth. At June 30, 2018, Praxair’s backlog of 19 large projects under construction was $1.7 billion. This represents the total estimated capital cost of large plants under construction. These plants will supply customers in the energy, chemical, manufacturing, and electronics end-markets.

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

Table of Contents

Results of Operations

The changes in consolidated sales and operating profit compared to the prior year are attributable to the following:

	Quarter Ended June 30, 2018 vs. 2017		Six Months Ended June 30, 2018 vs. 2017	
	% Change		% Change	
	Sales	Operating Profit	Sales	Operating Profit
Factors Contributing to Changes				
Volume	5 %	9 %	5 %	9 %
Price/Mix	2 %	8 %	2 %	8 %
Cost pass-through	1 %	— %	— %	— %
Currency	— %	— %	2 %	2 %
Acquisitions/divestitures	— %	— %	— %	— %
Other	— %	(3)%	— %	(5)%
Reported	8 %	14 %	9 %	14 %
Add: Transaction costs and other charges	— %	1 %	— %	2 %
Adjusted	8 %	15 %	9 %	16 %

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

	Quarter Ended June 30,			Six Months Ended June 30,		
	% of Sales		% Change*	% of Sales		% Change*
	2018	2017		2018	2017	
Sales by End Markets						
Manufacturing	22 %	22 %	7 %	22 %	22 %	7 %
Metals	17 %	17 %	11 %	17 %	17 %	10 %
Energy	11 %	12 %	2 %	11 %	12 %	2 %
Chemicals	11 %	10 %	13 %	11 %	10 %	13 %
Electronics	9 %	9 %	7 %	9 %	9 %	8 %
Healthcare	8 %	8 %	7 %	8 %	8 %	6 %
Food & Beverage	9 %	10 %	4 %	9 %	9 %	5 %
Aerospace	4 %	3 %	16 %	4 %	3 %	12 %
Other	9 %	9 %	5 %	9 %	10 %	2 %
	100 %	100 %		100 %	100 %	

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	% of Sales		% of Sales	
	2018	2017	2018	2017
Sales by Distribution Method				
On-Site	29 %	30 %	30 %	30 %
Merchant	34 %	34 %	34 %	34 %
Packaged Gas	28 %	28 %	28 %	28 %
Other	9 %	8 %	8 %	8 %
	100 %	100 %	100 %	100 %

Sales increased $227 million, or 8%, for the second quarter and increased $498 million, or 9% for the six months ended June 30, 2018 versus the respective 2017 periods. Volume growth contributed 5% to sales in both the quarter and six-month periods driven by higher volumes in North America and Asia, including new project start-ups. Higher overall pricing across most segments contributed 2% to sales in both the quarter and six-month periods. Currency translation impact was minimal in the quarter and increased sales by 2% for the six-month period. Higher cost pass through increased sales by 1% in the quarter with a minimal impact on the six-month period.

Table of Contents

Gross margin increased $103 million, or 8%, for the second quarter of 2018 and increased $246 million or 10% for the six months ended June 30, 2018 versus the respective 2017 periods, primarily due to higher volumes and price. Gross margin as a percentage of sales increased to 43.7% from 43.6% for the second quarter of 2018 and increased to 43.9% from 43.4% for the six months ended June 30, 2018 versus the respective 2017 periods.

Selling, general and administrative expense ("SG&A") was relatively flat for the second quarter of 2018 and increased $22 million for the six months ended June 30, 2018 versus the respective 2017 periods. Currency impacts were minimal in the quarter and increased SG&A $9 million for the six-month period. Excluding currency effects in the six-month period, SG&A was higher driven by cost inflation partially offset by cost reduction actions.

Depreciation and amortization expense increased $19 million and $43 million, or 7%, for both the quarter and the six months ended June 30, 2018 versus the respective 2017 periods. Currency impacts increased depreciation and amortization by $2 million in the quarter and $12 million for the six-month period. Excluding currency effects, depreciation and amortization expense increased $17 million for the quarter and $31 million for the six-month period primarily driven by large project start-ups.

Praxair recorded transaction costs and other charges of $24 million and $15 million in the second quarters of 2018 and 2017, respectively, primarily related to the potential merger (refer to Note 2 to the condensed consolidated financial statements). Transaction costs and other charges were $43 million and $21 million, respectively, for the six-month periods ended June 30, 2018 and 2017.

Other income (expense) – net was $17 million income for the 2018 second quarter compared to $6 million income for the 2017 second quarter and was $12 million income for the six months ended June 30, 2018 compared to flat for the respective 2017 period. In North America, the second quarter and six-month periods of 2018 included a $30 million asset impairment charge which was more than offset by $43 million of gains on asset disposals. In Asia, the six-month period of 2018 included a first quarter $22 million asset impairment charge, offset by a litigation settlement gain.

Reported operating profit increased $83 million, or 14%, for the second quarter of 2018 and increased $169 million, or 14%, for the six months ended June 30, 2018 versus the respective 2017 periods. The second quarter and six-month period of 2018 included $24 million and $43 million, respectively, of transaction costs and other charges primarily related to the potential merger ($15 million and $21 million for the respective 2017 periods). Excluding these charges, adjusted operating profit increased $92 million, or 15%, for the second quarter of 2018 and increased $191 million, or 16%, for the six months ended June 30, 2018 versus the respective 2017 periods driven by higher volumes and price.

Interest expense-net increased $6 million, or 16%, for the second quarter of 2018 and increased $11 million, or 14%, for the six months ended June 30, 2018 versus the respective 2017 periods. The increase in both periods was primarily attributable to lower capitalized interest.

The reported effective tax rate ("ETR") for the second quarter of 2018 and 2017 was 24.6% and 27.7%, respectively. The reported ETR for the second quarters of 2018 and 2017 include transaction costs and other charges of $24 million ($21 million after-tax), and $15 million ($15 million after-tax), respectively, related to the potential merger. Excluding these impacts, on an adjusted basis the ETR for the second quarters of 2018 and 2017 was 24.1% and 27.0%, respectively. The reported ETR for the six months ended June 30, 2018 and 2017 was 24.5% and 27.6%, respectively. The reported ETR for the six-month periods of 2018 and 2017 include transaction costs and other charges of $43 million ($38 million after-tax) and $21 million ($21 million after-tax), respectively. Excluding these impacts, on an adjusted basis the ETR for the six months ended June 30, 2018 and 2017 was 24.1% and 27.1%, respectively. The decrease in both the quarter and six-month periods was driven primarily by the impact of the U.S. Tax Cuts and Jobs Act enacted in the fourth quarter of 2017 (see Note 16 to the condensed consolidated financial statements).

Income from equity investments for the second quarters of 2018 and 2017 was $14 million and $11 million, respectively, largely in China and Italy. Income from equity investments for the six months ended June 30, 2018 and 2017 was $29 million and $23 million, respectively.

At June 30, 2018, non-controlling interests consisted primarily of non-controlling shareholders' investments in Asia (primarily China), Europe (primarily Italy) and surface technologies. Reported non-controlling interests increased $5 million for the second quarter of 2018 and was flat for the six months ended June 30, 2018 versus the respective 2017 periods. The increase in the second quarter was driven by higher earnings. In the six-month period, higher earnings were more than offset by the impact of an asset impairment charge in the first quarter.

Table of Contents

Reported Net income-Praxair, Inc. increased $74 million, or 18%, for the second quarter of 2018 and increased $147 million, or 18%, for the six months ended June 30, 2018 versus the respective 2017 periods. Included within the second quarter and six-month periods of 2018 were transaction costs and other charges of $21 million and $39 million, respectively, after-tax and noncontrolling interests. Included within the second quarter and six-month periods of 2017 were transaction costs and other charges of $15 million and $21 million, respectively, after-tax (see Note 2 to the condensed consolidated financial statements). Excluding these charges, adjusted Net income-Praxair, Inc increased $80 million, or 19%, for the second quarter of 2018 and increased $165 million, or 20%, for the six months ended June 30, 2018 due to higher adjusted operating profit and a lower effective tax rate.

Reported Earnings per share of $1.65 increased $0.24, or 17%, for the second quarter of 2018 and reported earnings per share of $3.24 increased $0.48, or 17%, for the six months ended June 30, 2018 versus the respective 2017 periods. Included within the 2018 second quarter and six-month period were charges of $0.07 and $0.13, respectively, for transaction costs and other charges related primarily to the potential merger ($0.05 and $0.07 for the respective 2017 periods, see Note 2 to the condensed consolidated financial statements). Excluding these charges, adjusted EPS increased $0.26, or 18% for the second quarter of 2018 and increased $0.54, or 19%, for the six months ended June 30, 2018 versus the respective 2017 periods primarily due to higher adjusted net income.

The number of employees at June 30, 2018 was 26,658, an increase of 171 employees from June 30, 2017.

Other Financial Data

EBITDA increased $105 million to $1,014 million for the second quarter 2018 from $909 million for the second quarter 2017 and increased $218 million to $1,993 million for the six-month period of 2018 from $1,775 million for the six-month period of 2017. Included within the 2018 second quarter and six-month period were charges of $24 million and $43 million, respectively, for transaction costs and other charges related primarily to the potential merger ($15 million and $21 million for the respective 2017 periods, see Note 2 to the condensed consolidated financial statements). Adjusted EBITDA increased $114 million to $1,038 million for the second quarter 2018 from $924 million for the second quarter 2017 and increased $240 million to $2,036 million for the six-month period of 2018 from $1,796 million for the six-month period of 2017. The increase in EBITDA and adjusted EBITDA in the second quarter and six-month periods is primarily due to higher net income plus depreciation and amortization on both a reported and adjusted basis versus the prior year periods.

See the "Non-GAAP Financial Measures" section below for definitions and reconciliations of these non-GAAP measures to reported GAAP amounts.
Other Comprehensive Income (Loss)

Other comprehensive losses for the second quarter and six months ended June 30, 2018 of $(637) million and $(508) million resulted primarily from adverse currency translation adjustments of $(643) million and $(528) million. The adverse translation adjustments reflect the impact of translating local currency foreign subsidiary financial statements to U.S. dollars, and are largely driven by the strengthening of the U.S. dollar against major currencies including the Euro, Brazilian Real, and Canadian dollar. See the "Currency" section of the MD&A for exchange rates used for translation purposes and Note 14 to the condensed consolidated financial statements for a summary of the currency translation adjustment component of accumulated other comprehensive income by segment.

Retirement Benefits

The net periodic benefit cost for pension and OPEB plans was $15 million in the quarters ended June 30, 2018 and June 30, 2017 and $29 million and $12 million for the six months ended June 30, 2018 and June 30, 2017, respectively. The increase in expense versus the prior year for the six months ended June 30, 2018 is related to a curtailment gain recorded in the first quarter of 2017 on a South American OPEB plan for $18 million (see Note 11 to the condensed consolidated financial statements).

Table of Contents

Segment Discussion

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

	Quarter Ended June 30,			Six Months Ended June 30,		
(Dollar amounts in millions)	2018	2017*	Variance	2018	2017*	Variance
SALES						
North America	$1,594	$1,505	6 %	$3,157	$2,963	7 %
Europe	444	383	16 %	872	739	18 %
South America	349	373	(6)%	714	742	(4)%
Asia	502	422	19 %	978	817	20 %
Surface Technologies	172	151	14 %	339	301	13 %
	$3,061	$2,834	8 %	$6,060	$5,562	9 %
OPERATING PROFIT						
North America	$432	$378	14 %	$838	$735	14 %
Europe	87	74	18 %	167	141	18 %
South America	56	64	(13)%	110	112	(2)%
Asia	107	80	34 %	211	155	36 %
Surface Technologies	31	25	24 %	59	51	16 %
Segment operating profit	713	621	15 %	1,385	1,194	16 %
Transaction costs and other charges	(24)	(15)		(43)	(21)	
Total operating profit	$689	$606	14 %	$1,342	$1,173	14 %

* Prior period segment operating profit has been reclassified to conform with current year presentation as a result of the adoption of new accounting guidance on the presentation of net periodic pension and postretirement benefit costs. See Note 1 to the condensed consolidation financial statements.

Table of Contents

North America

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Variance	2018	2017	Variance
Sales	$1,594	$1,505	6 %	$3,157	$2,963	7 %
Cost of sales, exclusive of depreciation and amortization	830	793		1,636	1,567	
Gross margin	764	712		1,521	1,396	
Operating expenses	165	177		354	350	
Depreciation and amortization	167	157		329	311	
Operating profit	$432	$378	14 %	$838	$735	14 %
Margin %	27.1 %	25.1 %		26.5 %	24.8 %	

	Quarter Ended June 30, 2018 vs. 2017		Six Months Ended June 30, 2018 vs. 2017	
	% Change		% Change	
	Sales	Operating Profit	Sales	Operating Profit
Factors Contributing to Changes				
Volume	4 %	8 %	4 %	9 %
Price/Mix	2 %	7 %	2 %	7 %
Cost pass-through	— %	— %	— %	— %
Currency	— %	— %	1 %	1 %
Acquisitions/divestitures	— %	— %	— %	— %
Other	— %	(1)%	— %	(3)%
	6 %	14 %	7 %	14 %

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

	Quarter Ended June 30,			Six Months Ended June 30,		
	% of Sales		% Change*	% of Sales		% Change*
	2018	2017		2018	2017	
Sales by End Markets						
Manufacturing	29 %	28 %	7 %	29 %	29 %	6 %
Metals	11 %	11 %	5 %	12 %	12 %	6 %
Energy	17 %	18 %	(2)%	17 %	18 %	(2)%
Chemicals	10 %	9 %	20 %	10 %	9 %	21 %
Electronics	5 %	5 %	4 %	5 %	5 %	9 %
Healthcare	7 %	7 %	7 %	7 %	7 %	8 %
Food & Beverage	10 %	10 %	8 %	10 %	10 %	8 %
Aerospace	2 %	2 %	31 %	2 %	2 %	20 %
Other	9 %	10 %	— %	8 %	8 %	(2)%
	100 %	100 %		100 %	100 %	

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	% of Sales		% of Sales	
	2018	2017	2018	2017
Sales by Distribution Method				
On- Site	29 %	30 %	29 %	30 %
Merchant	37 %	37 %	37 %	37 %

Packaged Gas	32 %	31 %	32 %	31 %
Other	2 %	2 %	2 %	2 %
	100 %	100 %	100 %	100 %

36

Table of Contents

North America segment sales increased $89 million, or 6% in the second quarter of 2018 and increased $194 million, or 7%, for the six months ended June 30, 2018 as compared to prior year. Currency translation impact was minimal in the quarter and increased sales by 1% for the six-month period. Excluding currency, sales were 6% above the prior-year quarter and six-month periods primarily due to higher volumes to most end-markets and higher pricing.

North America segment operating profit increased $54 million, or 14% in the second quarter of 2018 and increased $103 million, or 14% for the six months ended June 30, 2018 as compared to prior year driven by higher volumes and pricing. Operating profit for the second quarter and six-month period included a $30 million asset impairment charge which was more than offset by $43 million of gains on asset disposals.

Europe

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Variance %	2018	2017	Variance %
Sales	$444	$383	16 %	$872	$739	18 %
Cost of sales, exclusive of depreciation and amortization	261	219		509	420	
Gross margin	183	164		363	319	
Operating expenses	52	49		106	97	
Depreciation and amortization	44	41		90	81	
Operating profit	$87	$74	18 %	$167	$141	18 %
Margin %	19.6 %	19.3 %		19.2 %	19.1 %	

	Quarter Ended June 30, 2018 vs. 2017		Six Months Ended June 30, 2018 vs. 2017	
	% Change	% Change	% Change	% Change
	Sales	Operating Profit	Sales	Operating Profit
Factors Contributing to Changes				
Volume	2 %	2 %	2 %	3 %
Price/Mix	3 %	13 %	2 %	10 %
Cost pass-through	4 %	— %	3 %	— %
Currency	7 %	8 %	11 %	12 %
Acquisitions/divestitures	— %	— %	— %	— %
Other	— %	(5)%	— %	(7)%
	16 %	18 %	18 %	18 %

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

	Quarter Ended June 30,			Six Months Ended June 30,		
	% of Sales		% Change*	% of Sales		% Change*
	2018	2017		2018	2017	
Sales by End Markets						
Manufacturing	21 %	20 %	14 %	21 %	21 %	10 %
Metals	16 %	16 %	14 %	17 %	16 %	12 %
Energy	4 %	5 %	— %	4 %	4 %	(3)%
Chemicals	12 %	12 %	10 %	12 %	12 %	7 %
Electronics	7 %	8 %	(7)%	7 %	8 %	— %
Healthcare	12 %	12 %	12 %	12 %	12 %	10 %

Food & Beverage	14 %	15 %	1 %	14 %	14 %	4 %
Aerospace	1 %	1 %	8 %	1 %	1 %	(8)%
Other	13 %	11 %	7 %	12 %	12 %	3 %
	100%	100%		100%	100%	

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

37

Table of Contents

	Quarter Ended June 30,		Six Months Ended June 30,	
	% of Sales		% of Sales	
	2018	2017	2018	2017
Sales by Distribution Method				
On- Site	17 %	18 %	18 %	19 %
Merchant	34 %	35 %	34 %	35 %
Packaged Gas	45 %	43 %	44 %	42 %
Other	4 %	4 %	4 %	4 %
	100 %	100 %	100 %	100 %

Europe segment sales increased by $61 million, or 16% in the second quarter of 2018 and increased by $133 million, or 18%, for the six months ended June 30, 2018 as compared to the prior year. Favorable currency translation increased sales by 7% in the quarter and 11% in the six-month period. Cost pass-through increased sales by 4% in the quarter and 3% in the six-month period with minimal impact on operating profit. Excluding currency and cost pass-through, sales increased 5% in the quarter and 4% in the six-month period driven by higher volumes and higher price.

Europe segment operating profit increased by $13 million, or 18% in the second quarter of 2018 and increased by $26 million, or 18%, for the six months ended June 30, 2018 as compared to the prior year. Favorable currency translation increased operating profit by 8% in the quarter and 12% in the six-month period. Excluding currency translation, operating profit increased 10% in the quarter and 6% in the six-month period driven by higher volumes and price partially offset by cost inflation.

South America

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Variance	2018	2017	Variance
Sales	$349	$373	(6)%	$714	$742	(4)%
Cost of sales, exclusive of depreciation and amortization	209	221		428	444	
Gross margin	140	152		286	298	
Operating expenses	47	49		98	109	
Depreciation and amortization	37	39		78	77	
Operating profit	$56	$64	(13)%	$110	$112	(2)%
Margin %	16.0 %	17.2 %		15.4 %	15.1 %	

	Quarter Ended June 30, 2018 vs. 2017		Six Months Ended June 30, 2018 vs. 2017	
	% Change Sales	% Change Operating Profit	% Change Sales	% Change Operating Profit
Factors Contributing to Changes				
Volume	4 %	6 %	2 %	3 %
Price/Mix	— %	(1)%	1 %	4 %
Cost pass-through	— %	— %	— %	— %
Currency	(10)%	(14)%	(7)%	(11)%
Acquisitions/divestitures	— %	— %	— %	— %
Other	— %	(4)%	— %	2 %

(6)%	(13)%	(4)%	(2)%

38

Table of Contents

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

	Quarter Ended June 30,			Six Months Ended June 30,		
	% of Sales		%	% of Sales		%
	2018	2017	Change*	2018	2017	Change*
Sales by End Markets						
Manufacturing	16 %	16 %	(8)%	16 %	17 %	(4)%
Metals	32 %	31 %	12 %	31 %	30 %	8 %
Energy	2 %	2 %	3 %	2 %	2 %	(1)%
Chemicals	9 %	10 %	— %	10 %	10 %	— %
Electronics	— %	— %	— %	— %	— %	— %
Healthcare	20 %	20 %	3 %	19 %	20 %	3 %
Food & Beverage	12 %	12 %	(1)%	13 %	13 %	— %
Aerospace	— %	— %	— %	— %	— %	— %
Other	9 %	9 %	12 %	9 %	8 %	12 %
	100%	100%		100%	100%	

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	% of Sales		% of Sales	
	2018	2017	2018	2017
Sales by Distribution Method				
On- Site	34 %	33 %	32 %	32 %
Merchant	37 %	38 %	38 %	38 %
Packaged Gas	27 %	27 %	27 %	27 %
Other	2 %	2 %	3 %	3 %
	100 %	100 %	100%	100%

South America segment sales decreased $24 million, or 6% in the second quarter of 2018 and decreased $28 million, or 4%, for the six months ended June 30, 2018 as compared to the prior year. Unfavorable currency impacts decreased sales by 10% in the quarter and 7% in the six-month period driven by the weakening of the Brazilian real and Argentine peso against the U.S. dollar. Excluding currency in the quarter, sales increased 4% driven by higher volumes largely to the metals end-markets. Excluding currency in the six-month period, sales increased 3% driven by higher volumes and higher price.

South America segment operating profit decreased $8 million, or 13% in the second quarter of 2018 and decreased $2 million, or 2%, for the six months ended June 30, 2018 versus the prior year. Excluding unfavorable currency impacts in the quarter, operating profit increased 1% driven by higher volumes partially offset by higher costs. Excluding unfavorable currency impacts in the six-month period, operating profit increased 9% driven by higher volumes, higher price and lower costs.

Asia

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Variance	2018	2017	Variance
Sales	$502	$422	19 %	$978	$817	20 %
Cost of sales, exclusive of depreciation and amortization	312	268		606	517	
Gross margin	190	154		372	300	

Operating expenses	31	28		57	55	
Depreciation and amortization	52	46		104	90	
Operating profit	$107	$80	34 %	$211	$155	36 %
Margin %	21.3 %	19.0 %		21.6 %	19.0 %	

39

Table of Contents

	Quarter Ended June 30, 2018 vs. 2017		Six Months Ended June 30, 2018 vs. 2017	
	% Change Sales	% Change Operating Profit	% Change Sales	% Change Operating Profit
Factors Contributing to Changes				
Volume	11 %	16 %	11 %	16 %
Price/Mix	3 %	17 %	3 %	16 %
Cost pass-through	1 %	— %	1 %	— %
Currency	4 %	5 %	5 %	6 %
Acquisitions/divestitures	— %	— %	— %	— %
Other	— %	(4)%	— %	(2)%
	19 %	34 %	20 %	36 %

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

	Quarter Ended June 30,			Six Months Ended June 30,		
	% of Sales		% Change*	% of Sales		% Change*
	2018	2017		2018	2017	
Sales by End Markets						
Manufacturing	9 %	9 %	14 %	9 %	9 %	20 %
Metals	27 %	27 %	20 %	27 %	26 %	19 %
Energy	4 %	3 %	86 %	5 %	3 %	97 %
Chemicals	15 %	15 %	9 %	15 %	15 %	9 %
Electronics	33 %	33 %	12 %	33 %	34 %	9 %
Healthcare	1 %	1 %	8 %	1 %	1 %	2 %
Food & Beverage	2 %	2 %	(8)%	2 %	2 %	(9)%
Aerospace	— %	— %	— %	— %	— %	— %
Other	9 %	10 %	7 %	8 %	10 %	6 %
	100 %	100 %		100 %	100 %	

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	% of Sales		% of Sales	
	2018	2017	2018	2017
Sales by Distribution Method				
On- Site	50 %	50 %	51 %	50 %
Merchant	33 %	30 %	32 %	29 %
Packaged Gas	11 %	14 %	11 %	14 %
Other	6 %	6 %	6 %	7 %
	100 %	100 %	100 %	100 %

Asia segment sales increased $80 million, or 19% in the second quarter of 2018 and increased $161 million, or 20%, for the six months ended June 30, 2018 as compared to the prior year. Cost pass-through, primarily energy, increased sales by 1% in both the quarter and six-month periods with minimal impact on operating profit. Favorable currency translation increased sales by 4% in the quarter and 5% in the six-month period. Volume growth of 11% in the quarter and six-month periods was primarily attributable to base volume growth in China, Korea and India and new project start-ups in China. Higher price increased sales by 3% in both the quarter and six-month periods primarily driven by

China. Sales growth was strongest in the metals, energy and electronics end-markets.

Asia segment operating profit increased $27 million, or 34% in the second quarter of 2018 and increased $56 million, or 36% for the six months ended June 30, 2018 as compared to the prior year driven primarily by higher volumes and price. Favorable currency translation increased operating profit by 5% in the quarter and 6% in the six-month period. Operating profit for the six-month period included a $22 million asset impairment charge, offset by a litigation settlement gain.

Table of Contents

Surface Technologies

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Variance	2018	2017	Variance
Sales	$172	$151	14 %	$339	$301	13 %
Cost of sales, exclusive of depreciation and amortization	111	98		221	195	
Gross margin	61	53		118	106	
Operating expenses	19	18		38	35	
Depreciation and amortization	11	10		21	20	
Operating profit	$31	$25	24 %	$59	$51	16 %
Margin %	18.0 %	16.6 %		17.4 %	16.9 %	

	Quarter Ended June 30, 2018 vs. 2017		Six Months Ended June 30, 2018 vs. 2017	
	% Change	% Change	% Change	% Change
	Sales	Operating Profit	Sales	Operating Profit
Factors Contributing to Changes				
Volume/Price	10 %	25 %	8 %	18 %
Cost pass-through	1 %	— %	1 %	— %
Currency	3 %	2 %	4 %	3 %
Acquisitions/divestitures	— %	— %	— %	— %
Other	— %	(3)%	— %	(5)%
	14 %	24 %	13 %	16 %

The following table provides sales by end-market:

	Quarter Ended June 30,			Six Months Ended June 30,		
	% of Sales 2018	2017	% Change*	% of Sales 2018	2017	% Change*
Sales by End Markets						
Manufacturing	12 %	10 %	30 %	12 %	11 %	20 %
Metals	8 %	9 %	(7)%	8 %	9 %	(3)%
Energy	19 %	19 %	7 %	19 %	19 %	6 %
Chemicals	2 %	2 %	3 %	2 %	2 %	8 %
Electronics	1 %	1 %	— %	1 %	1 %	44 %
Healthcare	— %	— %	— %	— %	— %	— %
Food & Beverage	3 %	3 %	19 %	3 %	3 %	3 %
Aerospace	43 %	44 %	10 %	44 %	44 %	9 %
Other	12 %	12 %	11 %	11 %	11 %	5 %
	100%	100%		100%	100%	

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

Surface Technologies segment sales increased $21 million, or 14% in the second quarter of 2018 and increased $38 million, or 13%, for the six months ended June 30, 2018 as compared to the prior year. Currency translation increased sales by 3% for the quarter and 4% for the six-month period, primarily driven by the British pound and the Euro. Cost pass-through increased sales by 1% in both the quarter and six-month periods with minimal impact on operating profit. Excluding currency and cost pass-through, sales increased 10% in the quarter and 8% in the six-month period due to higher volumes to the aerospace and industrial end-markets and higher price.

Surface Technologies segment operating profit increased $6 million, or 24% in the second quarter of 2018 and increased $8 million, or 16%, for the six months ended June 30, 2018 as compared to the prior year. Excluding currency, operating profit increased 22% for the quarter and 13% for the six-month period due to increased volumes and price, partially offset by higher costs related to project ramp up costs.

Table of Contents

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. 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	Percentage of YTD 2018 Consolidated Sales		Exchange Rate for Income Statement Year-To-Date Average 2018	2017	Exchange Rate for Balance Sheet June 30, 2018	December 31, 2017
Euro	14	%	0.83	0.92	0.86	0.83
Brazilian real	9	%	3.41	3.18	3.86	3.31
Canadian dollar	7	%	1.28	1.33	1.31	1.26
Chinese yuan	7	%	6.37	6.88	6.62	6.51
Mexican peso	5	%	19.03	19.37	19.91	19.66
Korean won	4	%	1,076	1,142	1,115	1,067
India rupee	3	%	65.65	65.70	68.47	63.87
Argentine peso	1	%	21.30	15.69	28.85	18.65
British pound	1	%	0.73	0.79	0.76	0.74
Norwegian krone	1	%	7.93	8.48	8.15	8.20

Table of Contents

Liquidity, Capital Resources and Other Financial Data

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

(Millions of dollars)	Six months ended June 30, 2018	2017
NET CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net income (including noncontrolling interests)	$971	$824
Non-cash charges (credits):		
Add: Depreciation and amortization	622	579
Add: Deferred income taxes	10	48
Add: Share-based compensation	21	28
Add: Transaction costs and other charges, net of payments (a)	15	17
Net income adjusted for non-cash charges	1,639	1,496
Less: Working capital	(138)	(164)
Less: Pension contributions	(10)	(6)
Other	(13)	85
Net cash provided by operating activities	$1,478	$1,411
INVESTING ACTIVITIES		
Capital expenditures	(676)	(652)
Acquisitions, net of cash acquired	—	(2)
Divestitures and asset sales	69	17
Net cash used for investing activities	$(607)	$(637)
FINANCING ACTIVITIES		
Debt increase (decrease) - net	(492)	(305)
Issuances (purchases) of common stock - net	43	59
Cash dividends - Praxair, Inc. shareholders	(474)	(450)
Noncontrolling interest transactions and other	(22)	(84)
Net cash provided by (used for) financing activities	$(945)	$(780)
Effect of exchange rate changes on cash and cash equivalents	$(64)	$17
Cash and cash equivalents, end-of-period	$479	$535

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

Cash Flow from Operations

Cash provided by operations of $1,478 million for the six months ended June 30, 2018 increased $67 million, or 5%, versus 2017. The increase was driven by higher net income adjusted for non-cash charges and lower working capital requirements, partially offset by timing of dividends from equity investments, primarily in China.

Praxair estimates that total 2018 required contributions to its pension plans will be in the range of $15 million to $20 million, of which $10 million has been made through June 30, 2018. At a minimum, Praxair contributes to its pension plans to comply with local regulatory requirements (e.g., ERISA in the United States). Discretionary contributions in excess of the local minimum requirements are made based on many factors, including long-term projections of the plans' funded status, the economic environment, potential risk of overfunding, pension insurance costs and alternative uses of the cash. Changes to these factors can impact the amount and timing of discretionary contributions from year to year.

Table of Contents

Investing
Net cash used for investing of $607 million for the six months ended June 30, 2018 decreased $30 million versus 2017.

Capital expenditures for the six months ended June 30, 2018 were $676 million, $24 million higher than the prior year. Capital expenditures related primarily to investments in new plant and production equipment for growth and density. Approximately 65% of the capital expenditures were in North America.

Acquisition spend was immaterial for both the six months ended June 30, 2018 and 2017.

Divestitures and asset sales for the six months ended June 30, 2018 and 2017 were $69 million and $17 million, respectively. The 2018 period includes proceeds related to asset disposals primarily in North America.

Financing
Cash used by financing activities was $945 million for the six months ended June 30, 2018. Cash dividends of $474 million were higher than the prior year due to a 5% increase in quarterly dividends per share from 78.75 cents per share to 82.5 cents per share. Net issuances of common stock decreased $16 million. Noncontrolling interest transactions and other for the six months ended June 30, 2018 and 2017 were $22 million and $84 million, respectively. Amounts paid in 2017 include dividends paid to noncontrolling interests and repayment of project advances.

In March 2018, Praxair repaid $500 million of 1.20% rate notes that became due.

In June 2018, the company's $500 million 364-day revolving credit facility with a syndicate of banks expired and was not renewed.

Praxair's debt-to-capital ratio was 54.9% at June 30, 2018 versus 58.5% at June 30, 2017. This decrease was primarily attributable to a reduction in net debt of $853 million and an increase in equity due to earnings net of dividends declared. See the "Non-GAAP Financial Measures" section below for definitions and reconciliations of these non-GAAP measures to reported GAAP amounts.

Debt Covenants
Praxair’s $2.5 billion senior unsecured credit facility and long-term debt agreements contain various covenants (refer to Note 5 to the condensed consolidated financial statements and Note 11 to the consolidated financial statements of Praxair’s 2017 Annual Report on Form 10-K). The only financial covenant requires Praxair not to exceed a maximum 70% leverage ratio, as defined in the agreements. For purposes of the leverage ratio calculation, consolidated shareholders' equity excludes changes in the cumulative foreign currency translation adjustments after June 30, 2011. At June 30, 2018 and December 31, 2017, the actual leverage ratio calculated in accordance with the agreements was 46% and 49%, respectively.

Legal Proceedings
See Note 12 to the condensed consolidated financial statements.

Non-GAAP Financial Measures
The following non-GAAP measures are intended to supplement investors’ understanding of the company’s financial information by providing measures which investors, financial analysts and management use to help evaluate the company’s financial leverage 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. The non-GAAP measures in the following reconciliations are presented in the MD&A.

Table of Contents

Adjusted Amounts

(Dollar amounts in millions, except per share data)	Quarter Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Adjusted Operating Profit				
Reported operating profit	$ 689	$ 606	$1,342	$1,173
Add: Transaction costs and other charges	24	15	43	21
Adjusted operating profit	$ 713	$ 621	$1,385	$1,194
Reported percent change	14 %		14 %	
Adjusted percent change	15 %		16 %	
Adjusted Income Taxes and Effective Tax Rate				
Reported income taxes	$ 158	$ 157	$306	$306
Add: Transaction costs and other charges	3	—	5	—
Adjusted income taxes	$ 161	$ 157	$311	$306
Adjusted Effective Tax Rate				
Reported income before income taxes and equity investments	$643	$566	$1,248	$1,107
Add: Transaction costs and other charges	24	15	43	21
Adjusted income before income taxes and equity investments	$667	$581	$1,291	$1,128
Reported effective tax rate	24.6 %	27.7 %	24.5 %	27.6 %
Adjusted effective tax rate	24.1 %	27.0 %	24.1 %	27.1 %
Adjusted Noncontrolling Interests				
Reported noncontrolling interests	$19	$14	$29	$29
Add: Cost reduction program	—	—	(1)	—
Adjusted Noncontrolling Interests	$19	$14	$28	$29
Adjusted Net Income - Praxair, Inc.				
Reported net income - Praxair, Inc.	$480	$406	$942	$795
Add: Transaction costs and other charges	21	15	38	21
Add: Cost reduction program	—	—	1	—
Total adjustments	21	15	39	21
Adjusted net income - Praxair, Inc.	$501	$421	$981	$816
Reported percent change	18 %		18 %	
Adjusted percent change	19 %		20 %	
Adjusted Diluted Earnings Per Share				
Reported diluted EPS	$1.65	$1.41	$3.24	$2.76
Add: Transaction costs and other charges	0.07	0.05	0.13	0.07
Adjusted diluted EPS	$1.72	$1.46	$3.37	$2.83
Reported percent change	17 %		17 %	
Adjusted percent change	18 %		19 %	

Table of Contents

EBITDA, Adjusted EBITDA, EBITDA Margin and Adjusted EBITDA Margin

These measures are used by investors, financial analysts and management to assess a company's profitability.

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Dollar amounts in millions)				
Reported net income - Praxair, Inc.	$480	$406	$942	$795
Add: noncontrolling interest	19	14	29	29
Add: interest expense - net	44	38	90	79
Add: net pension and OPEB cost (benefit), excluding service cost	2	2	4	(13)
Add: income taxes	158	157	306	306
Add: depreciation and amortization	311	292	622	579
EBITDA	$1,014	$909	$1,993	$1,775
Adjustments:				
Add: Transaction costs	$24	$15	$43	$21
ADJUSTED EBITDA	$1,038	$924	$2,036	$1,796
Reported Sales	$3,061	$2,834	$6,060	$5,562
EBITDA Margin	33.1 %	32.1 %	32.9 %	31.9 %
Adjusted EBITDA Margin	33.9 %	32.6 %	33.6 %	32.3 %

Net Debt, Capital and 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.

	Six Months Ended June 30,	
	2018	2017
(Dollar amounts in millions)		
Debt	$8,458	$9,367
Less: cash and cash equivalents	(479)	(535)
Net debt	7,979	8,832
Equity and redeemable noncontrolling interests		
Redeemable noncontrolling interests	14	10
Praxair, Inc. shareholders' equity	6,027	5,807
Noncontrolling interests	501	453
Total equity and redeemable noncontrolling interests	6,542	6,270
Capital	$14,521	$15,102
DEBT-TO-CAPITAL RATIO	54.9 %	58.5 %

Table of Contents

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 expected timing and likelihood of the completion of the contemplated business combination with Linde AG, including the timing, receipt and terms and conditions of any required governmental and regulatory approvals that could reduce anticipated benefits or cause the parties to abandon the transaction; the occurrence of any event, change or other circumstances that could give rise to the termination of the business combination agreement; the ability to successfully complete the proposed business combination, including satisfying closing conditions; the success of the business following the proposed business combination; the ability to successfully integrate the Praxair and Linde businesses; the risk that the combined company may be unable to achieve expected synergies or that it may take longer or be more costly than expected to achieve those synergies; 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, including the impact of the U.S. Tax Cuts and Jobs Act of 2017; the cost and outcomes of investigations, litigation and regulatory proceedings; the impact of potential unusual or non-recurring items; 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 GAAP or adjusted projections or estimates contained in the forward-looking statements. The company assumes no obligation to update or provide revisions to any forward-looking statement in response to changing circumstances. The above listed risks and uncertainties are further described in Item 1A (Risk Factors) in the company's latest Annual Report on Form 10-K filed with the SEC and in the proxy statement/prospectus and the offering prospectus included in the Registration Statement on Form S-4 (which Registration Statement was declared effective on August 14, 2017) filed by Linde plc with the SEC which should be reviewed carefully. Please consider the company’s forward-looking statements in light of those risks.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to Item 7A. to Part II of Praxair's 2017 Annual Report on Form 10-K for discussion.

Item 4. Controls and Procedures

(a) Based on an evaluation of the effectiveness of Praxair's disclosure controls and procedures, which was made under the supervision and with the participation of management, including Praxair's principal executive officer and principal financial officer, the principal executive officer and principal financial officer have each concluded that, as of the end of the quarterly period covered by this report, such disclosure controls and procedures are effective in ensuring that information required to be disclosed by Praxair in reports that it files under the Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and accumulated and communicated to management including Praxair's principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

(b) There were no changes in Praxair's internal control over financial reporting that occurred during the quarterly period covered by this report that have materially affected, or are reasonably likely to materially affect, Praxair's internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION
Praxair, Inc. and Subsidiaries

Item 1. Legal Proceedings
See Note 12 to the condensed consolidated financial statements for a description of current legal proceedings.
Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1a to Part I of Praxair's 2017 Annual Report on Form 10-K.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Purchases of Equity Securities- Certain information regarding purchases made by or on behalf of the company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of its common stock during the quarter ended June 30, 2018 is provided below:

Period	Total Number of Shares Purchased (Thousands)	Average Price Paid Per Share	Total Numbers of Shares Purchased as Part of Publicly Announced Program (1) (Thousands)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (2) (Millions)
April 2018	—	$ —	—	$ 1,579
May 2018	2	$ 151.89	2	$ 1,579
June 2018	—	$ —	—	$ 1,579
Second Quarter 2018	2	$ 151.89	2	$ 1,579

(1) 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.

(2) As of June 30, 2018, the Company purchased $1,421 million of its common stock pursuant to the 2014 program, leaving an additional $79 million remaining authorized under the 2014 program. The 2014 program does not have any stated expiration date. In addition, on July 28, 2015, the Company's board of directors approved the repurchase of $1.5 billion of its common stock ("2015 program") which could take place from time to time on the open market (which could include the use of 10b5-1 trade plans) or through negotiated transactions, subject to market and business conditions. The 2015 program does not have any stated expiration date. The 2015 program is in addition to the 2014 program.

Item 3. Defaults Upon Senior Securities
None.
Item 4. Mine Safety Disclosures
Not applicable.
Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits
(a) Exhibits

10.1	Limited waiver, dated as of June 22, 2018, to the Credit Agreement, dated as of December 19, 2014, as amended, among Praxair, Inc., the Eligible Subsidiaries party thereto from time to time, the lenders party thereto from time to time and Bank of America, N.A., as Administrative Agent, is filed herewith
12.01	Computation of Ratio of Earnings to Fixed Charges.
31.01	Rule 13a-14(a) Certification
31.02	Rule 13a-14(a) Certification
32.01	Section 1350 Certification (such certifications are furnished for the information of the Commission and shall not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act).
32.02	Section 1350 Certification (such certifications are furnished for the information of the Commission and shall not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

* Indicates a management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURE
Praxair, Inc. and Subsidiaries

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	PRAXAIR, INC.
	(Registrant)
Date: July 26, 2018	By: /s/ Kelcey E. Hoyt
	Kelcey E. Hoyt Vice President and Controller (On behalf of the Registrant and as Chief Accounting Officer)