

PRAXAIR INC  
Form 10-Q  
October 29, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

PRAXAIR, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation)

1-11037

(Commission File Number)

06-1249050

(IRS Employer Identification No.)

39 OLD RIDGEBURY ROAD, DANBURY, CT

(Address of principal executive offices)

(203) 837-2000

(Registrant's telephone number, including area code)

06810-5113

(Zip Code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes  No

At September 30, 2015, 284,845,518 shares of common stock (\$0.01 par value) of the Registrant were outstanding.

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

|   | Quarter Ended September 30, |         |   |
|---|-----------------------------|---------|---|
|   | 2015                        | 2014    |   |
| SALES   | \$2,686                     | \$3,144 |   |
| Cost of sales, exclusive of depreciation and amortization | 1,488                       | 1,780   |   |
| Selling, general and administrative                       | 281                         | 327     |   |
| Depreciation and amortization                             | 276                         | 301     |   |
| Research and development                                  | 23                          | 25      |   |
| Cost reduction program and other charges                  | 26                          | —       |   |
| Other income (expense) - net                              | 2                           | —       |   |
| OPERATING PROFIT  | 594                         | 711     |   |
| Interest expense - net                                    | 35                          | 45      |   |
| INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS         | 559                         | 666     |   |
| Income taxes  | 156                         | 187     |   |
| INCOME BEFORE EQUITY INVESTMENTS                          | 403                         | 479     |   |
| Income from equity investments                            | 10                          | 11      |   |
| NET INCOME (INCLUDING NONCONTROLLING INTERESTS)           | 413                         | 490     |   |
| Less: noncontrolling interests                            | (12                         | ) (13   | ) |
| NET INCOME - PRAXAIR, INC.                                | \$401                       | \$477   |   |
| PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS               |                             |         |   |
| Basic earnings per share                                  | \$1.40                      | \$1.63  |   |
| Diluted earnings per share                                | \$1.40                      | \$1.62  |   |
| Cash dividends per share                                  | \$0.715                     | \$0.65  |   |
| WEIGHTED AVERAGE SHARES OUTSTANDING (000's):              |                             |         |   |
| Basic shares outstanding                                  | 285,651                     | 292,170 |   |
| Diluted shares outstanding                                | 287,311                     | 295,239 |   |

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

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

|   | Nine Months Ended<br>September 30, |         |
|---|------------------------------------|---------|
|   | 2015                               | 2014    |
| SALES   | \$8,181                            | \$9,283 |
| Cost of sales, exclusive of depreciation and amortization | 4,534                              | 5,273   |
| Selling, general and administrative                       | 877                                | 988     |
| Depreciation and amortization                             | 831                                | 879     |
| Research and development                                  | 70                                 | 72      |
| Cost reduction program and other charges                  | 172                                | —       |
| Other income (expense) - net                              | —                                  | 12      |
| OPERATING PROFIT  | 1,697                              | 2,083   |
| Interest expense - net                                    | 119                                | 134     |
| INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS         | 1,578                              | 1,949   |
| Income taxes  | 449                                | 546     |
| INCOME BEFORE EQUITY INVESTMENTS                          | 1,129                              | 1,403   |
| Income from equity investments                            | 31                                 | 30      |
| NET INCOME (INCLUDING NONCONTROLLING INTERESTS)           | 1,160                              | 1,433   |
| Less: noncontrolling interests                            | (35                                | ) (41   |
| NET INCOME - PRAXAIR, INC.                                | \$1,125                            | \$1,392 |
| PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS               |                                    |         |
| Basic earnings per share                                  | \$3.91                             | \$4.75  |
| Diluted earnings per share                                | \$3.88                             | \$4.70  |
| Cash dividends per share                                  | \$2.145                            | \$1.95  |
| WEIGHTED AVERAGE SHARES OUTSTANDING (000's):              |                                    |         |
| Basic shares outstanding                                  | 287,578                            | 293,103 |
| Diluted shares outstanding                                | 289,835                            | 296,240 |

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

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

|  | Quarter Ended September 30, |         |
|--|-----------------------------|---------|
|  | 2015                        | 2014    |
| NET INCOME (INCLUDING NONCONTROLLING INTERESTS)                  | \$413                       | \$490   |
| OTHER COMPREHENSIVE INCOME (LOSS)                                |                             |         |
| Translation adjustments:   |                             |         |
| Foreign currency translation adjustments                         | (792                        | ) (604  |
| Income taxes   | 28                          | (5      |
| Translation adjustments  | (764                        | ) (609  |
| Funded status - retirement obligations (Note 11):                |                             |         |
| Retirement program remeasurements                                | 16                          | 18      |
| Reclassifications to net income                                  | 27                          | 12      |
| Income taxes   | (10                         | ) (9    |
| Funded status - retirement obligations                           | 33                          | 21      |
| Derivative instruments (Note 6):                                 |                             |         |
| Current quarter unrealized gain (loss)                           | (1                          | ) —     |
| Reclassifications to net income                                  | 1                           | —       |
| Income taxes   | —                           | —       |
| Derivative instruments   | —                           | —       |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS)                          | (731                        | ) (588  |
| COMPREHENSIVE INCOME (LOSS) (INCLUDING NONCONTROLLING INTERESTS) | (318                        | ) (98   |
| Less: noncontrolling interests                                   | 5                           | 7       |
| COMPREHENSIVE INCOME (LOSS) - PRAXAIR, INC.                      | \$(313                      | ) \$(91 |

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

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

|   | Nine Months Ended September |         |
|---|-----------------------------|---------|
|   | 30,                         |         |
|   | 2015                        | 2014    |
| NET INCOME (INCLUDING NONCONTROLLING INTERESTS)           | \$1,160                     | \$1,433 |
| OTHER COMPREHENSIVE INCOME (LOSS)                         |                             |         |
| Translation adjustments:                                  |                             |         |
| Foreign currency translation adjustments                  | (1,366                      | ) (460  |
| Reclassifications to net income                           | —                           | (3      |
| Income taxes  | 15                          | (20     |
| Translation adjustments                                   | (1,351                      | ) (483  |
| Funded status - retirement obligations (Note 11):         |                             |         |
| Retirement program remeasurements                         | (7                          | ) 2     |
| Reclassifications to net income                           | 66                          | 39      |
| Income taxes  | (16                         | ) (13   |
| Funded status - retirement obligations                    | 43                          | 28      |
| Derivative instruments (Note 6):                          |                             |         |
| Current period unrealized gain (loss)                     | (1                          | ) 3     |
| Reclassifications to net income                           | 1                           | —       |
| Income taxes  | —                           | (1      |
| Derivative instruments                                    | —                           | 2       |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS)                   | (1,308                      | ) (453  |
| COMPREHENSIVE INCOME (INCLUDING NONCONTROLLING INTERESTS) | (148                        | ) 980   |
| Less: noncontrolling interests                            | 2                           | (18     |
| COMPREHENSIVE INCOME - PRAXAIR, INC.                      | \$(146                      | ) \$962 |

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

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

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| Cash and cash equivalents   | \$ 136                | \$ 126               |
| Accounts receivable - net   | 1,690                 | 1,796                |
| Inventories   | 526                   | 551                  |
| Prepaid and other current assets  | 374                   | 366                  |
| <b>TOTAL CURRENT ASSETS</b>   | <b>2,726</b>          | <b>2,839</b>         |
| Property, plant and equipment (less accumulated depreciation of \$11,672 in 2015 and \$11,857 in 2014)    | 10,970                | 11,997               |
| Goodwill  | 2,997                 | 3,121                |
| Other intangible assets - net   | 567                   | 603                  |
| Other long-term assets  | 1,196                 | 1,242                |
| <b>TOTAL ASSETS</b>   | <b>\$18,456</b>       | <b>\$19,802</b>      |
| <b>LIABILITIES AND EQUITY</b>   |                       |                      |
| Accounts payable  | \$ 750                | \$ 864               |
| Short-term debt   | 458                   | 587                  |
| Current portion of long-term debt   | 2                     | 2                    |
| Other current liabilities   | 912                   | 1,037                |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>2,122</b>          | <b>2,490</b>         |
| Long-term debt  | 9,057                 | 8,669                |
| Other long-term liabilities   | 2,464                 | 2,457                |
| <b>TOTAL LIABILITIES</b>  | <b>13,643</b>         | <b>13,616</b>        |
| Commitments and contingencies (Note 12)   |                       |                      |
| Redeemable noncontrolling interests (Note 14)   | 169                   | 176                  |
| Praxair, Inc. Shareholders' Equity:   |                       |                      |
| Common stock \$0.01 par value, authorized - 800,000,000 shares, issued 2015 and 2014 - 383,230,625 shares | 4                     | 4                    |
| Additional paid-in capital  | 3,998                 | 3,994                |
| Retained earnings   | 11,966                | 11,461               |
| Accumulated other comprehensive income (loss) (Note 14)   | (4,456)               | (3,185)              |
| Less: Treasury stock, at cost (2015 - 98,385,107 shares and 2014 - 93,969,017 shares)                     | (7,248)               | (6,651)              |
| Total Praxair, Inc. Shareholders' Equity  | 4,264                 | 5,623                |
| Noncontrolling interests  | 380                   | 387                  |
| <b>TOTAL EQUITY</b>   | <b>4,644</b>          | <b>6,010</b>         |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>\$18,456</b>       | <b>\$19,802</b>      |

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



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

|   | Nine Months Ended September |         |
|---|-----------------------------|---------|
|   | 30,                         |         |
|   | 2015                        | 2014    |
| <b>OPERATIONS</b>   |                             |         |
| Net income - Praxair, Inc.  | \$1,125                     | \$1,392 |
| Noncontrolling interests  | 35                          | 41      |
| Net income (including noncontrolling interests)                                   | 1,160                       | 1,433   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |         |
| Cost reduction program and other charges, net of payments                         | 139                         | —       |
| Depreciation and amortization   | 831                         | 879     |
| Deferred income taxes   | 25                          | (32)    |
| Share-based compensation  | 25                          | 42      |
| Working capital:  |                             |         |
| Accounts receivable   | (57)                        | (144)   |
| Inventory   | (14)                        | (52)    |
| Prepaid and other current assets  | (37)                        | 18      |
| Payables and accruals   | (20)                        | (3)     |
| Pension contributions   | (13)                        | (14)    |
| Long-term assets, liabilities and other   | (148)                       | (31)    |
| Net cash provided by operating activities   | 1,891                       | 2,096   |
| <b>INVESTING</b>  |                             |         |
| Capital expenditures  | (1,154)                     | (1,207) |
| Acquisitions, net of cash acquired  | (43)                        | (191)   |
| Divestitures and asset sales  | 245                         | 86      |
| Net cash used for investing activities  | (952)                       | (1,312) |
| <b>FINANCING</b>  |                             |         |
| Short-term debt borrowings (repayments) - net                                     | (126)                       | (161)   |
| Long-term debt borrowings   | 1,496                       | 867     |
| Long-term debt repayments   | (999)                       | (312)   |
| Issuances of common stock   | 74                          | 85      |
| Purchases of common stock   | (704)                       | (562)   |
| Cash dividends - Praxair, Inc. shareholders                                       | (615)                       | (570)   |
| Excess tax benefit on share-based compensation                                    | 18                          | 28      |
| Noncontrolling interest transactions and other                                    | (31)                        | (123)   |
| Net cash (used for) provided by financing activities                              | (887)                       | (748)   |
| Effect of exchange rate changes on cash and cash equivalents                      | (42)                        | (6)     |
| Change in cash and cash equivalents   | 10                          | 30      |
| Cash and cash equivalents, beginning-of-period                                    | 126                         | 138     |
| Cash and cash equivalents, end-of-period  | \$136                       | \$168   |
| The accompanying notes are an integral part of these financial statements.        |                             |         |

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PRAXAIR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Summary of Significant Accounting Policies

Presentation of Condensed Consolidated Financial Statements - In the opinion of Praxair, Inc. (Praxair) management, the accompanying condensed consolidated financial statements include all adjustments necessary for a fair presentation of the results for the interim periods presented and such adjustments are of a normal recurring nature. The accompanying condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements of Praxair, Inc. and subsidiaries in Praxair's 2014 Annual Report on Form 10-K. There have been no material changes to the company's significant accounting policies during 2015.

Accounting Standards Implemented in 2015

The following standards were effective for Praxair in 2015 and their adoption did not have a significant impact on the condensed consolidated financial statements:

Reporting Discontinued Operations – In April 2014, the FASB issued updated guidance on the reporting and disclosures of discontinued operations. The new guidance requires that the disposal of a component of an entity be reported as discontinued operations only if the action represents a strategic shift that will have a major effect on an entity's operations and financial results, and would require expanded disclosures. The adoption of this guidance did not have a significant impact on the condensed consolidated financial statements.

Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments – In September 2015, the FASB issued updated guidance on the accounting for purchase accounting adjustments determined during the measurement period (i.e. up to one year after the acquisition). The new guidance requires an acquirer to recognize such adjustments in the reporting period in which the adjustment amounts are determined. Previously, such adjustments were required to be recorded on a retrospective basis. Praxair has elected to early adopt this guidance beginning in the third quarter 2015 on a prospective basis. The adoption of this guidance did not have a significant impact on the condensed consolidated financial statements.

Accounting Standards to be Implemented

Revenue Recognition – In May 2014, the FASB issued updated guidance on the reporting and disclosure of revenue. The new guidance requires the evaluation of contracts with customers to determine the recognition of revenue when or as the entity satisfies a performance obligation, and would require expanded disclosures. This guidance is required to be effective beginning in the first quarter 2018 (with early adoption beginning in 2017 optional) and includes several transition options. Praxair is in the early stages of reviewing the new guidance and will provide updates on the expected impact to Praxair in future filings, as determined.

Accounting for Share-based Compensation - In June 2014, the FASB issued updated guidance on the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. Praxair does not expect this requirement to have a significant impact on the condensed consolidated financial statements. This guidance will be effective for Praxair beginning in the first quarter 2016, with early adoption optional.

Presentation of Debt Issuance Costs – In April 2015, the FASB issued updated guidance on the presentation of debt issuance costs. The new guidance requires debt issuance costs to be classified as debt rather than deferred charges within the condensed consolidated financial statements. Praxair does not expect this requirement to have a significant impact on its consolidated financial statements. This guidance will be effective for Praxair beginning in the first quarter 2016 on a retrospective basis, with early adoption optional. The balance sheet reclassification required by this standard will not be material for Praxair.

Simplifying the Measurement of Inventory – In July 2015, the FASB issued updated guidance on the measurement of inventory. The new guidance requires that inventory be measured at the lower of cost or net realizable value.

Currently inventory is measured at the lower of cost or market. This new guidance will be effective for Praxair beginning in the first quarter 2017 on a prospective basis, with early adoption optional. Praxair does not expect this requirement to have a material impact.

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

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## 2. Cost Reduction Program and Other Charges

## Pension Settlement Charge

In 2014 a number of senior managers retired. These retirees are covered by the U.S. supplemental pension plan which provides for a lump sum benefit payment option. Under certain circumstances, such lump sum payments must be accounted for as a settlement of the related pension obligation, but only when paid. Accordingly, when the cash payments were made in the third quarter of 2015, Praxair recorded a pension settlement charge related to net unrecognized actuarial losses of \$7 million (\$5 million after-tax or \$0.02 per diluted share).

## Cost Reduction Program and Other Charges

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

Following is a summary of the pre-tax charges by reportable segment.

| (millions of dollars) | Severance<br>costs | Other<br>Charges | Total |
|-----------------------|--------------------|------------------|-------|
| North America         | \$14               | \$20             | \$34  |
| Europe                | 11                 | 9                | 20    |
| South America         | 18                 | 49               | 67    |
| Asia                  | 11                 | 14               | 25    |
| Surface Technologies  | 9                  | 10               | 19    |
| Total                 | \$63               | \$102            | \$165 |

The severance costs of \$63 million are for the elimination of 1,544 positions. The majority of actions are anticipated to be completed in 2015.

The other charges of \$102 million are primarily related to the consolidation of operations and the exit of other operations due to current economic conditions, primarily in Brazil. Amounts related to asset write-downs are net of expected sale proceeds, which are not significant. Severance costs related to these actions are included in the previous paragraph. Following is a summary:

i. The North America charges of \$20 million relate primarily to the decision to consolidate certain manufacturing and distribution locations for efficiencies and cost reduction.

ii. The Europe charges of \$9 million are primarily for the restructuring of operations in Russia and energy-related businesses in Northern Europe.

iii. The South America charges of \$49 million include costs primarily associated with a decision to exit a non-core business and other operations in South America.

iv. The Asia charges of \$14 million include costs primarily related to an asset disposal in China.

v. The Surface Technologies charges of \$10 million relate to the realignment of sales and manufacturing operations in Europe and the United States for efficiencies and cost reduction.

Additionally, for the nine-month period ended September 30, 2015 income taxes include a \$10 million increase in valuation allowances relating to U.S. foreign tax credit carryforwards, reflecting the impact of current economic conditions.

## Cash Requirements

The total cash requirements of the cost reduction program and other charges are estimated to be approximately \$94 million, of which \$26 million was paid through September 30, 2015.



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## Classification in the consolidated financial statements

The pension settlement charge and cost reduction program and other charges of \$26 million for the third quarter and \$172 million for the year-to-date period are shown together as a separate line item on the consolidated statement of operations. The tax benefits of \$8 million for the third quarter and \$41 million for the year-to-date period are reflected in income taxes. The noncontrolling interests impact was \$1 million for the year-to-date period ended September 30, 2015. In the consolidated balance sheets, asset write-offs are recorded as a reduction to the carrying value of the related assets and unpaid amounts are recorded primarily as short-term liabilities. On the consolidated statement of cash flows, the pre-tax impact of the cost reduction program and other charges, net of cash payments, is shown as an adjustment to reconcile net income to net cash provided by operating activities. In the segments Note 13, Praxair excluded these charges from its management definition of segment operating profit; a reconciliation of segments operating profit to consolidated operating profit is shown within the operating profit table.

## Reconciliation

The following table summarizes the activities related to the company's cost reduction and other charges during 2015:

| (millions of dollars)                                 | Severance costs | Other Charges | Total |
|---|-----------------|---------------|-------|
| Cost reduction program and other charges - Q2/Q3 2015 | \$63            | \$102         | \$165 |
| Less: Cash payments                                   | (19             | ) (7          | ) (26 |
| Less: Non-cash asset write-offs                       | —               | (68           | ) (68 |
| Foreign currency translation                          | (2              | ) (1          | ) (3  |
| Balance, September 30, 2015                           | \$42            | \$26          | \$68  |

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## 3. Acquisitions

## 2015 Acquisitions

During the nine months ended September 30, 2015, Praxair had acquisitions totaling \$43 million, primarily acquisitions of packaged gases businesses in North and South America. These transactions resulted in goodwill and other intangible assets of \$28 million and \$10 million, respectively (see Note 9).

## 2014 Acquisitions

During the nine months ended September 30, 2014, Praxair had acquisitions totaling \$191 million, primarily an industrial gases business in Italy and packaged gases businesses in North and South America. These transactions resulted in goodwill and other intangible assets of \$71 million and \$53 million, respectively (see Note 9).

## 4. Supplemental Information

## Inventories

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

| (Millions of dollars)      | September 30,<br>2015 | December 31,<br>2014 |
|----------------------------|-----------------------|----------------------|
| Inventories                |                       |                      |
| Raw materials and supplies | \$183                 | \$200                |
| Work in process            | 49                    | 52                   |
| Finished goods             | 294                   | 299                  |
| Total inventories          | \$526                 | \$551                |

## 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 \$33 million and \$43 million at September 30, 2015 and December 31, 2014, respectively. These amounts are net of reserves of \$34 million and \$48 million, respectively. The amounts in both periods relate primarily to government receivables in Brazil and other long-term notes receivable from customers. Collectability is reviewed regularly and uncollectible amounts are written-off as appropriate. The account balance changes during 2015 were primarily due to foreign exchange rate movements.



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## 5. Debt

The following is a summary of Praxair's outstanding debt at September 30, 2015 and December 31, 2014:

| (Millions of dollars)  | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
| <b>SHORT-TERM</b>  |                       |                      |
| Commercial paper and U.S. bank borrowings                        | \$337                 | \$514                |
| Other bank borrowings (primarily international)                  | 121                   | 73                   |
| Total short-term debt  | 458                   | 587                  |
| <b>LONG-TERM</b>   |                       |                      |
| U.S. borrowings (U.S. dollar denominated unless otherwise noted) |                       |                      |
| 4.625% Notes due 2015 (a)  | —                     | 500                  |
| 3.25% Notes due 2015 (a)   | —                     | 408                  |
| 0.75% Notes due 2016 (b)   | 400                   | 400                  |
| Floating Rate Notes due 2017 (e)                                 | 150                   | —                    |
| 5.20% Notes due 2017   | 325                   | 325                  |
| 1.05% Notes due 2017   | 400                   | 400                  |
| 1.20% Notes due 2018   | 500                   | 500                  |
| 1.25% Notes due 2018 (c, d)                                      | 487                   | 481                  |
| 4.50% Notes due 2019 (c)   | 599                   | 599                  |
| 1.90% Notes due 2019   | 500                   | 500                  |
| 1.50% Euro-denominated notes due 2020 (c)                        | 667                   | 722                  |
| 2.25% Notes due 2020 (e)   | 300                   | —                    |
| 4.05% Notes due 2021 (c)   | 499                   | 499                  |
| 3.00% Notes due 2021 (c)   | 497                   | 497                  |
| 2.45% Notes due 2022 (c)   | 598                   | 598                  |
| 2.20% Notes due 2022 (c)   | 499                   | 499                  |
| 2.70% Notes due 2023 (c)   | 499                   | 499                  |
| 2.65% Notes due 2025 (c, e)                                      | 398                   | —                    |
| 1.625% Euro-denominated notes due 2025 (c)                       | 554                   | 599                  |
| 3.20% Notes due 2026 (c, e)                                      | 448                   | —                    |
| 3.55% Notes due 2042 (c, e)                                      | 667                   | 466                  |
| Other  | 4                     | 4                    |
| International bank borrowings                                    | 60                    | 167                  |
| Obligations under capital leases                                 | 8                     | 8                    |
|  | 9,059                 | 8,671                |
| Less: current portion of long-term debt                          | (2                    | ) (2                 |
| Total long-term debt   | 9,057                 | 8,669                |
| Total debt   | \$9,517               | \$9,258              |

(a) In March 2015, Praxair repaid \$500 million of 4.625% notes that became due. In September 2015, Praxair repaid \$400 million of 3.25% notes that became due.

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

(c) Amounts are net of unamortized discounts.

(d) September 30, 2015 and December 31, 2014 include a \$12 million and \$14 million fair value increase, respectively, related to hedge accounting. See Note 6 for additional information.

(e) On February 5, 2015, Praxair issued \$150 million of floating rate notes that bear interest at the Federal funds effective rate plus 0.33% due 2017, \$400 million of 2.65% fixed rate notes due 2025 and \$200 million of 3.550% fixed rate notes due in 2042. On September 21, 2015, Praxair issued the following notes: \$300 million of 2.25%

notes due 2020 and \$450 million of 3.20% notes due 2026. The proceeds of these debt issuances were used for general corporate purposes, including acquisitions, repayment of debt and share repurchases under the company's share repurchase program.

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## 6. Financial Instruments

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

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

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

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

The following table is a summary of the notional amount and fair value of derivatives outstanding at September 30, 2015 and December 31, 2014 for consolidated subsidiaries:

| (Millions of dollars)                              | Notional Amounts   |                   | Fair Value                   |                   |                                   |                   |
|--|--------------------|-------------------|------------------------------|-------------------|-----------------------------------|-------------------|
|  | September 30, 2015 | December 31, 2014 | Assets<br>September 30, 2015 | December 31, 2014 | Liabilities<br>September 30, 2015 | December 31, 2014 |
| Derivatives Not Designated as Hedging Instruments: |                    |                   |                              |                   |                                   |                   |
| Currency contracts:                                |                    |                   |                              |                   |                                   |                   |
| Balance sheet items (a)                            | \$2,756            | \$ 2,427          | \$11                         | \$ 5              | \$33                              | \$ 13             |
| Derivatives Designated as Hedging Instruments:     |                    |                   |                              |                   |                                   |                   |
| Currency contracts:                                |                    |                   |                              |                   |                                   |                   |
| Balance sheet items (a)                            | \$38               | \$ —              | \$—                          | \$ —              | \$—                               | \$ —              |
| Interest rate contracts:                           |                    |                   |                              |                   |                                   |                   |
| Interest rate swaps (b)                            | 475                | 875               | 12                           | 14                | —                                 | —                 |
| Total Derivatives                                  | \$3,269            | \$ 3,302          | \$23                         | \$ 19             | \$33                              | \$ 13             |

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

(b) Assets are recorded in other long term assets

## Currency Contracts

## 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

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

## Net Investment Hedge

Praxair has designated the €600 million (\$667 million as of September 30, 2015) 1.50% Euro-denominated notes due 2020 and the €500 million (\$554 million as of September 30, 2015) 1.625% Euro-denominated notes due 2025, 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 the time the Euro-denominated notes were issued in 2014, exchange rate movements have reduced long-term debt by \$226 million (\$101 million of which was during the first three quarters of 2015), with the offsetting gain shown within the cumulative translation component of AOCI in the condensed consolidated balance sheets and the condensed consolidated statements of comprehensive income.

## Interest Rate Contracts

## Outstanding Interest Rate Swaps

At September 30, 2015, Praxair had one outstanding interest rate swap agreement with a \$475 million notional amount related to the \$475 million 1.25% notes that mature in 2018. The interest rate swap effectively converts fixed-rate interest to variable-rate interest and is designated as a fair value hedge. Fair value adjustments are recognized in earnings along with an equally offsetting charge / benefit to earnings for the changes in the fair value of the underlying debt instrument. At September 30, 2015, \$12 million was recognized as an increase in the fair value of these notes (\$14 million at December 31, 2014). The other interest rate swap agreement, which was previously designated as a fair value hedge and which related to the \$400 million 3.25% fixed-rate notes, matured in Q3 2015.

## Terminated Treasury Rate Locks

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

| (Millions of dollars)   | Year<br>Terminated | Original<br>Gain /<br>(Loss) | Unrecognized Gain / (Loss) (a) |                      |
|---|--------------------|------------------------------|--------------------------------|----------------------|
|   |                    |                              | September 30,<br>2015          | December 31,<br>2014 |
| <b>Treasury Rate Locks</b>  |                    |                              |                                |                      |
| 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                          | ) (7                           | ) (8                 |
| \$600 million 4.50% fixed-rate notes that mature in 2019 (b) 2009 |                    | 16                           | 6                              | 8                    |
| \$500 million 4.625% fixed-rate notes that mature in 2015 (b)     | 2008               | (7                           | ) —                            | ) —                  |
| Total - pre-tax   |                    |                              | \$ (2                          | ) \$ (1              |
| Less: income taxes  |                    |                              | —                              | —                    |
| After- tax amounts  |                    |                              | \$ (2                          | ) \$ (1              |

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

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



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

| (Millions of dollars)                             | Amount of Pre-Tax Gain (Loss)<br>Recognized in Earnings * |          |                                    |          |
|---|---|----------|------------------------------------|----------|
|   | Quarter Ended September 30,                               |          | Nine Months Ended<br>September 30, |          |
|   | 2015  | 2014     | 2015                               | 2014     |
| Derivatives Not Designated as Hedging Instruments |   |          |                                    |          |
| Currency contracts:                               |   |          |                                    |          |
| Balance sheet items                               |   |          |                                    |          |
| Debt-related                                      | \$ (93 )  | \$ (45 ) | \$ (171 )                          | \$ (16 ) |
| Other balance sheet items                         | (6 )  | (5 )     | (11 )                              | (1 )     |
| Total   | \$ (99 )  | \$ (50 ) | \$ (182 )                          | \$ (17 ) |

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

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

## Derivatives Designated as Hedging Instruments \*\*

| (Millions of dollars) | Quarter Ended                               |                       | Amount of Gain (Loss)<br>Reclassified from AOCI to<br>the Consolidated Statement<br>of<br>Income |                       |
|-----------------------|---|-----------------------|--|-----------------------|
|                       | Amount of Gain (Loss)<br>Recognized in AOCI |                       | Amount of Gain (Loss)<br>Reclassified from AOCI to<br>the Consolidated Statement<br>of<br>Income |                       |
|                       | September 30,<br>2015                       | September 30,<br>2014 | September 30,<br>2015  | September 30,<br>2014 |
| Currency contracts:   |   |                       |  |                       |
| Balance sheet items   | \$ (1 )                                     | \$ —                  | \$ (1 )  | \$ —                  |
| Total - pre tax       | \$ (1 )                                     | \$ —                  | \$ (1 )  | \$ —                  |
| Less: income taxes    | —   | —                     | —  | —                     |
| Total - Net of Taxes  | \$ (1 )                                     | \$ —                  | \$ (1 )  | \$ —                  |

| (Millions of dollars) | Nine Months Ended                           |                       | Amount of Gain (Loss)<br>Reclassified from AOCI to<br>the Consolidated Statement<br>of<br>Income |                       |
|-----------------------|---|-----------------------|--|-----------------------|
|                       | Amount of Gain (Loss)<br>Recognized in AOCI |                       | Amount of Gain (Loss)<br>Reclassified from AOCI to<br>the Consolidated Statement<br>of<br>Income |                       |
|                       | September 30,<br>2015                       | September 30,<br>2014 | September 30,<br>2015  | September 30,<br>2014 |
| Currency contracts:   |   |                       |  |                       |
| Net Investment Hedge  | \$ —  | \$ (6 )               | \$ —   | \$ —                  |
| Balance sheet items   | (1 )  | —                     | (1 )   | —                     |
| Total - pre tax       | \$ (1 )                                     | \$ (6 )               | \$ (1 )  | \$ —                  |

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|                      |      |        |        |       |
|----------------------|------|--------|--------|-------|
| Less: income taxes   | —    | 2      | —      | —     |
| Total - Net of Taxes | \$(1 | ) \$(4 | ) \$(1 | ) \$— |

\*\*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 forecasted purchases and 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 2015 or 2014. 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.



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## 7. Fair Value Disclosures

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

| (Millions of dollars) | Fair Value Measurements Using |                   |                    |                   |                    |                   |
|-----------------------|-------------------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
|                       | Level 1                       |                   | Level 2            |                   | Level 3            |                   |
|                       | September 30, 2015            | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| Assets                |                               |                   |                    |                   |                    |                   |
| Derivatives           | —                             | —                 | \$23               | \$19              | —                  | —                 |
| Liabilities           |                               |                   |                    |                   |                    |                   |
| Derivatives           | —                             | —                 | \$33               | \$13              | —                  | —                 |

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

The fair values of cash and cash equivalents, short-term debt, accounts receivable-net, and accounts payable approximate carrying amounts because of the short maturities of these instruments. The fair value of long-term debt is estimated based on the quoted market prices for similar issues, which is deemed a level 2 measurement. At September 30, 2015, the estimated fair value of Praxair's long-term debt portfolio was \$9,066 million versus a carrying value of \$9,059 million. At December 31, 2014, the estimated fair value of Praxair's long-term debt portfolio was \$8,753 million versus a carrying value of \$8,671 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:

| Numerator (Millions of dollars)                            | Quarter Ended September 30, |         | Nine Months Ended September 30, |         |
|--|-----------------------------|---------|---------------------------------|---------|
|  | 2015                        | 2014    | 2015                            | 2014    |
| Net income - Praxair, Inc.                                 | \$401                       | \$477   | \$1,125                         | \$1,392 |
| Denominator (Thousands of shares)                          |                             |         |                                 |         |
| Weighted average shares outstanding                        | 285,253                     | 291,664 | 287,179                         | 292,597 |
| Shares earned and issuable under compensation plans        | 398                         | 506     | 399                             | 506     |
| Weighted average shares used in basic earnings per share   | 285,651                     | 292,170 | 287,578                         | 293,103 |
| Effect of dilutive securities                              |                             |         |                                 |         |
| Stock options and awards                                   | 1,660                       | 3,069   | 2,257                           | 3,137   |
| Weighted average shares used in diluted earnings per share | 287,311                     | 295,239 | 289,835                         | 296,240 |
| Basic Earnings Per Share                                   | \$1.40                      | \$1.63  | \$3.91                          | \$4.75  |
| Diluted Earnings Per Share                                 | \$1.40                      | \$1.62  | \$3.88                          | \$4.70  |

Stock options of 3,893,857 and 2,712,895 were antidilutive and therefore excluded in the computation of diluted earnings per share for the quarter and nine months ended September 30, 2015, respectively. There were no antidilutive shares for the quarter and nine months ended September 30, 2014.

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## 9. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended September 30, 2015 were as follows:

| (Millions of dollars)        | North<br>America | South<br>America | Europe | Asia | Surface<br>Technologies | Total   |
|------------------------------|------------------|------------------|--------|------|-------------------------|---------|
| Balance, December 31, 2014   | \$2,139          | \$147            | \$654  | \$38 | \$143                   | \$3,121 |
| Acquisitions (Note 3)        | 15               | 13               | —      | —    | —                       | 28      |
| Purchase adjustments & other | 1                | —                | —      | —    | —                       | 1       |
| Foreign currency translation | (30              | ) (60            | ) (54  | ) (2 | ) (7                    | ) (153  |
| Balance, September 30, 2015  | \$2,125          | \$100            | \$600  | \$36 | \$136                   | \$2,997 |

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 2015 test completed last quarter, Praxair applied the FASB's accounting guidance (refer to Note 1 to the consolidated financial statements of Praxair's 2014 Annual Report on Form 10-K) which allows the Company to first assess qualitative factors to determine the extent of additional quantitative analysis, if any, that may be required to test goodwill for impairment. Based on the qualitative assessments performed, Praxair concluded that it was more likely than not that the fair value of each reporting unit substantially exceeded its carrying value and therefore, further quantitative analysis was not required. As a result, no impairment was recorded. There were no indicators of impairment through September 30, 2015.

Changes in the carrying amounts of other intangibles for the nine months ended September 30, 2015 were as follows:

| (Millions of dollars)             | Customer &<br>License/Use<br>Agreements | Non-compete<br>Agreements | Patents &<br>Other | Total    |
|-----------------------------------|---|---------------------------|--------------------|----------|
| Cost:                             |   |                           |                    |          |
| Balance, December 31, 2014        | \$693                                   | \$37                      | \$47               | \$777    |
| Additions (Note 3)                | 9                                       | 1                         | —                  | 10       |
| Foreign currency translation      | (17                                     | ) (1                      | ) —                | (18      |
| Other                             | 1                                       | —                         | —                  | 1        |
| Balance, September 30, 2015       | \$686                                   | \$37                      | \$47               | \$770    |
| Less: Accumulated amortization    |   |                           |                    |          |
| Balance, December 31, 2014        | \$(147                                  | ) \$(18                   | ) \$(9             | ) \$(174 |
| Amortization expense              | (25                                     | ) (4                      | ) (3               | ) (32    |
| Foreign currency translation      | 6                                       | —                         | —                  | 6        |
| Other                             | (3                                      | ) —                       | —                  | (3       |
| Balance, September 30, 2015       | \$(169                                  | ) \$(22                   | ) \$(12            | ) \$(203 |
| Net balance at September 30, 2015 | \$517                                   | \$15                      | \$35               | \$567    |

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

Total estimated annual amortization expense is as follows:

| (Millions of dollars) |       |
|-----------------------|-------|
| Remaining 2015        | \$12  |
| 2016                  | 44    |
| 2017                  | 39    |
| 2018                  | 35    |
| 2019                  | 33    |
| Thereafter            | 404   |
|                       | \$567 |



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## 10. Share-Based Compensation

Share-based compensation of \$8 million (\$6 million after-tax) and \$14 million (\$10 million after-tax) was recognized during the quarters ended September 30, 2015 and 2014, respectively. Share-based compensation of \$25 million (\$18 million after-tax) and \$42 million (\$29 million after-tax) was recognized during the nine months ended September 30, 2015 and 2014, respectively. Expense amounts reflect current estimates of achieving performance targets relating to performance-based compensation. The expense was recorded primarily in selling, general and administrative expenses. There was no share-based compensation cost that was capitalized. For further details regarding Praxair's share-based compensation arrangements and prior-year grants, refer to Note 15 to the consolidated financial statements of Praxair's 2014 Annual Report on Form 10-K.

## Stock Options

The weighted-average fair value of options granted during the nine months ended September 30, 2015 was \$11.99 (\$14.62 in 2014) based on the Black-Scholes Options-Pricing model. The decrease in grant date fair value year-over-year is primarily attributable to a decrease in volatility.

The following weighted-average assumptions were used to value the grants in 2015 and 2014 :

|                         | Nine Months Ended September 30, |        |   |
|-------------------------|---------------------------------|--------|---|
|                         | 2015                            | 2014   |   |
| Dividend yield          | 2.2                             | % 2.0  | % |
| Volatility              | 13.5                            | % 15.2 | % |
| Risk-free interest rate | 1.51                            | % 1.57 | % |
| Expected term years     | 5                               | 5      |   |

The following table summarizes option activity under the plans as of September 30, 2015 and changes during the nine-month period then ended (averages are calculated on a weighted basis; life in years; intrinsic value expressed in millions):

|                                   | Number of<br>Options<br>(000's) | Average<br>Exercise Price | Average<br>Remaining<br>Life | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------|---------------------------------|---------------------------|------------------------------|---------------------------------|
| Outstanding at January 1, 2015    | 10,981                          | \$89.02                   |                              |                                 |
| Granted                           | 1,567                           | 128.38                    |                              |                                 |
| Exercised                         | (975)                           | ) 63.81                   |                              |                                 |
| Cancelled or Expired              | (109)                           | ) 124.93                  |                              |                                 |
| Outstanding at September 30, 2015 | 11,464                          | 96.20                     | 5.3                          | \$ 159                          |
| Exercisable at September 30, 2015 | 8,754                           | \$87.02                   | 4.3                          | \$ 159                          |

The aggregate intrinsic value represents the difference between the company's closing stock price of \$101.86 as of September 30, 2015 and the exercise price multiplied by the number of options outstanding as of that date. The total intrinsic value of stock options exercised during the quarter and nine months ended September 30, 2015 was \$6 million and \$57 million, respectively (\$14 million and \$78 million during the same periods in 2014, respectively). Cash received from option exercises under all share-based payment arrangements for the quarter and nine months ended September 30, 2015 was \$9 million and \$60 million (\$12 million and \$73 million for the same time periods in 2014). The cash tax benefit realized from share-based compensation totaled \$2 million and \$31 million for the quarter and nine months ended September 30, 2015, of which \$18 million in excess tax benefits was classified as financing cash flows for the nine months ended September 30, 2015 (\$5 million and \$44 million cash tax benefit for the same periods in 2014 of which \$28 million represented excess tax benefit for the nine months ended September 30, 2014). As of September 30, 2015, \$22 million of unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted-average period of approximately 1.7 years.

## Performance-Based and Restricted Stock Awards

During the nine months ended September 30, 2015, the company granted performance-based stock units to employees which vest principally based on the third anniversary of their grant date. The actual number of shares issued in settlement of a vested award can range from zero to 200 percent of the target number of shares granted based upon the

company's attainment of specified performance targets at the end of a three-year period. Compensation expense related to these awards is recognized over the three-year performance period based on the fair value of the closing market price of the company's common stock on

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the date of the grant and the estimated performance that will be achieved. Compensation expense will be adjusted during the three-year performance period based upon the estimated performance levels that will be achieved. During the nine months ended September 30, 2015, the company also granted restricted stock units to employees. The majority of the restricted stock units vest at the end of a three-year service period. Compensation expense related to the restricted stock units is recognized on a straight line basis over the vesting period.

The weighted-average fair value of performance-based stock and restricted stock units granted during the nine months ended September 30, 2015 was \$120.04 and \$120.32, (\$121.16 and \$122.73 for the same periods in 2014). This is 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 following table summarizes non-vested performance-based and restricted stock award activity as of September 30, 2015 and changes during the nine months then ended (shares based on target amounts, averages are calculated on a weighted basis):

|                                  | Performance-Based        |                               | Restricted Stock         |                               |
|----------------------------------|--------------------------|-------------------------------|--------------------------|-------------------------------|
|                                  | Number of Shares (000's) | Average Grant Date Fair Value | Number of Shares (000's) | Average Grant Date Fair Value |
| Non-vested at January 1, 2015    | 833                      | \$ 109.09                     | 307                      | \$ 106.63                     |
| Granted*                         | 215                      | 120.04                        | 83                       | 120.32                        |
| Vested                           | (225 )                   | 103.16                        | (94 )                    | 107.27                        |
| Cancelled                        | (33 )                    | 115.34                        | (24 )                    | 112.33                        |
| Non-vested at September 30, 2015 | 790                      | \$ 114.43                     | 272                      | \$ 112.32                     |

\* Amounts for performance-based awards include an adjustment of 35 thousand shares relating to the actual payout of 2012 grants in 2015.

In addition to what is included in the table above, there are approximately 15 thousand performance-based shares and 21 thousand restricted stock shares that are non-vested at September 30, 2015 which will be settled in cash due to foreign regulatory limitations. The liability related to these grants reflects the current estimate of performance that will be achieved and the current common stock price.

As of September 30, 2015, based on current estimates of future performance, \$27 million of unrecognized compensation cost related to performance-based awards is expected to be recognized through the first quarter of 2018 and \$16 million of unrecognized compensation cost related to the restricted stock awards is expected to be recognized primarily through the first quarter of 2018.

#### 11. Retirement Programs

The components of net pension and postretirement benefits other than pensions ("OPEB") costs for the quarters and nine-months ended September 30, 2015 and 2014 are shown below:

| (Millions of dollars)                                      | Quarter Ended September 30, |       |      |      | Nine Months Ended September 30, |        |      |      |
|--|-----------------------------|-------|------|------|---------------------------------|--------|------|------|
|  | Pensions                    |       | OPEB |      | Pensions                        |        | OPEB |      |
|  | 2015                        | 2014  | 2015 | 2014 | 2015                            | 2014   | 2015 | 2014 |
| Service cost   | \$13                        | \$13  | \$—  | \$1  | \$41                            | \$39   | \$2  | \$3  |
| Interest cost  | 28                          | 31    | 2    | 3    | 85                              | 93     | 6    | 9    |
| Expected return on plan assets                             | (38 )                       | (40 ) | —    | —    | (116 )                          | (120 ) | —    | —    |
| Net amortization and deferral                              | 20                          | 15    | —    | (3 ) | 61                              | 46     | (2 ) | (7 ) |
| Net periodic benefit cost before pension settlement charge | \$23                        | \$19  | \$2  | \$1  | \$71                            | \$58   | \$6  | \$5  |
| Pension settlement charge (Note 2)                         | 7                           | —     | —    | —    | 7                               | —      | —    | —    |
| Net periodic benefit cost                                  | \$30                        | \$19  | \$2  | \$1  | \$78                            | \$58   | \$6  | \$5  |

Praxair estimates that 2015 required contributions to its pension plans will be in the area of \$15 million, of which \$13 million have been made through September 30, 2015.



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## 12. Commitments and Contingencies

## Contingent Liabilities

Praxair is subject to various lawsuits and government investigations that arise from time to time in the ordinary course of business. These actions are based upon alleged environmental, tax, antitrust and personal injury claims, among others. Praxair has strong defenses in these cases and intends to defend itself vigorously. It is possible that the company may incur losses in connection with some of these actions in excess of accrued liabilities. Management does not anticipate that in the aggregate such losses would have a material adverse effect on the company's consolidated financial position or liquidity; however, it is possible that the final outcomes could have a significant impact on the company's reported results of operations in any given period (see Note 17 to the consolidated financial statements of Praxair's 2014 Annual Report on Form 10-K).

Significant matters are:

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

At September 30, 2015 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 \$160 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\$554 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\$428 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. Currently, 50% of the guarantee is satisfied by letters of credit with a financial institution and 50% of the guarantee is satisfied 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. We expect CADE to appeal this decision to the Federal Circuit Court in Brasilia. On September 21, 2015, White Martins submitted a motion to the Ninth Federal Court in Brasilia requesting approval to withdraw the guarantee which was securing the fine.

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

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

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## 13. Segments

Sales and operating profit by segment for the quarter and nine months ended September 30, 2015 and 2014 are shown below. For a description of Praxair's operating segments, refer to Note 18 to the consolidated financial statements of Praxair's 2014 Annual Report on Form 10-K.

| (Millions of dollars)                             | Quarter Ended September 30, |         | Nine Months Ended September 30, |         |
|---|-----------------------------|---------|---------------------------------|---------|
|   | 2015                        | 2014    | 2015                            | 2014    |
| SALES <sup>(a)</sup>                              |                             |         |                                 |         |
| North America                                     | \$1,463                     | \$1,639 | \$4,444                         | \$4,847 |
| Europe  | 338                         | 385     | 995                             | 1,190   |
| South America                                     | 343                         | 523     | 1,132                           | 1,520   |
| Asia  | 395                         | 426     | 1,153                           | 1,212   |
| Surface Technologies                              | 147                         | 171     | 457                             | 514     |
| Total sales                                       | \$2,686                     | \$3,144 | \$8,181                         | \$9,283 |
|   |                             |         |                                 |         |
| (Millions of dollars)                             | Quarter Ended September 30, |         | Nine Months Ended September 30, |         |
|   | 2015                        | 2014    | 2015                            | 2014    |
| OPERATING PROFIT                                  |                             |         |                                 |         |
| North America                                     | \$385                       | \$416   | \$1,152                         | \$1,192 |
| Europe  | 63                          | 71      | 188                             | 228     |
| South America                                     | 70                          | 118     | 236                             | 344     |
| Asia  | 77                          | 75      | 215                             | 226     |
| Surface Technologies                              | 25                          | 31      | 78                              | 93      |
| Segment operating profit                          | 620                         | 711     | 1,869                           | 2,083   |
| Cost reduction program and other charges (Note 2) | (26                         | ) —     | (172                            | ) —     |
| Total operating profit                            | \$594                       | \$711   | \$1,697                         | \$2,083 |

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

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## 14. Equity and Redeemable Noncontrolling Interests

## Equity

A summary of the changes in total equity for the quarters ended September 30, 2015 and 2014 is provided below:

| (Millions of dollars)  | Quarter Ended September 30,        |                          |              | 2014                               |                          |              |
|--|------------------------------------|--------------------------|--------------|------------------------------------|--------------------------|--------------|
|  | Praxair, Inc. Shareholders' Equity | Noncontrolling Interests | Total Equity | Praxair, Inc. Shareholders' Equity | Noncontrolling Interests | Total Equity |
| Balance, beginning of period   | \$4,964                            | \$ 380                   | \$5,344      | \$6,911                            | \$ 395                   | \$7,306      |
| Net income (a)   | 401                                | 10                       | 411          | 477                                | 12                       | 489          |
| Other comprehensive income (loss)  | (714 )                             | (9 )                     | (723 )       | (566 )                             | (16 )                    | (582 )       |
| Noncontrolling interests:  |                                    |                          |              |                                    |                          |              |
| Additions (reductions) (b)   | —                                  | 1                        | 1            | —                                  | 4                        | 4            |
| Dividends and other capital changes  | —                                  | (2 )                     | (2 )         | —                                  | (7 )                     | (7 )         |
| Redemption value adjustments   | (1 )                               | —                        | (1 )         | —                                  | —                        | —            |
| Dividends to Praxair, Inc. common stock holders (\$0.715 per share in 2015 and \$0.65 per share in 2014) | (204 )                             | —                        | (204 )       | (189 )                             | —                        | (189 )       |
| Issuances of common stock:   |                                    |                          |              |                                    |                          |              |
| For the dividend reinvestment and stock purchase plan  | 3                                  | —                        | 3            | 2                                  | —                        | 2            |
| For employee savings and incentive plans   | 13                                 | —                        | 13           | 17                                 | —                        | 17           |
| Purchases of common stock  | (207 )                             | —                        | (207 )       | (118 )                             | —                        | (118 )       |
| Tax benefit from share-based compensation  | 1                                  | —                        | 1            | 4                                  | —                        | 4            |
| Share-based compensation   | 8                                  | —                        | 8            | 14                                 | —                        | 14           |
| Balance, end of period   | \$4,264                            | \$ 380                   | \$4,644      | \$6,552                            | \$ 388                   | \$6,940      |

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| (Millions of dollars)  | Nine Months Ended September 30,          |                             |                 | 2014                                     |                             |                 |
|--|--|-----------------------------|-----------------|--|-----------------------------|-----------------|
|  | 2015                                     |                             |                 | 2014                                     |                             |                 |
| Activity   | Praxair, Inc.<br>Shareholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity | Praxair, Inc.<br>Shareholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
| Balance, beginning of period   | \$5,623                                  | \$ 387                      | \$6,010         | \$6,609                                  | \$ 394                      | \$7,003         |
| Net income (a)   | 1,125                                    | 27                          | 1,152           | 1,392                                    | 32                          | 1,424           |
| Other comprehensive loss   | (1,271 )                                 | (23 )                       | (1,294 )        | (430 )                                   | (17 )                       | (447 )          |
| Noncontrolling interests:  |  |                             |                 |  |                             |                 |
| Additions (reductions) (b)   | —  | 3                           | 3               | (24 )                                    | 7                           | (17 )           |
| Dividends and other capital changes  | —  | (14 )                       | (14 )           | —  | (28 )                       | (28 )           |
| Redemption value adjustments   | (5 )                                     | —                           | (5 )            | (1 )                                     | —                           | (1 )            |
| Dividends to Praxair, Inc. common stock holders (\$2.145 per share in 2015 and \$1.95 per share in 2014) | (616 )                                   | —                           | (616 )          | (570 )                                   | —                           | (570 )          |
| Issuances of common stock:   |  |                             |                 |  |                             |                 |
| For the dividend reinvestment and stock purchase plan  | 6  | —                           | 6               | 5  | —                           | 5               |
| For employee savings and incentive plans   | 57                                       | —                           | 57              | 69                                       | —                           | 69              |
| Purchases of common stock  | (698 )                                   | —                           | (698 )          | (568 )                                   | —                           | (568 )          |
| Tax benefit from share-based compensation  | 18                                       | —                           | 18              | 28                                       | —                           | 28              |
| Share-based compensation   | 25                                       | —                           | 25              | 42                                       | —                           | 42              |
| Balance, end of period   | \$4,264                                  | \$ 380                      | \$4,644         | \$6,552                                  | \$ 388                      | \$6,940         |

(a) Net income for noncontrolling interests excludes Net income related to redeemable noncontrolling interests of \$2 million and \$8 million for the quarter and nine months ended September 30, 2015, respectively (\$1 million and \$9 million for the same time periods in 2014, respectively), which is not part of total equity (see redeemable noncontrolling interests section below).

(b) Praxair increased its ownership in certain consolidated subsidiaries. The difference between the purchase price and the related noncontrolling interests was recorded as a decrease in Praxair's additional paid-in-capital.

The components of AOCI are as follows:

| (Millions of dollars)  | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
| Cumulative translation adjustment - net of taxes:  |                       |                      |
| North America  | \$(830 )              | \$(553 )             |
| South America  | (2,266 )              | (1,510 )             |
| Europe   | (477 )                | (432 )               |
| Asia   | (264 )                | (49 )                |
| Surface Technologies   | (28 )                 | (7 )                 |
|  | (3,865 )              | (2,551 )             |
| Derivatives - net of taxes   | (1 )                  | (1 )                 |
| Pension / OPEB funded status obligation (net of \$326 million and \$342 million tax benefit in September 30, 2015 and December 31, 2014, respectively) | (590 )                | (633 )               |
|  | \$(4,456 )            | \$(3,185 )           |



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## 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.

Redeemable noncontrolling interests include Yara Praxair, a joint venture in Scandinavia, and two packaged gas distributors in the United States where the noncontrolling interests have put options. In Scandinavia, the noncontrolling shareholder has the right to sell its shares to Praxair starting in 2015 for a period of 4 years at a formula price. Praxair also obtained the right to purchase the shares held by the noncontrolling shareholder starting in 2017 for a period of 2 years, also at a formula price.

The following is a summary of the changes in redeemable noncontrolling interests for the nine months ended September 30, 2015 and 2014:

| (Millions of dollars)                    | 2015  | 2014  |
|--|-------|-------|
| Balance, January 1,                      | \$176 | \$307 |
| Net income                               | 8     | 9     |
| Distributions to noncontrolling interest | (6    | ) (9  |
| Redemption value adjustments/accretion   | 5     | 1     |
| Foreign currency translation and other   | (14   | ) (6  |
| Purchase of noncontrolling interest *    | —     | (112  |
| Balance, September 30,                   | \$169 | \$190 |

\* In January 2014, Praxair acquired the redeemable noncontrolling interests related to Praxair Distribution Mid-Atlantic, LLC. The cash payment is shown in the financing section of the condensed consolidated statements of cash flows under the caption "Noncontrolling interest transactions and other".

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

Consolidated Results

In the third quarter, Praxair's sales were \$2,686 million, 15% below the prior-year quarter primarily due to the significant negative impacts from foreign currency translation which reduced sales by 11%. Lower cost pass-through, primarily natural gas, reduced sales by 2%. Excluding these impacts, organic sales were 2% lower than the prior-year quarter as positive price and volume growth from new project start-ups were offset by lower base volumes due to weaker industrial activity primarily in Brazil and China and in the energy, manufacturing and metals end-markets in North America. Reported operating profit was \$594 million as compared to \$711 million in the prior-year quarter. Operating profit was reduced by a pension settlement charge of \$7 million and a \$19 million charge related to severance and other cost reduction actions in response to the continued global macro-economic conditions. Excluding these charges, adjusted operating profit was \$620 million, 13% below the 2014 third quarter primarily due to negative currency translation effects of 11%. Excluding currency, adjusted operating profit was 2% below the prior year. Adjusted operating margin was a strong 23.1%, 50 basis points above the prior year. Reported earnings per share was \$1.40. On an adjusted basis, earnings per share was \$1.46, 10% below the prior-year quarter due to lower net income primarily due to foreign currency translation impacts, which were partially offset by fewer diluted shares outstanding as a result of net common stock repurchases.

Sales declined 12% for the nine months ended September 30, 2015 versus the respective 2014 period. Foreign currency translation reduced sales by 9% and lower cost pass-through lowered sales by 2%. Excluding these impacts, organic sales were 1% lower than the prior-year quarter. Operating profit decreased \$386 million, or 19% for the nine months ended September 30, 2015 versus the respective 2014 period. The decrease includes the impact of a \$7 million pension settlement charge and \$165 million of cost reduction actions and other charges. Excluding these charges and the impacts of foreign currency translation, operating profit was 1% lower than the prior-year period. Adjusted operating margin was strong at 22.8%, 40 basis points above the prior-year period. Adjusted earnings per share of \$4.33 was 8% below the prior year due to lower net income, primarily due to foreign currency translation impacts.

Outlook

Diluted earnings per share for the fourth quarter of 2015 are expected to be in the range of \$1.45 to \$1.52 and adjusted diluted earnings per share for the full year of 2015 are expected to be in the range of \$5.78 to \$5.85. The full-year adjusted diluted earnings per share guidance excludes the impact of a pension settlement and the cost reduction program and other charges recorded in the second and third quarters (see Note 2 to the condensed consolidated financial statements).

Full-year capital expenditures are expected to be about \$1.6 billion.

The company's core business is to build, own, and operate industrial gas plants in order to supply atmospheric and process gases to customers. As such, Praxair believes that its backlog is one indicator of future sales growth. At September 30, 2015, Praxair's backlog of 18 large projects under construction was \$1.6 billion. This represents the total estimated capital cost of large plants under construction. These plants will supply customers in the energy, chemical, manufacturing, electronics and metals 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](http://www.praxair.com), but are not incorporated herein.



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The following table provides summary data for the quarters and nine months ended September 30, 2015 and 2014:

| (Dollar amounts in millions, except per share data)       | Quarter Ended September 30, |         |          | Nine Months Ended September 30, |         |          |
|---|-----------------------------|---------|----------|---------------------------------|---------|----------|
|   | 2015                        | 2014    | Variance | 2015                            | 2014    | Variance |
| <b>Reported Amounts</b>                                   |                             |         |          |                                 |         |          |
| Sales   | \$2,686                     | \$3,144 | (15 )%   | \$8,181                         | \$9,283 | (12 )%   |
| Cost of sales, exclusive of depreciation and amortization | \$1,488                     | \$1,780 | (16 )%   | \$4,534                         | \$5,273 | (14 )%   |
| Gross margin (a)  | \$1,198                     | \$1,364 | (12 )%   | \$3,647                         | \$4,010 | (9 )%    |
| As a percent of sales                                     | 44.6 %                      | 43.4 %  |          | 44.6 %                          | 43.2 %  |          |
| Selling, general and administrative                       | \$281                       | \$327   | (14 )%   | \$877                           | \$988   | (11 )%   |
| As a percent of sales                                     | 10.5 %                      | 10.4 %  |          | 10.7 %                          | 10.6 %  |          |
| Depreciation and amortization                             | \$276                       | \$301   | (8 )%    | \$831                           | \$879   | (5 )%    |
| Cost reduction program and other charges (b)              | \$26                        | \$—     |          | \$172                           | \$—     |          |
| Other income (expense) - net                              | \$2                         | \$—     |          | \$—                             | \$12    |          |
| Operating profit  | \$594                       | \$711   | (16 )%   | \$1,697                         | \$2,083 | (19 )%   |
| As a percent of sales                                     | 22.1 %                      | 22.6 %  |          | 20.7 %                          | 22.4 %  |          |
| Interest expense - net                                    | \$35                        | \$45    | (22 )%   | \$119                           | \$134   | (11 )%   |
| Effective tax rate  | 27.9 %                      | 28.1 %  |          | 28.5 %                          | 28.0 %  |          |
| Income from equity investments                            | \$10                        | \$11    | (9 )%    | \$31                            | \$30    | 3 %      |
| Noncontrolling interests                                  | \$(12 )                     | \$(13 ) | (8 )%    | \$(35 )                         | \$(41 ) | (15 )%   |
| Net income - Praxair, Inc.                                | \$401                       | \$477   | (16 )%   | \$1,125                         | \$1,392 | (19 )%   |
| Diluted earnings per share                                | \$1.40                      | \$1.62  | (14 )%   | \$3.88                          | \$4.70  | (17 )%   |
| Diluted shares outstanding                                | 287,311                     | 295,239 | (3 )%    | 289,835                         | 296,240 | (2 )%    |
| <b>2015 Adjusted Amounts (c)</b>                          |                             |         |          |                                 |         |          |
| Operating profit  | \$620                       | \$711   | (13 )%   | \$1,869                         | \$2,083 | (10 )%   |
| As a percent of sales                                     | 23.1 %                      | 22.6 %  |          | 22.8 %                          | 22.4 %  |          |
| Effective tax rate  | 28.0 %                      | 28.1 %  |          | 28.0 %                          | 28.0 %  |          |
| Net income - Praxair, Inc.                                | \$419                       | \$477   | (12 )%   | \$1,255                         | \$1,392 | (10 )%   |
| Diluted earnings per share                                | \$1.46                      | \$1.62  | (10 )%   | \$4.33                          | \$4.70  | (8 )%    |

(a)Gross margin excludes depreciation and amortization expense.

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

Adjusted amounts are non-GAAP measures which exclude the impact of the cost reduction program and other (c)charges (see Note 2 to the condensed consolidated financial statements). A reconciliation of reported amounts to adjusted amounts can be found in the "Non-GAAP Financial Measures" section of this MD&A.

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## Results of Operations

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

| Factors Contributing to Changes               | Quarter Ended September 30, 2015<br>vs. 2014 |                  | Nine Months Ended September 30,<br>2015 vs. 2014 |                  |    |
|---|--|------------------|--|------------------|----|
|   | % Change                                     |                  | % Change   |                  |    |
|   | Sales  | Operating Profit | Sales  | Operating Profit |    |
| Volume  | (3   | )% (5            | )% (2  | )% (5            | )% |
| Price   | 1  | % 5              | % 1  | % 6              | %  |
| Cost pass-through                             | (2   | )% —             | % (2   | )% —             | %  |
| Currency                                      | (11  | )% (11           | )% (9  | )% (9            | )% |
| Acquisitions/divestitures                     | —  | % —              | % —  | % —              | %  |
| Other   | —  | % (5             | )% —   | % (11            | )% |
| Reported                                      | (15  | )% (16           | )% (12   | )% (19           | )% |
| Add: Cost reduction program and other charges | —  | % 3              | % —  | % 9              | %  |
| Adjusted                                      | (15  | )% (13           | )% (12   | )% (10           | )% |

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

|                             | Quarter Ended September 30, |       |           | Nine Months Ended September 30, |       |           |    |
|-----------------------------|-----------------------------|-------|-----------|---------------------------------|-------|-----------|----|
|                             | % of Sales<br>2015          | 2014  | % Change* | % of Sales<br>2015              | 2014  | % Change* |    |
| <b>Sales by End Markets</b> |                             |       |           |                                 |       |           |    |
| Manufacturing               | 23                          | % 24  | % (7      | )% 24                           | % 24  | % (3      | )% |
| Metals                      | 17                          | % 17  | % —       | % 17                            | % 17  | % (1      | )% |
| Energy                      | 12                          | % 13  | % (7      | )% 13                           | % 13  | % (1      | )% |
| Chemicals                   | 10                          | % 10  | % (3      | )% 10                           | % 10  | % (4      | )% |
| Electronics                 | 8                           | % 7   | % 6       | % 8                             | % 7   | % 4       | %  |
| Healthcare                  | 8                           | % 8   | % 3       | % 8                             | % 8   | % 4       | %  |
| Food & Beverage             | 9                           | % 8   | % 7       | % 8                             | % 8   | % 7       | %  |
| Aerospace                   | 3                           | % 3   | % 2       | % 3                             | % 3   | % 3       | %  |
| Other                       | 10                          | % 10  | % (6      | )% 9                            | % 10  | % (7      | )% |
|                             | 100                         | % 100 | %         | 100                             | % 100 | %         |    |

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

|                                     | Quarter Ended September 30, |       | Nine Months Ended September 30, |       |
|-------------------------------------|-----------------------------|-------|---------------------------------|-------|
|                                     | % of Sales<br>2015          | 2014  | % of Sales<br>2015              | 2014  |
| <b>Sales by Distribution Method</b> |                             |       |                                 |       |
| On- Site                            | 29                          | % 29  | % 29                            | % 29  |
| Merchant                            | 35                          | % 34  | % 34                            | % 34  |
| Packaged Gas                        | 28                          | % 29  | % 29                            | % 29  |
| Other                               | 8                           | % 8   | % 8                             | % 8   |
|                                     | 100                         | % 100 | % 100                           | % 100 |

Sales decreased \$458 million, or 15%, for the third quarter ended September 30, 2015 versus the respective 2014 period, primarily due to negative currency translation impacts of 11% and lower cost pass-through which reduced sales by 2%. Excluding these impacts, organic sales decreased 2%. This decrease is due to lower overall volumes, primarily in North and South America, which was partially offset by a 1% increase from higher pricing, primarily in North and South America. For the

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nine months ended September 30, 2015, sales decreased \$1,102 million, or 12%, versus the respective 2014 period primarily due to negative currency translation impacts and cost pass-through.

Gross margin decreased \$166 million, or 12%, for the third quarter and decreased \$363 million or 9%, for the nine months ended September 30, 2015 versus the respective 2014 periods primarily due to lower sales. Gross margin as percentage of sales improved to 44.6% for both the third quarter and nine months ended September 30, 2015 from 43.4% and 43.2% for the three and nine month periods in 2014 primarily due to higher pricing and lower cost pass-through.

Selling, general and administrative expense ("SG&A") decreased \$46 million, or 14%, for the third quarter and decreased \$111 million or 11%, for the nine months ended September 30, 2015 versus the respective 2014 periods. Currency effects reduced SG&A expense by \$39 million and \$100 million for the quarter and nine-month periods, respectively. Cost reduction actions in response to weak underlying business trends also reduced SG&A.

Depreciation and amortization expense decreased \$25 million, or 8%, for the third quarter and decreased \$48 million or 5%, for the nine months ended September 30, 2015 versus the respective 2014 periods. Currency effects reduced depreciation and amortization expense by \$33 million and \$81 million for the quarter and nine-month periods respectively. This was partially offset by higher depreciation expense primarily related to new project start-ups.

Other income (expense) – net was a \$2 million benefit in the third quarter, compared to zero in the prior-year quarter. For the year-to-date period, other income was zero, compared to a \$12 million benefit in the prior-year. Other income (expense) - net in the 2014 year-to-date period included a gain on an asset sale in South America.

Reported operating profit decreased \$117 million, or 16%, for the third quarter ended September 30, 2015 and \$386 million, or 19%, for the nine months ended September 30, 2015 versus the respective periods in 2014. The decrease in the third quarter included a \$7 million pension settlement charge and a \$19 million charge related to cost reduction actions. The year-to-date period included these items as well as the \$146 million charge related to the second-quarter cost reduction program. Excluding these charges, adjusted operating profit decreased \$91 million and \$214 million in the third quarter and nine month period ended September 30, 2015, respectively, versus the comparative periods in 2014. Higher pricing in both periods increased operating profit but was more than offset by the negative impacts of foreign currency translation and lower volumes. A discussion of operating profit by segment is included in the segment discussion that follows.

Interest expense-net decreased \$10 million, or 22%, for the quarter and \$15 million, or 11%, for the nine months ended September 30, 2015 versus the respective periods in 2014. Lower average interest rates, which includes currency impacts, reduced expense by \$14 million and \$27 million for the quarter and nine-month period, respectively. These decreases were partially offset by the impact of higher debt levels which increased interest expense by \$4 million and \$9 million for the quarter and nine months ended September 30, 2015, respectively.

The reported effective tax rate for the quarter and nine months ended September 30, 2015 was 27.9% and 28.5%, respectively, and was approximately 28.0% for both the 2014 quarter and nine month periods. The 2015 quarter and year-to-date periods include the impact of the pension settlement charge and cost reduction program (see Note 2). Excluding these items, the adjusted effective tax rate for the quarter and nine months ended September 30, 2015 was approximately 28%.

Income from equity investments for the quarters ended September 30, 2015 and 2014 was \$10 million and \$11 million respectively. Income from equity investments for the nine months ended September 30, 2015 and 2014 was \$31 million and \$30 million, respectively. Praxair's significant sources of equity income are in China, Italy, and the Middle East.

At September 30, 2015, non-controlling interests consisted primarily of non-controlling shareholders' investments in Asia (primarily China and India), Europe (primarily Italy and Scandinavia), and North America (primarily within the U.S. packaged gas business). Non-controlling interests decreased \$1 million and \$6 million for the quarter and nine months ended September 30, 2015 versus the respective 2014 periods. These decreases were primarily attributable to the acquisition of the non-controlling interest in a U.S. packaged gas business during the first quarter of 2014, and impacts of foreign currency translation.

Reported Net income-Praxair, Inc. decreased \$76 million, or 16%, for the third quarter ended September 30, 2015 and \$267 million, or 19%, for the nine months ended September 30, 2015 versus each of the respective periods in 2014. The decrease in the quarter-to-date period included a \$5 million after-tax impact of the pension settlement charge and a \$13 million after-tax impact related to the cost reduction program. The 2015 year-to-date period included these items as well as the \$112 million after-tax charge related to the cost reduction program recorded in the second quarter. Excluding these charges, adjusted Net income-Praxair, Inc. decreased \$58 million and \$137 million in the third quarter and nine months ended September 30, 2015, respectively, primarily due to lower adjusted operating profit. The decrease in adjusted operating profit was due to negative

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foreign currency translation, partially offset by lower adjusted income taxes, lower interest expense, and lower non-controlling interests. The percentage change in adjusted net income year-over-year was less than the percentage decrease in sales due to the higher adjusted operating margin, lower non-controlling interest and lower interest expense.

Reported Earnings per share decreased \$0.22 and \$0.82 in the third quarter and nine month period ended September 30, 2015, respectively, versus the comparable periods in 2014. The decrease in the quarter-to-date period included a \$0.02 pension settlement charge and a \$0.04 charge related to the third-quarter cost reduction program. The year-to-date period included these items as well as a \$0.39 million charge related to the cost reduction program recorded in the second quarter. Excluding these charges, adjusted EPS decreased \$0.16 or 10% and \$0.37 or 8% in the third quarter and nine months ended September 30, 2015, respectively, versus the comparable periods in 2014. The decreases in both periods were attributable to lower adjusted net income which was partially offset by a reduction in the number of diluted shares outstanding as a result of the company's net repurchases of common stock.

## Other Comprehensive Income (Loss)

Other comprehensive loss for the quarter and nine-months ended September 30, 2015 of \$731 million and \$1,308 million, respectively, resulted primarily from negative currency translation adjustments of \$764 million. of \$1,351 million, respectively. The translation adjustments reflect the impact of translating local currency foreign subsidiary financial statements to U.S. dollars. The negative translation adjustments in the quarter and nine-month period resulted primarily from the strengthening of the U.S. dollar against most major currencies. See "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.

## Segment Discussion

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

| (Dollar amounts in millions)                      | Quarter Ended September 30, |         |          | Nine Months Ended September 30, |         |          |
|---|-----------------------------|---------|----------|---------------------------------|---------|----------|
|   | 2015                        | 2014    | Variance | 2015                            | 2014    | Variance |
| <b>SALES</b>                                      |                             |         |          |                                 |         |          |
| North America                                     | \$1,463                     | \$1,639 | (11 )%   | \$4,444                         | \$4,847 | (8 )%    |
| Europe  | 338                         | 385     | (12 )%   | 995                             | 1,190   | (16 )%   |
| South America                                     | 343                         | 523     | (34 )%   | 1,132                           | 1,520   | (26 )%   |
| Asia  | 395                         | 426     | (7 )%    | 1,153                           | 1,212   | (5 )%    |
| Surface Technologies                              | 147                         | 171     | (14 )%   | 457                             | 514     | (11 )%   |
|   | \$2,686                     | \$3,144 | (15 )%   | \$8,181                         | \$9,283 | (12 )%   |
| <b>OPERATING PROFIT</b>                           |                             |         |          |                                 |         |          |
| North America                                     | \$385                       | \$416   | (7 )%    | \$1,152                         | \$1,192 | (3 )%    |
| Europe  | 63                          | 71      | (11 )%   | 188                             | 228     | (18 )%   |
| South America                                     | 70                          | 118     | (41 )%   | 236                             | 344     | (31 )%   |
| Asia  | 77                          | 75      | 3 %      | 215                             | 226     | (5 )%    |
| Surface Technologies                              | 25                          | 31      | (19 )%   | 78                              | 93      | (16 )%   |
| Segment operating profit                          | 620                         | 711     | (13 )%   | 1,869                           | 2,083   | (10 )%   |
| Cost reduction program and other charges (Note 2) | (26 )                       | —       |          | (172 )                          | —       |          |
| Total operating profit                            | \$594                       | \$711   |          | \$1,697                         | \$2,083 |          |



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## North America

|   | Quarter Ended September 30, |         |          | Nine Months Ended September 30, |         |          |
|---|-----------------------------|---------|----------|---------------------------------|---------|----------|
|   | 2015                        | 2014    | Variance | 2015                            | 2014    | Variance |
| Sales   | \$1,463                     | \$1,639 | (11 )%   | \$4,444                         | \$4,847 | (8 )%    |
| Cost of sales, exclusive of depreciation and amortization | 754                         | 888     |          | 2,310                           | 2,654   |          |
| Gross margin  | 709                         | 751     |          | 2,134                           | 2,193   |          |
| Operating expenses  | 171                         | 181     |          | 525                             | 546     |          |
| Depreciation and amortization                             | 153                         | 154     |          | 457                             | 455     |          |
| Operating profit  | \$385                       | \$416   | (7 )%    | \$1,152                         | \$1,192 | (3 )%    |
| Margin %  | 26.3                        | % 25.4  | %        | 25.9                            | % 24.6  | %        |

| Factors Contributing to Changes | Quarter Ended September 30, |                  |       | Nine Months Ended September 30, |                  |  |
|---------------------------------|-----------------------------|------------------|-------|---------------------------------|------------------|--|
|                                 | 2015 vs. 2014               |                  |       | 2015 vs. 2014                   |                  |  |
|                                 | % Change                    |                  |       | % Change                        |                  |  |
|                                 | Sales                       | Operating Profit |       | Sales                           | Operating Profit |  |
| Volume                          | (4 )%                       | (7 )%            | (2 )% | (3 )%                           |                  |  |
| Price                           | 1 %                         | 4 %              | 1 %   | 3 %                             |                  |  |
| Cost pass-through               | (3 )%                       | — %              | (4 )% | — %                             |                  |  |
| Currency                        | (5 )%                       | (5 )%            | (3 )% | (4 )%                           |                  |  |
| Acquisitions/divestitures       | — %                         | — %              | — %   | — %                             |                  |  |
| Other                           | — %                         | 1 %              | — %   | 1 %                             |                  |  |
|                                 | (11 )%                      | (7 )%            | (8 )% | (3 )%                           |                  |  |

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

|                             | Quarter Ended September 30, |       |           | Nine Months Ended September 30, |       |           |
|-----------------------------|-----------------------------|-------|-----------|---------------------------------|-------|-----------|
|                             | % of Sales                  |       |           | % of Sales                      |       |           |
|                             | 2015                        | 2014  | % Change* | 2015                            | 2014  | % Change* |
| <b>Sales by End Markets</b> |                             |       |           |                                 |       |           |
| Manufacturing               | 29                          | % 29  | (6 )%     | 30                              | % 29  | (3 )%     |
| Metals                      | 12                          | % 12  | (10 )%    | 12                              | % 12  | (9 )%     |
| Energy                      | 18                          | % 20  | (5 )%     | 18                              | % 20  | 1 %       |
| Chemicals                   | 9                           | % 10  | (8 )%     | 10                              | % 10  | (7 )%     |
| Electronics                 | 5                           | % 4   | 2 %       | 5                               | % 4   | 13 %      |
| Healthcare                  | 7                           | % 7   | 2 %       | 7                               | % 7   | 4 %       |
| Food & Beverage             | 10                          | % 9   | 6 %       | 9                               | % 8   | 6 %       |
| Aerospace                   | 2                           | % 1   | 6 %       | 1                               | % 1   | 3 %       |
| Other                       | 8                           | % 8   | — %       | 8                               | % 9   | (5 )%     |
|                             | 100                         | % 100 | %         | 100                             | % 100 | %         |

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

|                                     | Quarter Ended September 30, |      | Nine Months Ended September 30, |      |
|-------------------------------------|-----------------------------|------|---------------------------------|------|
|                                     | % of Sales                  |      | % of Sales                      |      |
|                                     | 2015                        | 2014 | 2015                            | 2014 |
| <b>Sales by Distribution Method</b> |                             |      |                                 |      |
| On- Site                            | 29                          | % 30 | % 28                            | % 31 |
| Merchant                            | 38                          | % 36 | % 38                            | % 36 |
| Packaged Gas                        | 31                          | % 32 | % 32                            | % 32 |
| Other                               | 2                           | % 2  | % 2                             | % 1  |



100

% 100

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The North America segment includes Praxair's industrial gases operations in the United States, Canada and Mexico. North America segment sales decreased \$176 million, or 11%, as compared to the prior-year quarter. Excluding currency and cost pass-through impacts, organic sales were 3% below the prior-year quarter due to lower volumes partially offset by higher pricing. By end-market, sales growth to the healthcare and food and beverage industries was more than offset by declines in sales to the metals, manufacturing, and energy industries. On-site volumes to steel customers were lower year-over-year. Packaged gas volumes were also lower as compared to the prior-year quarter, primarily driven by hardgoods. For the nine-month period, sales decreased \$403 million, or 8%. Sales were in line with the prior year excluding the impacts of currency and cost pass-through and grew to the electronics, food and beverage, and healthcare end-markets offset by lower sales to metals and manufacturing.

North America segment operating profit decreased \$31 million, or 7%, in the quarter as compared to the prior-year quarter. Higher pricing, productivity, and cost actions were more than offset by negative currency impacts, driven by the devaluation of both the Mexican Peso and the Canadian Dollar against the US Dollar, and lower volumes.

Operating profit decreased \$40 million, or 3%, for the nine months ended September 30, 2015 versus the respective 2014 period. However, operating profit increased 1% excluding currency impacts and was primarily driven by higher pricing and cost reduction actions.

## Europe

|   | Quarter Ended September 30,                  |         |                  | Nine Months Ended September 30,                  |         |                  |
|---|--|---------|------------------|--|---------|------------------|
|   | 2015   | 2014    | Variance %       | 2015   | 2014    | Variance %       |
| Sales   | \$338  | \$385   | (12)%            | \$995  | \$1,190 | (16)%            |
| Cost of sales, exclusive of depreciation and amortization | 195  | 218     |                  | 565  | 666     |                  |
| Gross margin  | 143  | 167     |                  | 430  | 524     |                  |
| Operating expenses  | 43   | 53      |                  | 133  | 168     |                  |
| Depreciation and amortization                             | 37   | 43      |                  | 109  | 128     |                  |
| Operating profit  | \$63   | \$71    | (11)%            | \$188  | \$228   | (18)%            |
| Margin %  | 18.6%  | 18.4%   |                  | 18.9%  | 19.2%   |                  |
|   | Quarter Ended September 30,<br>2015 vs. 2014 |         |                  | Nine Months Ended September<br>30, 2015 vs. 2014 |         |                  |
|   | % Change                                     |         | % Change         | % Change   |         | % Change         |
|   | Sales  |         | Operating Profit | Sales  |         | Operating Profit |
| Factors Contributing to Changes                           |  |         |                  |  |         |                  |
| Volume  | 3  | % 5     |                  | % 1  | % —     | %                |
| Price   | —  | % —     |                  | % —  | % 1     | %                |
| Cost pass-through   | 1  | % —     |                  | % 1  | % —     | %                |
| Currency  | (16)   | )% (15) |                  | )% (18)  | )% (18) | )%               |
| Acquisitions/divestitures                                 | —  | % —     |                  | % —  | % —     | %                |
| Other   | —  | % (1)   |                  | )% —   | % (1)   | )%               |
|   | (12)   | )% (11) |                  | )% (16)  | )% (18) | )%               |

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

|                             | Quarter Ended September 30, |       |           | Nine Months Ended September 30, |       |           |
|-----------------------------|-----------------------------|-------|-----------|---------------------------------|-------|-----------|
|                             | % of Sales<br>2015          | 2014  | % Change* | % of Sales<br>2015              | 2014  | % Change* |
| <b>Sales by End Markets</b> |                             |       |           |                                 |       |           |
| Manufacturing               | 21                          | % 21  | % 5       | % 22                            | % 22  | % 4       |
| Metals                      | 17                          | % 16  | % 14      | % 17                            | % 16  | % 9       |
| Energy                      | 6                           | % 7   | % (20)    | )% 6                            | % 7   | % (18)    |
| Chemicals                   | 14                          | % 15  | % —       | % 14                            | % 15  | % (4)     |
| Electronics                 | 7                           | % 7   | % 1       | % 7                             | % 7   | % 4       |
| Healthcare                  | 11                          | % 11  | % (1)     | )% 11                           | % 11  | % —       |
| Food & Beverage             | 11                          | % 10  | % 10      | % 10                            | % 9   | % 6       |
| Aerospace                   | 1                           | % —   | % —       | % 1                             | % —   | % —       |
| Other                       | 12                          | % 13  | % 3       | % 12                            | % 13  | % —       |
|                             | 100                         | % 100 | %         | 100                             | % 100 | %         |

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

|                                     | Quarter Ended September 30, |       | Nine Months Ended September 30, |       |
|-------------------------------------|-----------------------------|-------|---------------------------------|-------|
|                                     | % of Sales<br>2015          | 2014  | % of Sales<br>2015              | 2014  |
| <b>Sales by Distribution Method</b> |                             |       |                                 |       |
| On- Site                            | 21                          | % 18  | % 19                            | % 18  |
| Merchant                            | 34                          | % 35  | % 34                            | % 35  |
| Packaged Gas                        | 42                          | % 43  | % 43                            | % 43  |
| Other                               | 3                           | % 4   | % 4                             | % 4   |
|                                     | 100                         | % 100 | % 100                           | % 100 |

Europe segment sales decreased by \$47 million, or 12% in the third quarter as compared to the prior year primarily due to negative currency translation impacts. Excluding currency effects and cost pass-through, organic sales grew 3% due to volume growth primarily from new project start-ups in Russia. Higher on-site volumes from the new project start-ups accounted for the increase in on-site sales as a percentage of total segment sales. For the year-to-date period, sales decreased by \$195 million, or 16% as compared to the prior year, for the same reasons discussed above.

Europe segment operating profit decreased by \$8 million, or 11% in the third quarter as compared to the prior year primarily due to negative currency translation impacts. Excluding currency impacts, operating profit grew 4% primarily due to solid operating leverage on higher volumes. For the year-to-date period, operating profit decreased \$40 million, or 18% as compared to the prior year due to negative currency translation impacts. Excluding currency impacts, operating profit was comparable to the prior year.

**South America**

|   | Quarter Ended September 30, |        |          | Nine Months Ended September 30, |         |          |
|---|-----------------------------|--------|----------|---------------------------------|---------|----------|
|   | 2015                        | 2014   | Variance | 2015                            | 2014    | Variance |
| Sales   | \$343                       | \$523  | (34 )%   | \$1,132                         | \$1,520 | (26 )%   |
| Cost of sales, exclusive of depreciation and amortization | 197                         | 287    |          | 637                             | 842     |          |
| Gross margin  | 146                         | 236    |          | 495                             | 678     |          |
| Operating expenses  | 43                          | 72     |          | 154                             | 199     |          |
| Depreciation and amortization                             | 33                          | 46     |          | 105                             | 135     |          |
| Operating profit  | \$70                        | \$118  | (41 )%   | \$236                           | \$344   | (31 )%   |
| Margin %  | 20.4                        | % 22.6 | %        | 20.8                            | % 22.6  | %        |



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|                                 | Quarter Ended September 30, 2015<br>vs. 2014 |                              | Nine Months Ended September 30,<br>2015 vs. 2014 |                              |
|---------------------------------|--|------------------------------|--|------------------------------|
|                                 | % Change<br>Sales                            | % Change<br>Operating Profit | % Change<br>Sales                                | % Change<br>Operating Profit |
| Factors Contributing to Changes |  |                              |  |                              |
| Volume                          | (4   | )% (7                        | )% (4  | )% (10                       |
| Price                           | 3  | % 15                         | % 5  | % 24                         |
| Cost pass-through               | 1  | % —                          | % 1  | % —                          |
| Currency                        | (35  | )% (36                       | )% (28   | )% (29                       |
| Acquisitions/divestitures       | 1  | % 1                          | % —  | % 1                          |
| Other                           | —  | % (14                        | )% —   | % (17                        |
|                                 | (34  | )% (41                       | )% (26   | )% (31                       |

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

|                      | Quarter Ended September 30,<br>% of Sales |       |           | Nine Months Ended September 30,<br>% of Sales |       |           |
|----------------------|---|-------|-----------|---|-------|-----------|
|                      | 2015                                      | 2014  | % Change* | 2015  | 2014  | % Change* |
| Sales by End Markets |   |       |           |   |       |           |
| Manufacturing        | 20  | % 22  | % (11     | )% 21   | % 21  | % (1      |
| Metals               | 28  | % 25  | % 7       | % 28  | % 28  | % 1       |
| Energy               | 2   | % 2   | % 6       | % 2   | % 2   | % 16      |
| Chemicals            | 10  | % 9   | % 5       | % 9   | % 9   | % 4       |
| Electronics          | —   | % —   | % —       | % —   | % —   | % —       |
| Healthcare           | 18  | % 18  | % 5       | % 18  | % 17  | % 7       |
| Food & Beverage      | 13  | % 13  | % 6       | % 13  | % 13  | % 6       |
| Aerospace            | —   | % —   | % —       | % —   | % —   | % —       |
| Other                | 9   | % 11  | % (7      | )% 9  | % 10  | % (7      |
|                      | 100                                       | % 100 | %         | 100   | % 100 | %         |

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

|                              | Quarter Ended September 30,<br>% of Sales |       | Nine Months Ended September<br>30,<br>% of Sales |       |
|------------------------------|---|-------|--|-------|
|                              | 2015                                      | 2014  | 2015   | 2014  |
| Sales by Distribution Method |   |       |  |       |
| On- Site                     | 27  | % 25  | % 27   | % 26  |
| Merchant                     | 42  | % 43  | % 41   | % 42  |
| Packaged Gas                 | 29  | % 30  | % 29   | % 29  |
| Other                        | 2   | % 2   | % 3  | % 3   |
|                              | 100                                       | % 100 | % 100  | % 100 |

South America segment sales in the third quarter decreased \$180 million, or 34%, versus the prior-year quarter.

Currency translation impacts reduced sales by 35%, primarily due to the significant devaluation of the Brazilian Real against the US dollar. Excluding negative currency impacts sales grew 1%. Higher overall pricing increased sales by 3% and acquisitions of packaged gases distributors in prior quarters increased sales by 1%. These impacts were offset by lower volumes in Brazil and across the region due to slower industrial production. For the nine-month period sales decreased \$388 million, or 26%, from 2014. Excluding currency translation impacts, sales grew by 2% primarily related to higher pricing and returns from cost productivity initiatives offset by lower volumes.

Segment operating profit decreased \$48 million, or 41%, in the third quarter primarily due to currency translation impacts and lower volumes resulting from continued economic contraction and weak customer demand. For the nine-month period ended September 30, 2015, operating profit decreased \$108 million, or 31%. Excluding negative currency effects, operating profit decreased by 2% as higher pricing across the region was more than offset by lower

volumes and inflationary power cost increases.

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|   | Quarter Ended September 30, |        |          | Nine Months Ended September 30, |         |          |
|---|-----------------------------|--------|----------|---------------------------------|---------|----------|
|   | 2015                        | 2014   | Variance | 2015                            | 2014    | Variance |
| Asia  |                             |        |          |                                 |         |          |
| Sales   | \$395                       | \$426  | (7 )%    | \$1,153                         | \$1,212 | (5 )%    |
| Cost of sales, exclusive of depreciation and amortization | 247                         | 278    |          | 725                             | 779     |          |
| Gross margin  | 148                         | 148    |          | 428                             | 433     |          |
| Operating expenses  | 28                          | 26     |          | 84                              | 79      |          |
| Depreciation and amortization                             | 43                          | 47     |          | 129                             | 128     |          |
| Operating profit  | \$77                        | \$75   | 3 %      | \$215                           | \$226   | (5 )%    |
| Margin %  | 19.5                        | % 17.6 | %        | 18.6                            | % 18.6  | %        |

|                                 | Quarter Ended September 30,<br>2015 vs. 2014 |                              | Nine Months Ended September<br>30, 2015 vs. 2014 |                              |
|---------------------------------|--|------------------------------|--|------------------------------|
|                                 | % Change<br>Sales                            | % Change<br>Operating Profit | % Change<br>Sales                                | % Change<br>Operating Profit |
| Factors Contributing to Changes |  |                              |  |                              |
| Volume / Sale of Equipment      | (2 )%  | 3 %                          | (1 )%  | (5 )%                        |
| Price                           | 1 %  | 4 %                          | — %  | 1 %                          |
| Cost pass-through               | (2 )%  | — %                          | (2 )%  | — %                          |
| Currency                        | (5 )%  | (6 )%                        | (3 )%  | (3 )%                        |
| Acquisitions/divestitures       | 1 %  | — %                          | 1 %  | — %                          |
| Other                           | — %  | 2 %                          | — %  | 2 %                          |
|                                 | (7 )%  | 3 %                          | (5 )%  | (5 )%                        |

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

|                      | Quarter Ended September 30, |       |           | Nine Months Ended September 30, |       |           |
|----------------------|-----------------------------|-------|-----------|---------------------------------|-------|-----------|
|                      | % of Sales<br>2015          | 2014  | % Change* | % of Sales<br>2015              | 2014  | % Change* |
| Sales by End Markets |                             |       |           |                                 |       |           |
| Manufacturing        | 9                           | % 11  | (22 )%    | 9                               | % 10  | (13 )%    |
| Metals               | 29                          | % 28  | 2 %       | 30                              | % 28  | 4 %       |
| Energy               | 3                           | % 2   | 13 %      | 3                               | % 2   | 16 %      |
| Chemicals            | 12                          | % 11  | 2 %       | 12                              | % 12  | — %       |
| Electronics          | 32                          | % 29  | 9 %       | 32                              | % 31  | (1 )%     |
| Healthcare           | 1                           | % 1   | (6 )%     | 1                               | % 1   | (13 )%    |
| Food & Beverage      | 2                           | % 2   | 9 %       | 2                               | % 2   | 4 %       |
| Aerospace            | —                           | % —   | — %       | —                               | % —   | — %       |
| Other                | 12                          | % 16  | (27 )%    | 11                              | % 14  | (20 )%    |
|                      | 100                         | % 100 | %         | 100                             | % 100 | %         |

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

|                              | Quarter Ended September 30, |      | Nine Months Ended September<br>30, |      |
|------------------------------|-----------------------------|------|------------------------------------|------|
|                              | % of Sales<br>2015          | 2014 | % of Sales<br>2015                 | 2014 |
| Sales by Distribution Method |                             |      |                                    |      |
| On- Site                     | 51                          | % 54 | 50 %                               | 51 % |
| Merchant                     | 30                          | % 27 | 31 %                               | 28 % |
| Packaged Gas                 | 13                          | % 11 | 12 %                               | 12 % |

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|       |     |       |       |       |   |
|-------|-----|-------|-------|-------|---|
| Other | 6   | % 8   | % 7   | % 9   | % |
|       | 100 | % 100 | % 100 | % 100 | % |

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Asia segment sales decreased \$31 million, or 7% in the third quarter as compared to the prior year. Currency and cost pass-through of precious metals prices used in electronic materials end-markets reduced sales by 7%. Excluding these impacts and a \$29 million sale of equipment in the prior-year quarter, sales grew 7% year-over-year. Volume growth in the current quarter came primarily from new project start-ups in China, India and Korea. Higher pricing and an acquisition in the prior year, both contributed positively to sales in the quarter. For the year-to-date period, sales decreased \$59 million or 5% as compared to the prior year largely for the same reasons discussed above.

Asia segment operating profit increased \$2 million, or 3% in the third quarter as compared to the prior year. Excluding currency effects, operating profit increased 9% primarily due to higher volumes of specialty and process gases, pricing and lower costs. The volume impact also includes a benefit from a customer settlement related to a project delay. For the year-to-date period, operating profit decreased \$11 million, or 5% as compared to the prior year, largely for the same reasons discussed above. The 5% decline in volumes was impacted by a sale of equipment in China in 2014.

This was partially offset by lower costs and higher helium pricing.

## Surface Technologies

|   | Quarter Ended September 30, |        |          | Nine Months Ended September 30, |        |          |
|---|-----------------------------|--------|----------|---------------------------------|--------|----------|
|   | 2015                        | 2014   | Variance | 2015                            | 2014   | Variance |
| Sales   | \$147                       | \$171  | (14 )%   | \$457                           | \$514  | (11 )%   |
| Cost of sales, exclusive of depreciation and amortization | 95                          | 109    |          | 297                             | 332    |          |
| Gross margin  | 52                          | 62     |          | 160                             | 182    |          |
| Operating expenses  | 17                          | 20     |          | 51                              | 56     |          |
| Depreciation and amortization                             | 10                          | 11     |          | 31                              | 33     |          |
| Operating profit  | \$25                        | \$31   | (19 )%   | \$78                            | \$93   | (16 )%   |
| Margin %  | 17.0                        | % 18.1 | %        | 17.1                            | % 18.1 | %        |

|                                 | Quarter Ended September 30,<br>2015 vs. 2014 |                              | Nine Months Ended September 30,<br>2015 vs. 2014 |                              |
|---------------------------------|--|------------------------------|--|------------------------------|
|                                 | % Change<br>Sales                            | % Change<br>Operating Profit | % Change<br>Sales                                | % Change<br>Operating Profit |
| Factors Contributing to Changes |  |                              |  |                              |
| Volume/Price                    | (7 )%  | (25 )%                       | (4 )%  | (13 )%                       |
| Cost pass-through               | —  | % —                          | % —  | % —                          |
| Currency                        | (7 )%  | (6 )%                        | (7 )%  | (7 )%                        |
| Acquisitions/divestitures       | —  | % —                          | % —  | % —                          |
| Other                           | —  | % 12                         | % —  | % 4                          |
|                                 | (14 )%                                       | (19 )%                       | (11 )%   | (16 )%                       |

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The following table provides sales by end-market:

|                      | Quarter Ended September 30, |       |           | Nine Months Ended September 30, |       |           |
|----------------------|-----------------------------|-------|-----------|---------------------------------|-------|-----------|
|                      | % of Sales<br>2015          | 2014  | % Change* | % of Sales<br>2015              | 2014  | % Change* |
| Sales by End Markets |                             |       |           |                                 |       |           |
| Manufacturing        | 12                          | % 13  | % (9 )%   | 12                              | % 13  | % (12 )%  |
| Metals               | 8                           | % 8   | % (2 )%   | 8                               | % 8   | % (6 )%   |
| Energy               | 24                          | % 28  | % (20 )%  | 25                              | % 28  | % (13 )%  |
| Chemicals            | 3                           | % 3   | % (7 )%   | 2                               | % 2   | % 7 %     |
| Electronics          | 1                           | % —   | % —       | 1                               | % 1   | % 10 %    |
| Healthcare           | —                           | % —   | % —       | —                               | % —   | % — %     |
| Food & Beverage      | 3                           | % 3   | % —       | 3                               | % 3   | % 45 %    |
| Aerospace            | 37                          | % 34  | % (2 )%   | 36                              | % 33  | % 3 %     |
| Other                | 12                          | % 11  | % (6 )%   | 13                              | % 12  | % (8 )%   |
|                      | 100                         | % 100 | %         | 100                             | % 100 | %         |

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

Surface Technologies segment sales decreased \$24 million, or 14% in the quarter and \$57 million or 11% for the nine-month period as compared to the prior year. Negative currency translation impacts reduced sales by 7% in the quarter and for the nine-month period, primarily due to a weaker Euro, British pound and Japanese yen versus the U.S. dollar. Excluding currency impact, organic sales decreased by 7% and 4% for the quarter and nine-month period respectively, primarily due to lower sales to the manufacturing and energy end-markets.

Surface Technologies segment operating profit decreased \$6 million, or 19% in the third quarter and \$15 million or 16% for the nine-month period. Excluding currency, operating profit decreased 13% and 9% the quarter and the nine-month period versus the respective 2014 periods due primarily to lower volumes to industrial manufacturing and energy markets primarily in North America and Europe, partially offset by higher pricing, productivity gains and savings from cost reduction program.

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## Currency

The results of Praxair's non-U.S. operations are translated to the company's reporting currency, the U.S. dollar, from the functional currencies. 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<br>YTD 2015<br>Consolidated<br>Sales | Exchange Rate for<br>Income Statement<br>Year-To-Date Average |       | Exchange Rate for<br>Balance Sheet |                      |
|-----------------|--|---|-------|------------------------------------|----------------------|
|                 |  | 2015  | 2014  | September 30,<br>2015              | December 31,<br>2014 |
| Euro            | 12   | % 0.90  | 0.74  | 0.89                               | 0.83                 |
| Brazilian real  | 11   | % 3.12  | 2.29  | 3.97                               | 2.66                 |
| Canadian dollar | 7  | % 1.26  | 1.09  | 1.33                               | 1.16                 |
| Mexican peso    | 6  | % 15.54   | 13.12 | 16.92                              | 14.75                |
| Chinese yuan    | 6  | % 6.25  | 6.17  | 6.36                               | 6.21                 |
| Korean won      | 4  | % 1,121   | 1,042 | 1,185                              | 1,094                |
| India rupee     | 3  | % 63.54   | 60.73 | 65.59                              | 63.04                |
| Argentine peso  | 1  | % 8.96  | 7.97  | 9.42                               | 8.55                 |
| Norwegian krone | 1  | % 7.90  | 6.11  | 8.52                               | 7.45                 |

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## Liquidity, Capital Resources and Other Financial Data

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

| (Millions of dollars)  | Nine Months Ended September<br>30, |           |
|--|------------------------------------|-----------|
|  | 2015                               | 2014      |
| <b>NET CASH PROVIDED BY (USED FOR):</b>                      |                                    |           |
| <b>OPERATING ACTIVITIES</b>                                  |                                    |           |
| Net income (including noncontrolling interest)               | \$1,160                            | \$1,433   |
| Non-cash charges (credits):                                  |                                    |           |
| Add: Depreciation and amortization                           | 831                                | 879       |
| Add: Deferred income taxes                                   | 25                                 | (32)      |
| Add: Share-based compensation                                | 25                                 | 42        |
| Add: Cost reduction program and other charges (a)            | 139                                | —         |
| Net income adjusted for non-cash charges                     | 2,180                              | 2,322     |
| Working capital  | (128)                              | (181)     |
| Pension contributions  | (13)                               | (14)      |
| Long-term assets, liabilities and other                      | (148)                              | (31)      |
| Net cash provided by operating activities                    | \$1,891                            | \$2,096   |
| <b>INVESTING ACTIVITIES</b>                                  |                                    |           |
| Capital expenditures   | (1,154)                            | (1,207)   |
| Acquisitions, net of cash acquired                           | (43)                               | (191)     |
| Divestitures and asset sales                                 | 245                                | 86        |
| Net cash used for investing activities                       | \$(952)                            | \$(1,312) |
| <b>FINANCING ACTIVITIES</b>                                  |                                    |           |
| Debt increases (reductions) - net                            | 371                                | 394       |
| Issuances (purchases) of common stock - net                  | (630)                              | (477)     |
| Cash dividends - Praxair, Inc. shareholders                  | (615)                              | (570)     |
| Excess tax benefit on share-based compensation               | 18                                 | 28        |
| Noncontrolling interest transactions and other               | (31)                               | (123)     |
| Net cash (used for) provided by financing activities         | \$(887)                            | \$(748)   |
| Effect of exchange rate changes on cash and cash equivalents | \$(42)                             | \$(6)     |
| Cash and cash equivalents, end-of-period                     | \$136                              | \$168     |

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

## Cash Flow from Operations

Cash provided by operations of \$1,891 million for the nine months ended September 30, 2015 decreased \$205 million, or 10%, versus 2014. \$142 million of the decrease was due to lower net income adjusted for non-cash charges, primarily due to negative currency translation impacts. In addition, changes in long-term assets, liabilities and other were partially offset by lower working capital requirements as compared to the prior year.

Praxair estimates that total 2015 required contributions to its pension plans will be in the area of \$15 million, of which \$13 million has been made through September 30, 2015. 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.



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### Investing

Net cash used for investing of \$952 million for the nine months ended September 30, 2015 decreased \$360 million versus 2014 primarily due to lower acquisition expenditures and higher proceeds from divestitures and asset sales. Capital expenditures for the nine months ended September 30, 2015 were \$1,154 million, \$53 million lower than the prior year. Capital expenditures related primarily to investments in new plant and production equipment for growth. Approximately 60% of the capital expenditures were in North America with the rest in Asia, Europe and South America.

Acquisitions for the nine months ended September 30, 2015 were \$43 million, primarily packaged gases businesses in North and South America. Acquisitions in the prior-year period of \$191 million were primarily an industrial gases business in Italy and packaged gas businesses in North and South America, and an equity investment in the Middle East. (see Note 3 to the condensed consolidated financial statements).

For the nine months ended September 30, 2015 divestitures and asset sales were \$245 million, primarily due to the sale of fixed assets under construction to a customer in the North America energy market. Divestitures and asset sales in the prior-year period were \$86 million, primarily the sale of Praxair's industrial gas business in France.

On September 15, 2015, Praxair announced that it has signed an agreement to acquire Yara International ASA's (Yara) European CO<sub>2</sub> business. The proposed transaction also includes Praxair's acquisition of Yara's remaining 34% stake in Yara Praxair Holding AS, currently a 66% owned subsidiary in Scandinavia. Praxair's investment for both transactions is expected to be about 312 million euros.

### Financing

Cash used for financing activities was \$887 million for the nine months ended September 30, 2015. Cash dividends of \$615 million were higher than the prior year due to a 10% increase in dividends per share from \$1.95 to \$2.145. Net repurchases of common stock increased \$153 million to \$630 million and debt increased by \$371 million.

In September 2015, Praxair issued \$300 million of 2.25% notes due 2020 and \$450 million of 3.20% notes due 2026.

In February 2015, Praxair issued \$150 million of floating rate notes that bear interest at the Federal funds effective rate plus 0.33% due 2017, \$400 million of 2.65% fixed rate notes due 2025 and \$200 million of 3.550% fixed rate notes due in 2042.

In March 2015, Praxair repaid \$500 million of 4.625% notes that became due and subsequently repaid \$400 million of 3.25% notes upon maturity in September 2015.

### Debt Covenants

Praxair's \$2.5 billion senior unsecured credit facility and long-term debt agreements contain various covenants (refer to Note 11 to the consolidated financial statements of Praxair's 2014 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 both September 30, 2015 and December 31, 2014, the actual leverage ratio calculated in accordance with the agreements was 54%.

### Other Financial Data

Praxair's debt to capital ratio was 66.1% at September 30, 2015 versus 55.7% at September 30, 2014. Although net debt increased \$428 million during this period, the increase in the debt to capital ratio is due primarily to lower capital. The equity component of capital was reduced by a \$2,045 million loss in accumulated other comprehensive income ("AOCI"), primarily from currency translation impacts. See Note 14 to the condensed consolidated financial statements for a summary of the components of AOCI.

After-tax return on capital ("ROC") was 12.5% for the four-quarter trailing period ended September 30, 2015 versus 12.6% for the 2014 period.

Return on equity ("ROE") for the four-quarter trailing period ended September 30, 2015 was strong at 32.5% and 430 basis-points above the prior year.

Adjusted EBITDA amounts for the quarter and nine months ended September 30, 2015 decreased from amounts for the respective 2014 periods due primarily to negative currency translation impacts.

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Debt-to-Adjusted EBITDA was 2.5 and 2.2 for the four-quarter trailing period ended September 30, 2015 and 2014, respectively. The increase is primarily due to currency translation impacts because Praxair's debt is largely denominated in U.S. Dollars while adjusted EBITDA has been impacted by negative currency movements.

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

## 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, return on net assets employed and operating performance. Special items which the company does not believe to be indicative of on-going business trends 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 following are the non-GAAP measures presented in the MD&A:

| (Dollar amounts in millions, except per share data) | September 30, |         |   |
|---|---------------|---------|---|
|   | 2015          | 2014    |   |
| Debt-to-capital                                     | 66.1          | % 55.7  | % |
| After-tax return on capital                         | 12.5          | % 12.6  | % |
| Return on equity                                    | 32.5          | % 28.2  | % |
| Adjusted EBITDA for the quarter ended               | \$906         | \$1,023 |   |
| Adjusted EBITDA for the nine months ended           | \$2,731       | \$2,992 |   |
| Debt-to-adjusted EBITDA                             | 2.5           | 2.2     |   |

|                            | Quarter Ended September |         | Nine Months Ended September |         |   |
|----------------------------|-------------------------|---------|-----------------------------|---------|---|
|                            | 30,                     | 30,     | 30,                         | 30,     |   |
| 2015 Adjusted amounts:*    | 2015                    | 2014    | 2015                        | 2014    |   |
| Operating profit           | \$620                   | \$711   | \$1,869                     | \$2,083 |   |
| As a percent of sales      | 23.1                    | % 22.6  | % 22.8                      | % 22.4  | % |
| EBITDA                     | \$906                   | \$1,023 | \$2,731                     | \$2,992 |   |
| EBITDA margin              | 33.7                    | % 32.5  | % 33.4                      | % 32.2  | % |
| Effective tax rate         | 28.0                    | % 28.1  | % 28.0                      | % 28.0  | % |
| Net income - Praxair, Inc. | \$419                   | \$477   | \$1,255                     | \$1,392 |   |
| Diluted earnings per share | 1.46                    | 1.62    | 4.33                        | 4.70    |   |

\* The adjusted amounts for 2015 exclude the impact of the cost reduction program and other charges of \$172 million (\$130 million net of tax and noncontrolling interest). See Note 2 to the condensed consolidated financial statements.



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## 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.

|  | Nine Months Ended September 30, |          |
|--|---------------------------------|----------|
|  | 2015                            | 2014     |
| (Dollar amounts in millions)                         |                                 |          |
| Debt   | \$9,517                         | \$9,121  |
| Less: cash and cash equivalents                      | (136)                           | (168)    |
| Net debt   | 9,381                           | 8,953    |
| Equity and redeemable noncontrolling interests       |                                 |          |
| Redeemable noncontrolling interests                  | 169                             | 190      |
| Praxair, Inc. shareholders' equity                   | 4,264                           | 6,552    |
| Noncontrolling interests                             | 380                             | 388      |
| Total equity and redeemable noncontrolling interests | 4,813                           | 7,130    |
| Capital  | \$14,194                        | \$16,083 |
| DEBT-TO-CAPITAL RATIO                                | 66.1                            | % 55.7   |

## After-tax Return on Capital (ROC)

After-tax return on capital is a measure used by investors, financial analysts and management to evaluate the return on net assets employed in the business. ROC measures the after-tax operating profit that the company was able to generate with the investments made by all parties in the business (debt, noncontrolling interests and Praxair, Inc. shareholders' equity).

|   | 2015     |           | 2014     |           |         |
|---|----------|-----------|----------|-----------|---------|
|   | Four     | Nine      | Three    | 2014      |         |
|   | Quarter  | Months    | Months   | Four      |         |
|   | Trailing | Ended     | Ended    | Quarter   |         |
|   |          | September | December | Trailing  |         |
|   |          | 30, 2015  | 31, 2014 |           |         |
|   |          |           |          | Nine      |         |
|   |          |           |          | Months    |         |
|   |          |           |          | Ended     |         |
|   |          |           |          | September |         |
|   |          |           |          | 30, 2014  |         |
|   |          |           |          | Three     |         |
|   |          |           |          | Months    |         |
|   |          |           |          | Ended     |         |
|   |          |           |          | December  |         |
|   |          |           |          | 31, 2013  |         |
| (Dollar amounts in millions)            |          |           |          |           |         |
| Adjusted operating profit (see below)   | \$2,532  | \$1,869   | \$663    | \$2,773   | \$2,083 |
| Less: adjusted income taxes (see below) | (651)    | (490)     | (161)    | (728)     | (546)   |
| Less: tax benefit on interest expense*  | (45)     | (33)      | (12)     | (49)      | (38)    |
| Add: equity income                      | 43       | 31        | 12       | 39        | 30      |
| Net operating profit after-tax (NOPAT)  | \$1,879  | \$1,377   | \$502    | \$2,035   | \$1,529 |
| Capital:                                |          |           |          |           |         |
| September 30th,                         | \$14,194 |           |          | \$16,083  |         |
| June 30th,                              | \$14,730 |           |          | \$16,492  |         |
| March 31st,                             | \$14,842 |           |          | \$16,319  |         |
| December 31st, 2014 & 2013              | \$15,318 |           |          | \$15,983  |         |
| September 30th, 2014 & 2013             | \$16,083 |           |          | \$15,757  |         |
| Five-quarter average                    | \$15,033 |           |          | \$16,127  |         |
| AFTER-TAX ROC                           | 12.5     | %         |          | 12.6      | %       |

\* Tax benefit on interest expense is computed using the effective rate. The effective tax rate used was 28% for 2015 and 2014.



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## Return on Praxair, Inc. Shareholders' Equity (ROE)

Return on Praxair, Inc. shareholders' equity is a measure used by investors, financial analysts and management to evaluate operating performance from a Praxair shareholder perspective. ROE measures the net income attributable to Praxair, Inc. that the company was able to generate with the money shareholders have invested.

|   | 2015     |           |          | 2014     |           |          |
|---|----------|-----------|----------|----------|-----------|----------|
|   | Four     | Nine      | Three    | Four     | Nine      | Three    |
|   | Quarter  | Months    | Months   | Quarter  | Months    | Months   |
|   | Trailing | Ended     | Ended    | Trailing | Ended     | Ended    |
|   |          | September | December |          | September | December |
|   |          | 30, 2015  | 31, 2014 |          | 30, 2014  | 31, 2013 |
| (Dollar amounts in millions)                    |          |           |          |          |           |          |
| Adjusted Net income - Praxair, Inc. (see below) | \$1,715  | \$1,255   | \$460    | \$1,854  | \$1,392   | \$462    |
| Praxair, Inc. shareholders' equity              |          |           |          |          |           |          |
| September 30th,                                 | \$4,264  |           |          | \$6,552  |           |          |
| June 30th,                                      | \$4,964  |           |          | \$6,911  |           |          |
| March 31st,                                     | \$5,018  |           |          | \$6,600  |           |          |
| December 31st, 2014 & 2013                      | \$5,623  |           |          | \$6,609  |           |          |
| September 30th, 2014 & 2013                     | \$6,552  |           |          | \$6,210  |           |          |
| Five-quarter average                            | \$5,284  |           |          | \$6,576  |           |          |
| ROE   | 32.5     | %         |          | 28.2     | %         |          |

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## Adjusted EBITDA, Adjusted EBITDA Margin and Debt-to-Adjusted EBITDA Ratio

These measures are used by investors, financial analysts and management to assess a company's ability to meet its financial obligations.

|   | Quarter Ended September 30, |         |
|---|-----------------------------|---------|
|   | 2015                        | 2014    |
| (Dollar amounts in millions)                    |                             |         |
| Adjusted net income - Praxair, Inc. (see below) | \$419                       | \$477   |
| Add: noncontrolling interest                    | 12                          | 13      |
| Add: interest expense - net                     | 35                          | 45      |
| Add: adjusted income taxes (see below)          | 164                         | 187     |
| Add: depreciation and amortization              | 276                         | 301     |
| Adjusted EBITDA                                 | \$906                       | \$1,023 |
| Reported Sales                                  | \$2,686                     | \$3,144 |
| Adjusted EBITDA Margin                          | 33.7                        | % 32.5  |

|   | 2015                        |   |  | 2014                        |   |  |
|---|-----------------------------|---|--|-----------------------------|---|--|
|   | Four<br>Quarter<br>Trailing | Nine Months<br>Ended<br>September<br>30, 2015 | Three<br>Months<br>Ended<br>December<br>31, 2014 | Four<br>Quarter<br>Trailing | Nine Months<br>Ended<br>September<br>30, 2014 | Three<br>Months<br>Ended<br>December<br>31, 2013 |
| (Dollar amounts in millions)                      |                             |   |  |                             |   |  |
| Adjusted net income - Praxair, Inc. (see below)   | \$1,715                     | \$1,255                                       | \$460  | \$1,854                     | \$1,392                                       | \$462  |
| Add: adjusted noncontrolling interest (see below) | 47                          | 36  | 11   | 58                          | 41  | 17   |
| Add: adjusted interest expense - net (see below)  | 162                         | 119   | 43   | 172                         | 134   | 38   |
| Add: adjusted income taxes (see below)            | 651                         | 490   | 161  | 728                         | 546   | 182  |
| Add: depreciation and amortization                | 1,122                       | 831   | 291  | 1,166                       | 879   | 287  |
| ADJUSTED EBITDA                                   | \$3,697                     | \$2,731                                       | \$966  | \$3,978                     | \$2,992                                       | \$986  |
| Reported Sales                                    |                             | 8,181   |  |                             | 9,283   |  |
| Adjusted EBITDA Margin                            |                             | 33.4  | %  |                             | 32.2  | %  |

## Net Debt:

|                                  |         |         |
|----------------------------------|---------|---------|
| September 30th                   | \$9,381 | \$8,953 |
| June 30th,                       | \$9,211 | \$8,992 |
| March 31st,                      | \$9,279 | \$9,126 |
| December 31st, 2014 & 2013       | \$9,132 | \$8,673 |
| September 30th, 2014 & 2013      | \$8,953 | \$8,892 |
| Five-quarter average             | \$9,191 | \$8,927 |
| DEBT-TO-ADJUSTED<br>EBITDA RATIO | 2.5     | 2.2     |



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## Adjusted Amounts

The adjusted amounts for 2015 exclude the impact of the second quarter cost reduction program and other charges of \$146 million (\$112 million net of tax and noncontrolling interest), the third quarter cost reduction program and other charges of \$19 million (\$13 million net of tax) and a pension settlement charge of \$7 million (\$5 million net of tax). See Note 2 to the condensed consolidated financial statements. Adjusted amounts for the three months ended December 31, 2014 exclude the impact of the Venezuela currency devaluation, pension settlement charge and bond redemption charge. Adjusted amounts for the three months ended December 31, 2013 exclude the impact of a bond redemption charge and income tax benefit. The company does not believe these items are indicative of on-going business trends and, accordingly, the impact is excluded from the reported amounts so that investors can better evaluate and analyze historical and future business trends on a consistent basis. For a description of these items, refer to Notes 2, 5 & 11 to the consolidated financial statements of Praxair's 2014 Annual Report on Form 10-K. Certain amounts for 2014 and 2013 have been included for reference purposes and to facilitate the calculations contained herein.

|   | Quarter Ended<br>September 30, |       | Nine Months Ended<br>September 30, |         | Quarter Ended<br>December 31, |       |
|---|--------------------------------|-------|------------------------------------|---------|-------------------------------|-------|
| (Dollar amounts in millions, except per<br>share data)  | 2015                           | 2014  | 2015                               | 2014    | 2014                          | 2013  |
| <b>Adjusted Operating Profit</b>                        |                                |       |                                    |         |                               |       |
| Reported operating profit                               | \$594                          | \$711 | \$1,697                            | \$2,083 | \$525                         | \$690 |
| Add: Venezuela currency devaluation                     | —                              | —     | —                                  | —       | 131                           | —     |
| Add: Pension settlement charge                          | 7                              | —     | 7                                  | —       | 7                             | —     |
| Add: Cost reduction program                             | 19                             | —     | 165                                | —       | —                             | —     |
| Total adjustments                                       | 26                             | —     | 172                                | —       | 138                           | —     |
| Adjusted operating profit                               | \$620                          | \$711 | \$1,869                            | \$2,083 | \$663                         | \$690 |
| Reported percent change                                 | (16 )%                         |       | (19 )%                             |         | (24 )%                        |       |
| Adjusted percent change                                 | (13 )%                         |       | (10 )%                             |         | (4 )%                         |       |
| <b>Adjusted Interest Expense</b>                        |                                |       |                                    |         |                               |       |
| Reported interest expense                               | \$35                           | \$45  | \$119                              | \$134   | \$79                          | \$56  |
| Less: Bond redemption                                   | —                              | —     | —                                  | —       | (36 )                         | (18 ) |
| Total adjustments                                       | —                              | —     | —                                  | —       | (36 )                         | (18 ) |
| Adjusted interest expense                               | \$35                           | \$45  | \$119                              | \$134   | \$43                          | \$38  |
| <b>Adjusted Income Taxes and Effective Tax<br/>Rate</b> |                                |       |                                    |         |                               |       |
| Reported income taxes                                   | \$156                          | \$187 | \$449                              | \$546   | \$145                         | \$136 |
| Add: Bond redemption                                    | —                              | —     | —                                  | —       | 14                            | 6     |
| Add: Income tax benefit                                 | —                              | —     | —                                  | —       | —                             | 40    |
| Add: Pension settlement charge                          | 2                              | —     | 2                                  | —       | 2                             | —     |
| Add: Cost reduction program                             | 6                              | —     | 39                                 | —       | —                             | —     |
| Total adjustments                                       | 8                              | —     | 41                                 | —       | 16                            | 46    |
| Adjusted income taxes                                   | \$164                          | \$187 | \$490                              | \$546   | \$161                         | \$182 |

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|  | Quarter Ended September 30, |         | Nine Months Ended September 30, |          | Quarter Ended December 31, |        |   |
|--|-----------------------------|---------|---------------------------------|----------|----------------------------|--------|---|
| (Dollar amounts in millions, except per share data)        | 2015                        | 2014    | 2015                            | 2014     | 2014                       | 2013   |   |
| <b>Adjusted Effective Tax Rate</b>                         |                             |         |                                 |          |                            |        |   |
| Reported income before income taxes and equity investments | \$ 559                      | \$ 666  | \$ 1,578                        | \$ 1,949 | \$ 446                     | \$ 634 |   |
| Add: Bond redemption                                       | —                           | —       | —                               | —        | 36                         | 18     |   |
| Add: Pension settlement charge                             | 7                           | —       | 7                               | —        | 7                          | —      |   |
| Add: Venezuela currency devaluation                        | —                           | —       | —                               | —        | 131                        | —      |   |
| Add: Cost reduction program                                | 19                          | —       | 165                             | —        | —                          | —      |   |
| Total adjustments  | 26                          | —       | 172                             | —        | 174                        | 18     |   |
| Adjusted income before income taxes and equity investments | \$ 585                      | \$ 666  | \$ 1,750                        | \$ 1,949 | \$ 620                     | \$ 652 |   |
| Adjusted effective tax rate                                | 28.0                        | % 28.1  | % 28.0                          | % 28.0   | % 26.0                     | % 27.9 | % |
| <b>Adjusted Noncontrolling Interests</b>                   |                             |         |                                 |          |                            |        |   |
| Reported noncontrolling interests                          | \$ 12                       | \$ 13   | \$ 35                           | \$ 41    | \$ 11                      | \$ 33  |   |
| Less: Income tax benefit                                   | —                           | —       | —                               | —        | —                          | (16    | ) |
| Add: Cost reduction program                                | —                           | —       | 1                               | —        | —                          | —      |   |
| Total adjustments  | —                           | —       | 1                               | —        | —                          | (16    | ) |
| Adjusted Noncontrolling Interests                          | \$ 12                       | \$ 13   | \$ 36                           | \$ 41    | \$ 11                      | \$ 17  |   |
| <b>Adjusted Net Income - Praxair, Inc.</b>                 |                             |         |                                 |          |                            |        |   |
| Reported net income - Praxair, Inc.                        | \$ 401                      | \$ 477  | \$ 1,125                        | \$ 1,392 | \$ 302                     | \$ 474 |   |
| Add: Bond redemption                                       | —                           | —       | —                               | —        | 22                         | 12     |   |
| Less: Income tax benefit                                   | —                           | —       | —                               | —        | —                          | (24    | ) |
| Add: Pension settlement charge                             | 5                           | —       | 5                               | —        | 5                          | —      |   |
| Add: Venezuela currency devaluation                        | —                           | —       | —                               | —        | 131                        | —      |   |
| Add: Cost reduction program                                | 13                          | —       | 125                             | —        | —                          | —      |   |
| Total adjustments  | 18                          | —       | 130                             | —        | 158                        | (12    | ) |
| Adjusted net income - Praxair, Inc.                        | \$ 419                      | \$ 477  | \$ 1,255                        | \$ 1,392 | \$ 460                     | \$ 462 |   |
| Reported percent change                                    | (16                         | )%      | (19                             | )%       | (36                        | )%     |   |
| Adjusted percent change                                    | (12                         | )%      | (10                             | )%       | —                          | %      |   |
| <b>Adjusted Diluted Earnings Per Share</b>                 |                             |         |                                 |          |                            |        |   |
| Reported diluted EPS                                       |                             | \$ 1.40 | \$ 1.62                         | \$ 3.88  | \$ 4.70                    |        |   |
| Add: Pension settlement charge                             |                             | 0.02    | —                               | 0.02     | —                          |        |   |
| Add: Cost reduction program                                |                             | 0.04    | —                               | 0.43     | —                          |        |   |
| Total adjustments  |                             | \$ 0.06 | \$ —                            | \$ 0.45  | \$ —                       |        |   |
| Adjusted diluted EPS                                       |                             | \$ 1.46 | \$ 1.62                         | \$ 4.33  | \$ 4.70                    |        |   |
| Reported percent change                                    |                             | (14     | )%                              | (17      | )%                         |        |   |
| Adjusted percent change                                    |                             | (10     | )%                              | (8       | )%                         |        |   |
| <b>New Accounting Standards</b>                            |                             |         |                                 |          |                            |        |   |

Refer to Note 1 of the condensed consolidated financial statements.

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Forward-looking Statements

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management’s reasonable expectations and assumptions as of the date the statements are made but involve risks and uncertainties. These risks and uncertainties include, without limitation: the performance of stock markets generally; developments in worldwide and national economies and other international events and circumstances; changes in foreign currencies and in interest rates; the cost and availability of electric power, natural gas and other raw materials; the ability to achieve price increases to offset cost increases; catastrophic events including natural disasters, epidemics and acts of war and terrorism; the ability to attract, hire, and retain qualified personnel; the impact of changes in financial accounting standards; the impact of changes in pension plan liabilities; the impact of tax, environmental, healthcare and other legislation and government regulation in jurisdictions in which the company operates; the cost and outcomes of investigations, litigation and regulatory proceedings; continued timely development and market acceptance of new products and applications; the impact of competitive products and pricing; future financial and operating performance of major customers and industries served; the impact of information technology system failures, network disruptions and breaches in data security; and the effectiveness and speed of integrating new acquisitions into the business. These risks and uncertainties may cause actual future results or circumstances to differ materially from the projections or estimates contained in the forward-looking statements. The company assumes no obligation to update or provide revisions to any forward-looking statement in response to changing circumstances. The above listed risks and uncertainties are further described in Item 1A (Risk Factors) in this report which should be reviewed carefully. Please consider the company’s forward-looking statements in light of those risks.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to Item 7A. to Part II of Praxair's 2014 Annual Report on Form 10-K for discussion.

Item 4. Controls and Procedures

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, (a) 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.

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

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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

Due to the size and geographic reach of the company's operations, a wide range of factors, many of which are outside of the company's control, could materially affect the company's future operations and financial performance.

Management believes the following risks may significantly impact the company:

**General Economic Conditions** - Weakening economic conditions in markets in which the company does business may adversely impact the company's financial results and/or cash flows.

Praxair serves a diverse group of industries across more than 50 countries, which generally leads to financial stability through various business cycles. However, a broad decline in general economic or business conditions in the industries served by its customers could adversely affect the demand for Praxair's products and impair the ability of our customers to satisfy their obligations to the company, resulting in uncollected receivables and/or unanticipated contract terminations or project delays. In addition, many of the company's customers are in businesses that are cyclical in nature, such as the chemicals, electronics, metals and refining industries. Downturns in these industries may adversely impact the company during these cycles. Additionally, such conditions could impact the utilization of the company's manufacturing capacity which may require the company to recognize impairment losses on tangible assets such as property, plant and equipment as well as intangible assets such as intellectual property or goodwill.

**Cost and Availability of Raw Materials and Energy** - Increases in the cost of energy and raw materials and/or disruption in the supply of these materials could result in lost sales or reduced profitability.

Energy is the single largest cost item in the production and distribution of industrial gases. Most of Praxair's energy requirements are in the form of electricity, natural gas and diesel fuel for distribution. Praxair attempts to minimize the financial impact of variability in these costs through the management of customer contracts and reducing demand through operational productivity and energy efficiency. Large customer contracts typically have escalation and pass-through clauses to recover energy and feedstock costs. Such attempts may not successfully mitigate cost variability which could negatively impact its financial condition or results of operations. The supply of energy has not been a significant issue in the geographic areas where it conducts business. However, regional energy conditions are unpredictable and may pose future risk.

For carbon dioxide, carbon monoxide, helium, hydrogen, specialty gases and surface technologies, raw materials are largely purchased from outside sources. Where feasible, Praxair sources several of these gases, including carbon dioxide, hydrogen and calcium carbide, as chemical or industrial by products. In addition, Praxair has contracts or commitments for, or readily available sources of, most of these raw materials; however, their long-term availability and prices are subject to market conditions. A disruption in supply of such raw materials could impact the company's ability to meet contractual supply commitments.

**International Events and Circumstances** - The company's international operations are subject to the risks of doing business abroad and international events and circumstances may adversely impact its business, financial condition or results of operations.

Praxair has substantial international operations which are subject to risks including devaluations in currency exchange rates, transportation delays and interruptions, political and economic instability and disruptions, restrictions on the transfer of funds, the imposition of duties and tariffs, import and export controls, changes in governmental policies, labor unrest, possible nationalization and/or expropriation of assets, domestic and international tax laws and compliance with governmental regulations. These events could have an adverse effect on the international operations in the future by reducing the demand for its products, decreasing the prices at which it can sell its products, reducing the U.S. dollar value of revenue from international operations or otherwise having an adverse effect on its business.

**Global Financial Markets Conditions** - Macroeconomic factors may impact the company's ability to obtain financing or increase the cost of obtaining financing which may adversely impact the company's financial results and/or cash

flows.

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Volatility and disruption in the U.S. and global credit and equity markets, from time to time, could make it more difficult for Praxair to obtain financing for its operations and/or could increase the cost of obtaining financing. In addition, the company's borrowing costs can be affected by short and long-term debt ratings assigned by independent rating agencies which are based, in significant part, on the company's performance as measured by certain criteria such as interest coverage and leverage ratios. A decrease in these debt ratings could increase the cost of borrowing or make it more difficult to obtain financing. While the impact of volatility in the global credit markets cannot be predicted with certainty, the company believes that it has sufficient operating flexibility, cash reserves, and funding sources to maintain adequate amounts of liquidity to meet its business needs around the world.

Competitor Actions - The inability to effectively compete could adversely impact results of operations.

Praxair operates within a highly competitive environment worldwide. Competition is based on price, product quality, delivery, reliability, technology and service to customers. Competitors' behavior related to these areas could potentially have significant impacts on the company's financial results.

Governmental Regulations - The company is subject to a variety of United States and foreign government regulations. Changes in these regulations could have an adverse impact on the business, financial position and results of operations.

The company is subject to regulations in the following areas, among others:

Environmental protection including climate change;

Domestic and international tax laws and currency controls;

Safety;

Securities laws (e.g., SEC and generally accepted accounting principles in the United States);

Trade and import/ export restrictions;

Antitrust matters;

Global anti-bribery laws, including the U.S. Foreign Corrupt Practices Act; and

Healthcare regulations

Changes in these or other regulatory areas may impact the company's profitability, may require the company to spend additional resources to comply with the regulations, or may restrict the company's ability to compete effectively in the marketplace. Noncompliance with such laws and regulations could result in penalties or sanctions that could have an adverse impact on the company's financial results. Environmental protection is discussed further below.

Praxair is subject to various environmental and occupational health and safety laws and regulations, including those governing the discharge of pollutants into the air or water, the storage, handling and disposal of chemicals, hazardous substances and wastes, the remediation of contamination, the regulation of greenhouse gas emissions, and other potential climate change initiatives. Violations of these laws could result in substantial penalties, third party claims for property damage or personal injury, or sanctions. The company may also be subject to liability for the investigation and remediation of environmental contamination at properties that it owns or operates and at other properties where Praxair or its predecessors have operated or arranged for the disposal of hazardous wastes. Although management does not believe that any such liabilities will have a material adverse impact on its financial position and results of operations, management cannot provide assurance that such costs will not increase in the future or will not become material. See the section captioned "Management's Discussion and Analysis – Environmental Matters" in Item 7 of Praxair's 2014 Annual Report on Form 10-K.

Catastrophic Events - Catastrophic events could disrupt the operations of the company and/or its customers and suppliers and may have a significant adverse impact on the results of operations.

The occurrence of catastrophic events or natural disasters such as extreme weather, including hurricanes and floods; health epidemics; acts of war or terrorism; could disrupt or delay the company's ability to produce and distribute its products to customers and could potentially expose the company to third-party liability claims. In addition, such events could impact the company's customers and suppliers resulting in temporary or long-term outages and/or the limitation of supply of energy and other raw materials used in normal business operations. To mitigate these risks, Praxair evaluates the direct and indirect business risks; consults with vendors, insurance providers and industry experts; makes investments in suitably resilient design and technology, and conducts regular reviews of the business risks with management. Despite these steps, however, these situations are outside the company's control and may have

a significant adverse impact on the company's financial results.

Retaining Qualified Personnel - The inability to attract and retain qualified personnel may adversely impact the company's business.

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If Praxair fails to attract, hire and retain qualified personnel, the company may not be able to develop, market or sell its products or successfully manage its business. Praxair is dependent upon its highly skilled, experienced and efficient workforce to be successful. Much of Praxair's competitive advantage is based on the expertise and experience of its key personnel regarding its marketing, technology, manufacturing and distribution infrastructure, systems and products. The inability to attract and hire qualified individuals or the loss of key employees in very skilled areas could have a negative effect on the company's financial results.

**Technological Advances** - If the company fails to keep pace with technological advances in the industry or if new technology initiatives do not become commercially accepted, customers may not continue to buy the company's products and results of operations could be adversely affected.

Praxair's research and development is directed toward developing new and improved methods for the production and distribution of industrial gases and the development of new markets and applications for the use of these gases. This results in the frequent introduction of new industrial gas applications and the development of new advanced air separation process technologies. The company also conducts research and development for its surface technologies to improve the quality and durability of coatings and the use of specialty powders for new applications and industries. As a result of these efforts, the company develops new and proprietary technologies and employs necessary measures to protect such technologies within the global geographies in which the company operates. These technologies help Praxair to create a competitive advantage and to provide a platform for the company to grow its business. If Praxair's research and development activities do not keep pace with competitors or if it does not create new technologies that benefit customers, future results of operations could be adversely affected.

**Litigation and Governmental Investigations** - The outcomes of litigation and governmental investigations may affect the company's financial results.

Praxair is subject to various lawsuits and governmental investigations arising out of the normal course of business that may result in adverse outcomes. These actions are based upon alleged environmental, tax, antitrust and personal injury claims, among others. Adverse outcomes in some or all of the claims pending may result in significant monetary damages or injunctive relief that could adversely affect its ability to conduct business. While management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the company's financial position or liquidity, the litigation and other claims Praxair faces are subject to inherent uncertainties and management's view of these matters may change in the future. There exists the possibility of a material adverse impact on the company's results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

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

Praxair is subject to income and other taxes in both the United States and numerous foreign jurisdictions. The determination of the company's worldwide provision for income taxes and other tax liabilities requires judgment and is based on diverse legislative and regulatory structures that exist in the various jurisdictions where the company operates. Although management believes its estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in its financial statements and may materially affect the company's financial results for the period when such determination is made. See Notes 5 and 17 to the consolidated financial statements of Praxair's 2014 Annual Report on Form 10-K.

**Pension Liabilities** - Risks related to our pension benefit plans may adversely impact our results of operations and cash flows.

Pension benefits represent significant financial obligations that will be ultimately settled in the future with employees who meet eligibility requirements. Because of the uncertainties involved in estimating the timing and amount of future payments and asset returns, significant estimates are required to calculate pension expense and liabilities related to the company's plans. The company utilizes the services of independent actuaries, whose models are used to facilitate these calculations. Several key assumptions are used in the actuarial models to calculate pension expense and liability amounts recorded in the consolidated financial statements. In particular, significant changes in actual investment returns on pension assets, discount rates, or legislative or regulatory changes could impact future results of operations and required pension contributions. For information regarding the potential impacts regarding significant assumptions

used to estimate pension expense, including discount rates and the expected long-term rates of return on plan assets. See “Critical Accounting Policies - Pension Benefits” included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of Praxair’s 2014 Annual Report on Form 10-K.

Operational Risks - Operational risks may adversely impact the company’s business or results of operations.

Praxair’s operating results are dependent on the continued operation of its production facilities and its ability to meet customer contract requirements and other needs. Insufficient or excess capacity threatens the company’s ability to generate competitive



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profit margins and may expose the company to liabilities related to contract commitments. Operating results are also dependent on the company's ability to complete new construction projects on time, on budget and in accordance with performance requirements. Failure to do so may expose the business to loss of revenue, potential litigation and loss of business reputation.

Also inherent in the management of the company's production facilities and delivery systems, including storage, vehicle transportation and pipelines, are operational risks that require continuous training, oversight and control. Material operating failures at production, storage facilities or pipelines, including fire, toxic release and explosions, or the occurrence of vehicle transportation accidents could result in loss of life, damage to the environment, loss of production and/or extensive property damage, all of which may negatively impact the company's financial results. Information Technology Systems – The Company may be subject to information technology system ("IT") failures, network disruptions and breaches in data security.

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

Acquisitions and Joint Ventures - The inability to effectively integrate acquisitions or collaborate joint venture partners could adversely impact the company's financial position and results of operations.

Praxair has evaluated, and expects to continue to evaluate, a wide array of potential strategic acquisitions and joint ventures. Many of these transactions, if consummated, could be material to its financial condition and results of operations. In addition, the process of integrating an acquired company, business or group of assets may create unforeseen operating difficulties and expenditures. Although historically the company has been successful with its acquisition strategy and execution, the areas where the company may face risks include:

- The need to implement or remediate controls, procedures and policies appropriate for a larger public company at companies that prior to the acquisition lacked these controls, procedures and policies;
- Diversion of management time and focus from operating existing business to acquisition integration challenges;
- Cultural challenges associated with integrating employees from the acquired company into the existing organization;
- The need to integrate each company's accounting, management information, human resource and other administrative systems to permit effective management;
- Difficulty with the assimilation of acquired operations and products;
- Failure to achieve targeted synergies; and
- Inability to retain key employees and business relationships of acquired companies.

Foreign acquisitions and joint ventures involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries. Also, the anticipated benefit of the company's acquisitions may not materialize. Future acquisitions or dispositions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities or amortization expenses, or impairments of goodwill, any of which could adversely impact the company's financial results.

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## 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 September 30, 2015 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) |
|--------------------|--|------------------------------|---|---|
| July 2015          | 1,309  | \$115.41                     | 1,309   | \$ 1,896  |
| August 2015        | 490  | \$111.12                     | 490   | \$ 1,842  |
| September 2015     | 25   | \$102.62                     | 25  | \$ 1,840  |
| Third Quarter 2015 | 1,824  | \$114.08                     | 1,824   | \$ 1,840  |

On January 28, 2014, the Company's board of directors approved the repurchase of \$1.5 billion of its common (1) 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.

As of September 30, 2015, the Company purchased \$1,160 million of its common stock pursuant to the 2014 program, leaving an additional \$340 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 (2) 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.

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Item 6. Exhibits

(a) Exhibits

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.

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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: October 29, 2015

By: /s/ Elizabeth T. Hirsch

Elizabeth T. Hirsch  
Vice President and Controller  
(On behalf of the Registrant  
and as Chief Accounting Officer)