PRAXAIR INC
Form 10-Q
July 26, 2018
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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.

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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.

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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.

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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.

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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.

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.

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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.

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

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

1. Summary of Significant Accounting Policies

Presentation of Condensed Consolidated Financial Statements - In the opinion of Praxair, Inc. (Praxair) management, the accompanying condensed consolidated financial statements include all adjustments necessary for a fair presentation of the results for the interim periods presented and such adjustments are of a normal recurring nature. The accompanying condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements of Praxair, Inc. and subsidiaries in Praxair’s 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.

- 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

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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 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.

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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:

	Fair Value Measurements Using					
	Level 1		Level 2		Level 3	
(Millions of dollars)	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:

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	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:

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(Millions of dollars)	Customer & License/Use Agreements	Non-compete Agreements	Patents & Other