

PRAXAIR INC  
Form 10-Q  
April 24, 2013  
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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 March 31, 2013

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 March 31, 2013, 295,750,398 shares of common stock (\$0.01 par value) of the Registrant were outstanding.

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

	Quarter Ended March 31,	
	2013	2012
SALES	\$2,888	\$2,840
Cost of sales, exclusive of depreciation and amortization	1,638	1,616
Selling, general and administrative	337	335
Depreciation and amortization	266	252
Research and development	24	24
Venezuela currency devaluation	23	—
Other income (expense) - net	—	14
OPERATING PROFIT	600	627
Interest expense - net	40	37
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	560	590
Income taxes	164	165
INCOME BEFORE EQUITY INVESTMENTS	396	425
Income from equity investments	10	7
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	406	432
Less: noncontrolling interests	(15	) (13
NET INCOME - PRAXAIR, INC.	\$391	\$419
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	\$1.32	\$1.40
Diluted earnings per share	\$1.30	\$1.38
Cash dividends per share	\$0.60	\$0.55
WEIGHTED AVERAGE SHARES OUTSTANDING (000's):		
Basic shares outstanding	296,604	299,077
Diluted shares outstanding	299,700	302,876

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

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

	Quarter Ended March 31,	
	2013	2012
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	\$406	\$432
OTHER COMPREHENSIVE INCOME (LOSS)		
Translation adjustments:		
Foreign currency translation adjustments	(18	) 280
Income taxes	(1	) (8
Translation adjustments	(19	) 272
Funded status - retirement obligations (Note 11):		
Retirement program remeasurements	4	(13
Reclassifications to net income	22	16
Income taxes	(8	) 4
Funded status - retirement obligations	18	7
Derivative instruments (Note 6):		
Current quarter unrealized gain (loss)	—	2
Reclassifications to net income	1	—
Income taxes	—	(1
Derivative instruments	1	1
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	—	280
COMPREHENSIVE INCOME (INCLUDING NONCONTROLLING INTERESTS)	406	712
Less: noncontrolling interests	(7	) (19
COMPREHENSIVE INCOME - PRAXAIR, INC.	\$399	\$693

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

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

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 113	\$ 157
Accounts receivable - net	1,994	1,834
Inventories	477	476
Prepaid and other current assets	345	325
<b>TOTAL CURRENT ASSETS</b>	<b>2,929</b>	<b>2,792</b>
Property, plant and equipment (less accumulated depreciation of \$11,366 in 2013 and \$11,226 in 2012)	11,841	11,453
Goodwill	3,098	2,507
Other intangible assets - net	544	173
Other long-term assets	1,174	1,165
<b>TOTAL ASSETS</b>	<b>\$19,586</b>	<b>\$18,090</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$907	\$928
Short-term debt	579	638
Current portion of long-term debt	325	39
Other current liabilities	875	874
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,686</b>	<b>2,479</b>
Long-term debt	7,772	6,685
Other long-term liabilities	2,347	2,253
<b>TOTAL LIABILITIES</b>	<b>12,805</b>	<b>11,417</b>
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests (Note 14)	255	252
Praxair, Inc. Shareholders' Equity:		
Common stock \$0.01 par value, authorized - 800,000,000 shares, issued 2013 - 383,127,493 shares and 2012 - 383,073,446 shares	4	4
Additional paid-in capital	3,905	3,889
Retained earnings	9,743	9,534
Accumulated other comprehensive income (loss)	(1,849)	(1,852)
Treasury stock, at cost (2013 - 87,377,095 shares and 2012 - 86,843,966 shares)	(5,634)	(5,511)
<b>Total Praxair, Inc. Shareholders' Equity</b>	<b>6,169</b>	<b>6,064</b>
Noncontrolling interests	357	357
<b>TOTAL EQUITY</b>	<b>6,526</b>	<b>6,421</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$19,586</b>	<b>\$18,090</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)

	Three months ended March 31,	
	2013	2012
<b>OPERATIONS</b>		
Net income - Praxair, Inc.	\$391	\$419
Noncontrolling interests	15	13
Net income (including noncontrolling interests)	406	432
Adjustments to reconcile net income to net cash provided by operating activities:		
Venezuela currency devaluation	23	—
Depreciation and amortization	266	252
Deferred income taxes	1	69
Share-based compensation	17	17
Accounts receivable	(161)	(143)
Inventory	(16)	(31)
Prepaid and other current assets	(6)	4
Payables and accruals	—	(95)
Pension contributions	(5)	(106)
Long-term assets, liabilities and other	(53)	3
Net cash provided by operating activities	472	402
<b>INVESTING</b>		
Capital expenditures	(466)	(483)
Acquisitions, net of cash acquired	(1,098)	(12)
Divestitures and asset sales	31	64
Net cash used for investing activities	(1,533)	(431)
<b>FINANCING</b>		
Short-term debt borrowings (repayments) - net	(60)	(88)
Long-term debt borrowings	1,403	596
Long-term debt repayments	(27)	(230)
Issuances of common stock	33	73
Purchases of common stock	(150)	(175)
Cash dividends - Praxair, Inc. shareholders	(178)	(164)
Excess tax benefit on share-based compensation	14	32
Noncontrolling interest transactions and other	(5)	—
Net cash (used for) provided by financing activities	1,030	44
Effect of exchange rate changes on cash and cash equivalents	(13)	2
Change in cash and cash equivalents	(44)	17
Cash and cash equivalents, beginning-of-period	157	90
Cash and cash equivalents, end-of-period	\$113	\$107

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 2012 Annual Report on Form 10-K. There have been no material changes to the company's significant accounting policies during 2013.

Accounting Standards Implemented in 2013

The following standards were effective for Praxair in 2013 and their adoption did not have a significant impact on the condensed consolidated financial statements:

Statement of Comprehensive Income - In February 2013, the Financial Accounting Standards Board ("FASB") issued updated disclosure requirements regarding the presentation of other comprehensive income. The adoption of this guidance did not have a significant impact on the consolidated financial statements. Refer to the Consolidated Statements of Comprehensive Income (Loss) following the Consolidated Statements of Income.

Offsetting Assets and Liabilities – In December 2011, the FASB issued updated disclosure requirements related to a company's right or requirement to offset balance sheet items and the related arrangements associated with its financial instruments and derivative instruments. The new guidance requires the disclosure of the gross amounts subject to rights of setoff, amounts offset, and the related net exposure. The adoption of this guidance did not have a significant impact on the consolidated financial statements.

Accounting Standards to be Implemented

Accounting for Cumulative Translation Adjustment – In March 2013, the FASB issued updated guidance on the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity, or as a result of acquisitions achieved in stages. This guidance will be effective for Praxair beginning with the first quarter 2014. Praxair does not expect this requirement to have any impact on the consolidated financial statements.

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

2. Venezuela Currency Devaluation and Other Charges

2013 Venezuela Currency Devaluation

On February 8, 2013, Venezuela announced a devaluation of the Venezuelan Bolivar from 4.30 to 6.30 (a 32% devaluation), effective on February 13, 2013. Praxair recorded a \$23 million charge (\$23 million after-tax or \$0.08 per diluted share) due primarily to the remeasurement of the local Venezuelan balance sheet to reflect the new official 6.30 exchange rate. The company does not expect the impact of the devaluation on future results of operations to be significant.

2012 Cost Reduction Program

In the third quarter 2012, Praxair recorded pre-tax charges totaling \$56 million (\$38 million after-tax and noncontrolling interest), relating to severance and business restructuring actions primarily in Europe within the industrial gases and surface technologies businesses. The severance costs of \$43 million are for the termination of approximately 410 employees, primarily in Europe (industrial gases and surface technologies) of which approximately 250 have been terminated as of March 31, 2013. The costs associated with exit or disposal activities of \$13 million include asset write-downs and other costs associated with a decision to eliminate and/or restructure operations and product lines. The remaining actions are expected to be completed during 2013. These actions reflect the continued business slow-down in Europe and result from a decision to eliminate and/or restructure operations and product lines.



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The following table summarizes the activities related to the first quarter of 2013:

(Millions of dollars)	Severance Costs	Costs Associated with Exit or Disposal Activities	Total Cost Reduction Program
Balance, January 1, 2013	\$30	\$ 4	\$34
Less: Cash payments	(3	) (1	) (4
Less: Non-cash asset write-offs	—	—	—
Foreign currency translation	(1	) —	(1
Balance, March 31, 2013	\$26	\$ 3	\$29

For further details regarding the cost reduction program and other charges, refer to Note 2 to the consolidated financial statements of Praxair's 2012 Annual Report on Form 10-K.

### 3. Acquisitions

On March 1, 2013 Praxair acquired 100% of NuCO<sub>2</sub> Inc. ("NuCO<sub>2</sub>") for \$1.095 billion. NuCO<sub>2</sub> is the leading national provider of beverage carbonation solutions in the United States to the restaurant and hospitality industries with 162,000 customer locations and 900 employees, and with 2012 sales of approximately \$230 million. The NuCO<sub>2</sub> micro-bulk beverage carbonation solution is the service model of choice for quick service restaurants and convenience stores offering fountain beverages and represents an extension of Praxair's core industrial gas business.

The acquisition of NuCO<sub>2</sub> was accounted for as a business combination. Following the acquisition date, 100% of NuCO<sub>2</sub>'s results were consolidated in the North America business segment. For the quarter ended March 31, 2013, Praxair's consolidated income statement includes sales of \$20 million related to NuCO<sub>2</sub>. Pro forma results for the quarters ended March 31, 2013 and 2012 have not been included as the impact of the acquisition is not material to the consolidated statements of income for either quarter.

The following table summarizes the fair value of identifiable assets acquired and liabilities assumed in the acquisition of NuCo2 as of the acquisition date. The allocations of the purchase price are based on preliminary estimates and assumptions, and are subject to revision based on final information received, including appraisals and other analysis that support underlying estimates:

(Millions of dollars)	March 1, 2013
Trade receivables, net	\$17
Property, plant and equipment	199
Intangible assets	374
Deferred income taxes	(85
Other assets and (liabilities)	) (28
Goodwill	) 618
Purchase price	\$1,095

The identifiable intangible assets primarily consist of customer relationships that will be amortized over their estimated useful life of 25 years. The deferred income taxes relate primarily to property, plant and equipment, intangibles and operating loss carryforwards. The goodwill resulting from the acquisition is attributable to expected growth and cost synergies and is not expected to be deductible for income tax purposes.

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## 4. Supplemental Information

## Inventories

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

(Millions of dollars)	March 31, 2013	December 31, 2012
Inventories		
Raw materials and supplies	\$164	\$164
Work in process	57	56
Finished goods	256	256
Total inventories	\$477	\$476

## 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 \$49 million and \$46 million at March 31, 2013 and December 31, 2012, respectively. These amounts are net of reserves of \$44 million and \$43 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 increase in the balances during 2013 was due primarily to foreign currency movements.

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## 5. Debt

The following is a summary of Praxair's outstanding debt at March 31, 2013 and December 31, 2012:

(Millions of dollars)	March 31, 2013	December 31, 2012
<b>SHORT-TERM</b>		
Commercial paper and U.S. bank borrowings	\$467	\$563
Other bank borrowings (primarily international)	112	75
Total short-term debt	579	638
<b>LONG-TERM</b>		
U.S. borrowings		
3.95% Notes due 2013 (d)	350	350
2.125% Notes due 2013 (a, b, d)	502	504
4.375% Notes due 2014 (a)	300	299
5.25% Notes due 2014	400	400
4.625% Notes due 2015	500	500
3.25% Notes due 2015 (a, b)	426	431
0.75% Notes due 2016 (c)	400	—
5.375% Notes due 2016	400	400
5.20% Notes due 2017	325	325
1.05% Notes due 2017	400	400
1.20% Notes due 2018 (a, c)	499	—
4.50% Notes due 2019 (a)	598	598
4.05% Notes due 2021 (a)	498	498
3.00% Notes due 2021 (a)	496	496
2.45% Notes due 2022 (a)	598	598
2.20% Notes due 2022 (a)	499	499
2.70% Notes due 2023 (a, c)	498	—
3.55% Notes due 2042 (a)	298	298
Other	5	5
International bank borrowings	96	113
Obligations under capital leases	9	10
	8,097	6,724
Less: current portion of long-term debt	(325	) (39
Total long-term debt	7,772	6,685
Total debt	\$8,676	\$7,362

(a) Amounts are net of unamortized discounts.

(b) March 31, 2013 and December 31, 2012 include a \$28 million and \$36 million fair value increase, respectively, related to hedge accounting. See Note 5 for additional information.

For the three months ended March 31, 2013, Praxair issued the following notes totaling \$1.4 billion: \$400 million (c) of 0.75% notes due 2016, \$500 million of 2.70% notes due 2023, and \$500 million of 1.20% notes due 2018. The proceeds of all issuances were used for general corporate purposes, including acquisitions.

(d) 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 \$1.75 billion long-term credit facility, which also includes an option to increase the amount of the long-term agreement to \$2.0 billion upon mutual agreement.



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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 two types of derivatives that the company enters into: (i) those relating to fair-value exposures, and (ii) those relating to cash-flow exposures. Fair-value exposures relate to recognized assets or liabilities, and firm commitments; while cash-flow exposures relate to the variability of future cash flows associated with recognized assets or liabilities, or forecasted transactions.

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

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

The following table is a summary of the notional amount and fair value of derivatives outstanding at March 31, 2013 and December 31, 2012:

(Millions of dollars)	Notional Amounts		Fair Value			
	March 31, 2013	December 31, 2012	Assets		Liabilities	
			March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Derivatives Not Designated as Hedging Instruments:						
Currency contracts:						
Balance sheet items (a)	\$1,971	\$ 2,515	\$10	\$ 6	\$1	\$ 8
Derivatives Designated as Hedging Instruments:						
Currency contracts:						
Forecasted purchases (a)	\$5	\$ 10	\$—	\$ —	\$—	\$ —
Interest rate contracts:						
Interest rate swaps (b)	400	400	26	32	—	—
Total	\$405	\$ 410	\$26	\$ 32	\$—	\$ —
Total Derivatives	\$2,376	\$ 2,925	\$36	\$ 38	\$1	\$ 8

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

(b) Assets are recorded in 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. The fair value adjustments on these contracts are offset by the fair value adjustments recorded on the hedged assets and liabilities.

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## Anticipated Net Income

Historically Praxair has entered into anticipated net income hedge contracts consisting of foreign currency options and forwards related primarily to anticipated net income in Brazil, Europe and Canada. Although there were no anticipated net income hedges outstanding as of March 31, 2013 and December 31, 2012, such derivatives were outstanding during the three month period ended March 31, 2012. Over the term of the contracts, the fair value adjustments from net-income hedging contracts are largely offset by the impacts on reported net income resulting from currency translation. The accounting rules pertaining to derivatives and hedging do not allow hedges of anticipated net income to be designated as hedging instruments.

## Forecasted Purchases

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

## Interest Rate Contracts

## Outstanding Interest Rate Swaps

At March 31, 2013, Praxair had an interest-rate swap agreement outstanding related to the \$400 million 3.25% fixed-rate notes that mature in 2015 which effectively converts fixed-rate interest to variable-rate interest. This swap agreement was designated as a fair value hedge with the resulting fair value adjustments recognized in earnings along with an equally offsetting charge / benefit to earnings for the changes in the fair value of the underlying debt instrument. At March 31, 2013, \$26 million was recognized as an increase in the fair value of this note (\$32 million at December 31, 2012).

## Terminated Interest Rate Swaps

The following table summarizes information related to terminated interest rate swap contracts:

(Millions of dollars)	Year Terminated	Original Gain	Amount of Gain Recognized in Earnings (a)		Unrecognized Gain (a)	
			Quarter Ended March 31, 2013	March 31, 2012	March 31, 2013	December 31, 2012
<b>Interest Rate Swaps</b>						
Underlying debt instrument						
(b):						
\$500 million 2.125% fixed-rate notes that mature in 2013	2011	\$18	\$2	\$2	\$2	\$4
\$400 million 1.75% fixed-rate notes that mature in 2012	2010	13	—	2	—	—
\$500 million 6.375% fixed-rate notes that matured in 2012	2002	47	—	1	—	—
<b>Total</b>		<b>\$78</b>	<b>\$2</b>	<b>\$5</b>	<b>\$2</b>	<b>\$4</b>

The unrecognized gain for terminated interest rate swaps is shown as an increase to long-term debt and will be recognized on a straight line basis to interest expense - net over the term of the underlying debt agreements. Upon settlement of the underlying interest rate contract, the cash received is reflected within the Noncontrolling interest transactions and other in the financing section of the consolidated statement of cash flows.

(b) The notional amounts of the interest rate contracts are equal to the underlying debt instruments.

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## Terminated Treasury Rate Locks

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

(Millions of dollars)	Year Terminated	Original Gain / (Loss)	Unrecognized Gain / (Loss) (a)	
			March 31, 2013	December 31, 2012
Treasury Rate Locks				
Underlying debt instrument:				
\$500 million 2.20% fixed-rate notes that mature in 2022 (b) 2012		\$(2	) \$ (2	) \$ (2
\$500 million 3.00% fixed-rate notes that mature in 2021 (b) 2011		(11	) (10	) (10
\$600 million 4.50% fixed-rate notes that mature in 2019 (b) 2009		16	10	11
\$500 million 4.625% fixed-rate notes that mature in 2015 (b) 2008		(7	) (2	) (2
Total - pre-tax			\$ (4	) \$ (3
Less: income taxes			1	1
After- tax amounts			\$ (3	) \$ (2

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

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

The following tables summarize the impacts of the company’s derivatives on the condensed consolidated statements of income and AOCI:

(Millions of dollars)	Amount of Pre-Tax Gain (Loss) Recognized in Earnings (a) Quarter Ended March 31,	
	2013	2012
Derivatives Not Designated as Hedging Instruments		
Currency contracts:		
Balance sheet items		
Debt-related	\$34	\$37
Other balance sheet items	(7	) (2
Anticipated net income	—	(4
Total	\$27	\$31

(Millions of dollars)	Quarter Ended		Amount of Gain (Loss) Reclassified from AOCI to the Consolidated Statement of Income (c)	
	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
Derivatives Designated as Hedging Instruments				
Currency contracts:				

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Forecasted purchases (b)	\$—	\$2	\$—	\$—
Interest rate contracts:				
Treasury rate locks (b)	—	—	1	—
Total - pre tax	\$—	\$2	\$1	\$—
Less: income taxes	—	(1	) —	—
Total - Net of Taxes	\$—	\$1	\$1	\$—

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The gains (losses) on balance sheet items are offset by gains (losses) recorded on the underlying hedged assets and liabilities. The gains (losses) for the derivatives and the underlying hedged assets and liabilities related to debt (a) 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 gains (losses) on forecasted purchases and treasury rate locks are recorded as a component of AOCI within (b) derivative instruments in the consolidated statements of equity. There was no ineffectiveness for these instruments during 2013 or 2012.

The gains (losses) on forecasted purchases are reclassified to the depreciation and amortization expense on a straight-line basis consistent with the useful life of the underlying asset. The gains (losses) for interest rate (c) 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 \$1 million are expected to be reclassified to earnings during the next twelve months.

## 7. Fair Value Disclosures

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

(Millions of dollars)	Fair Value Measurements Using					
	Level 1		Level 2		Level 3	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Assets						
Derivatives	—	—	\$36	\$38	—	—
Liabilities						
Derivatives	—	—	\$1	\$8	—	—

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.

The fair values of cash and cash equivalents, short-term debt, accounts receivable-net, and accounts payable approximate carrying amounts because of the short maturities of these instruments. The fair value of long-term debt is estimated based on the quoted market prices for similar issues, which is deemed a level 2 measurement. At March 31, 2013, the estimated fair value of Praxair's long-term debt portfolio was \$8,484 million versus a carrying value of \$8,097 million. At December 31, 2012, the estimated fair value of Praxair's long-term debt portfolio was \$7,131 million versus a carrying value of \$6,724 million. Differences from carrying amounts are attributable to interest-rate changes subsequent to when the debt was issued.

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## 8. Earnings Per Share – Praxair, Inc. Shareholders

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

	Quarter Ended March 31,	
	2013	2012
Numerator (Millions of dollars)		
Net income - Praxair, Inc.	\$391	\$419
Denominator (Thousands of shares)		
Weighted average shares outstanding	296,075	298,512
Shares earned and issuable under compensation plans	529	565
Weighted average shares used in basic earnings per share	296,604	299,077
Effect of dilutive securities		
Stock options and awards	3,096	3,799
Weighted average shares used in diluted earnings per share	299,700	302,876
Basic Earnings Per Share	\$1.32	\$1.40
Diluted Earnings Per Share	\$1.30	\$1.38

Stock options of 855 were antidilutive and therefore excluded in the computation of diluted earnings per share for the quarter ended March 31, 2013. There were no antidilutive shares for the quarter ended March 31, 2012.

## 9. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the three months ended March 31, 2013 were as follows:

(Millions of dollars)	North America	South America	Europe	Asia	Surface Technologies	Total	
Balance, December 31, 2012	\$1,499	\$195	\$645	\$25	\$143	\$2,507	
Acquisitions (Note 3)	619	—	—	—	—	619	
Purchase adjustments & other	(7	) —	—	—	—	(7	)
Foreign currency translation	3	3	(24	) 1	(4	) (21	)
Balance, March 31, 2013	\$2,114	\$198	\$621	\$26	\$139	\$3,098	

Praxair has performed its goodwill impairment tests annually during the second quarter of each year, and historically we have determined that the fair value of each of our reporting units was substantially in excess of its carrying value (refer to Note 1 to the consolidated financial statements of Praxair's 2012 Annual Report on Form 10-K). Also, there were no indicators of impairment through March 31, 2013.

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Changes in the carrying amounts of other intangibles for the three months ended March 31, 2013 were as follows:

(Millions of dollars)	Customer & License/Use Agreements	Non-compete Agreements	Patents & Other	Total	
Cost:					
Balance, December 31, 2012	\$232	\$37	\$20	\$289	
Additions (Note 3)	351	1	22	374	
Foreign currency translation	(1	) —	—	(1	)
Other *	5	(6	) (7	) (8	)
Balance, March 31, 2013	\$587	\$32	\$35	\$654	
Less: Accumulated amortization					
Balance, December 31, 2012	\$(89	) \$(20	) \$(7	) \$(116	)
Amortization expense	(6	) (1	) —	(7	)
Foreign currency translation	—	—	—	—	
Other *	1	7	5	13	
Balance, March 31, 2013	\$(94	) \$(14	) \$(2	) \$(110	)
Net Balance at March 31, 2013	\$493	\$18	\$33	\$544	

\* Other primarily relates to the write-off of fully amortized assets and purchase accounting adjustments.

There are no expected residual values related to these intangible assets. The remaining weighted-average amortization period for intangible assets is approximately 20 years.

Total estimated annual amortization expense is as follows:

(Millions of dollars)	
Remaining 2013	\$31
2014	41
2015	39
2016	37
2017	32
Thereafter	364
	\$544

#### 10. Share-Based Compensation

Share-based compensation of \$17 million (\$11 million after-tax) was recognized during both of the quarters ended March 31, 2013 and 2012. 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 2012 Annual Report on Form 10-K.

#### Stock Options

The weighted-average fair value of options granted during the three months ended March 31, 2013 was \$16.31 (\$17.46 in 2012) based on the Black-Scholes Options-Pricing model. The decrease in grant date fair value year-over-year is primarily attributable to the impacts of volatility and dividend yield.

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The following weighted-average assumptions were used for grants in 2013 and 2012 :

	Quarter Ended March 31,		
	2013	2012	
Dividend yield	2.2	% 2.0	%
Volatility	21.7	% 22.5	%
Risk-free interest rate	0.76	% 0.86	%
Expected term years	5	5	

The following table summarizes option activity under the plans as of March 31, 2013 and changes during the three months period then ended (averages are calculated on a weighted basis; life in years; intrinsic value expressed in millions):

	Number of Options (000's)	Average Exercise Price	Average Remaining Life	Aggregate Intrinsic Value
Outstanding at January 1, 2013	12,281	\$74.05		
Granted	1,307	110.58		
Exercised	(514 )	56.61		
Cancelled or Expired	(11 )	87.57		
Outstanding at March 31, 2013	13,063	78.37	5.9	\$433
Exercisable at March 31, 2013	10,158	\$69.94	4.9	\$423

The aggregate intrinsic value represents the difference between the company's closing stock price of \$111.54 as of March 31, 2013 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 was \$29 million (\$74 million during the same time period in 2012).

Cash received from option exercises under all share-based payment arrangements for the quarter was \$29 million (\$69 million for the same time periods in 2012). The cash tax benefit realized from share-based compensation totaled \$26 million, of which \$14 million in excess tax benefits was classified as financing cash flows for the three months ended March 31, 2013 (\$46 million and \$32 million for the same period in 2012).

As of March 31, 2013, \$40 million of unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted-average period of approximately 1.1 years.

#### Performance-Based and Restricted Stock Awards

During the three months ended March 31, 2013, the company granted performance-based stock units to employees which vest 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 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 three months ended March 31, 2013, 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 quarter was \$103.46 and \$104.19, respectively, (\$103.16 for performance-based stock granted during the same period in 2012, and \$108.54 for restricted stock units granted in April 2012). 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.



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The following table summarizes non-vested performance-based and restricted stock award activity as of March 31, 2013 and changes during the three 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, 2013	840	\$88.83	368	\$89.89
Granted (a)	415	103.46	100	104.19
Vested	(371)	) 70.91	(109)	) 71.40
Cancelled	(2)	) 99.14	(2)	) 91.50
Non-vested at March 31, 2013	882	\$99.58	357	\$99.62

(a) Performance-based stock unit grants during 2013 include 98 thousand shares relating to the actual payout of the 2010 PSU grants in 2013.

As of March 31, 2013, based on current estimates of future performance, \$54 million of unrecognized compensation cost related to performance-based awards is expected to be recognized through the first quarter of 2016 and \$21 million of unrecognized compensation cost related to the restricted stock awards is expected to be recognized primarily through the fourth quarter of 2017.

#### 11. Retirement Programs

The components of net pension and postretirement benefits other than pensions ("OPEB") costs for the quarters ended March 31, 2013 and 2012 are shown below:

(Millions of dollars)	Quarter Ended March 31,			
	Pensions		OPEB	
	2013	2012	2013	2012
Service cost	\$13	\$13	\$1	\$1
Interest cost	29	31	3	3
Expected return on plan assets	(38)	) (39)	—	—
Net amortization and deferral	23	17	(1)	) (1)
Net periodic benefit cost	\$27	\$22	\$3	\$3

Praxair estimates that 2013 contributions to its pension plans will be in the area of \$50 million, of which \$5 million have been made through March 31, 2013.

In 2012 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. As a result, Praxair anticipates that it will record a pension settlement expense of approximately \$10 million in the third quarter 2013 when the payments are made to the retirees.

#### 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 2012 Annual Report on Form 10-K).

Among such matters are:

- Claims by the Brazilian taxing authorities against several of the company's Brazilian subsidiaries relating to non-income and income tax matters.

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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 these disputes were enrolled in the Refis Program and settled. The final settlement related to the Refis Program is subject to final calculation and review by the Brazilian federal government and, although the timing is very difficult to estimate, it is possible that this review could be concluded during the next year. Any differences from amounts recorded will be adjusted to income at that time.

After enrollment in the amnesty programs, at March 31, 2013 the most significant remaining claims relate to state VAT tax matters associated with procedural issues 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 \$204 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\$1.1 billion) 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\$840 million) due to a calculation error made by CADE. 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.

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.

Contractual Obligations Update

The following table sets forth an update to Praxair’s material unconditional purchase obligations as of March 31, 2013:

(Millions of dollars)	Expiring through December 31,						Total
	2013 Remaining	2014	2015	2016	2017	Thereafter	
Unconditional Purchase Obligations	\$523	\$511	\$439	\$417	\$405	\$4,044	\$6,339

Unconditional purchase obligations represent contractual commitments under various long- and short-term take-or-pay arrangements with suppliers and are not included on Praxair's balance sheet. These obligations are primarily minimum-purchase commitments for helium, electricity, natural gas, and feedstock used to produce atmospheric and process gases. A significant portion of these obligations is passed on to customers through similar take-or-pay or other contractual arrangements. Purchase obligations that are not passed along to customers through such contractual arrangements are subject to market conditions, but do not represent a material risk to Praxair.

These purchase obligations relate primarily to power (\$4,346 million) and are intended to secure the uninterrupted supply of electricity and feedstock to our plants in order for Praxair to reliably satisfy customer product supply

obligations, and extend through 2030. Certain of the power contracts contain various cancellation provisions requiring supplier agreement which the Company believes could reduce the reported obligation significantly, if desired, and many are subject to annual escalations based on local inflation factors. The purchase obligations also include a multi-year contract for silane, with a total purchase obligation of \$184 million at March 31, 2013. Since this contract was signed, the market for silane has not developed as expected and prices have decreased due to lower demand from photovoltaics and consumer electronics markets, primarily in

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Asia. At March 31, 2013, Praxair's current selling prices and estimated future demand for silane are in excess of its contractual purchase obligations under the contract, as amended. The company is continuously monitoring market developments.

## 13. Segments

Sales and operating profit by segment for the quarters ended March 31, 2013 and 2012 are shown below. For a description of Praxair's operating segments, refer to Note 18 to the consolidated financial statements of Praxair's 2012 Annual Report on Form 10-K.

(Millions of dollars)	Quarter Ended March 31,	
	2013	2012
SALES <sup>(a)</sup>		
North America	\$1,457	\$1,398
Europe	370	377
South America	531	562
Asia	367	334
Surface Technologies	163	169
Total sales	\$2,888	\$2,840
	Quarter Ended March 31,	
(Millions of dollars)	2013	2012
OPERATING PROFIT		
North America	\$358	\$361
Europe	62	68
South America	114	115
Asia	63	57
Surface Technologies	26	26
Segment operating profit	623	627
Venezuela currency devaluation (Note 2)	(23	) —
Total operating profit	\$600	\$627

(a) Intersegment sales, primarily from North America to other segments, were not significant for the quarters ended March 31, 2013 and 2012.

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## 14. Equity and Redeemable Noncontrolling Interests

## Equity

A summary of the changes in total equity for the quarters ended March 31, 2013 and 2012 is provided below:

Activity	Quarter Ended March 31, 2013			2012			
	Praxair, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity	Praxair, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity	
Balance, beginning of period	\$6,064	\$ 357	\$6,421	\$5,488	\$ 309	\$5,797	
Net income (a)	391	10	401	419	8	427	
Other comprehensive income (loss)	3	(3	) —	274	6	280	
Noncontrolling interests:							
Dividends and other capital changes	—	(7	) (7	) —	4	4	
Redemption value adjustments	(5	) —	(5	) (4	) —	(4	)
Dividends to Praxair, Inc. common stock holders (\$0.60 per share in 2013 and \$0.55 per share in 2012)	(178	) —	(178	) (164	) —	(164	)
Issuances of common stock:							
For the dividend reinvestment and stock purchase plan	2	—	2	3	—	3	
For employee savings and incentive plans	17	—	17	58	—	58	
Purchases of common stock	(156	) —	(156	) (182	) —	(182	)
Tax benefit from share-based compensation	14	—	14	31	—	31	
Share-based compensation	17	—	17	17	—	17	
Balance, end of period	\$6,169	\$ 357	\$6,526	\$5,940	\$ 327	\$6,267	

Net income for noncontrolling interests excludes Net income related to redeemable noncontrolling interests of \$5 (a) million for the three months ended March 31, 2013 and March 31, 2012, which is not part of total equity (see below).

The components of AOCI are as follows:

(Millions of dollars)	March 31, 2013	December 31, 2012
Cumulative translation adjustments (CTA)	\$(1,063	) \$(1,044
Derivative instruments	(4	) (5
Funded status - retirement obligations	(774	) (792
Accumulated other comprehensive income	(1,841	) (1,841
Noncontrolling interests (CTA)	8	11
AOCI - Praxair, Inc.	\$(1,849	) \$(1,852

## 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 retained earnings and does not impact net income.



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The following is a summary of the changes in redeemable noncontrolling interests for the quarters ended March 31, 2013 and 2012:

(Millions of dollars)	2013	2012
Balance, January 1,	\$252	\$220
Net income	5	5
Distributions to noncontrolling interest	(2	)(2
Redemption value adjustment/accretion	5	4
Foreign currency translation and other	(5	)5
Balance, March 31,	\$255	\$232

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

## Adjusted Amounts and Comparisons

The discussion of consolidated results and outlook in this Management's Discussion and Analysis (MD&A) as it relates to the three month periods ended March 31 is based on adjusted amounts for 2013 which exclude the impact of a 32% currency devaluation of the Venezuelan Bolivar versus the U.S. Dollar (see Note 2 to the condensed consolidated financial statements). The adjusted amounts for 2013 are non-GAAP measures that supplement an understanding of the company's financial information by presenting information that investors, financial analysts and management use to help evaluate the company's performance and ongoing business trends on a comparable basis. See the "Consolidated Results" section of this MD&A for a summary of these adjusted amounts. A reconciliation of reported amounts to adjusted amounts can be found in the "Non-GAAP Financial Measures" section of this MD&A.

## Consolidated Results

Praxair's sales in the first quarter were 2% above the prior-year quarter. Sales grew 4% from higher prices, acquisitions and higher cost pass-through, primarily higher natural gas prices. This growth was partially offset by the negative effects of foreign currency translation primarily due to the strengthening of the US dollar against the Brazilian Real. Overall volumes were comparable to the prior year. Higher volumes in Asia, primarily from new plant start-ups, were offset primarily by lower volumes in Europe and North America partially as a result of fewer working days as compared to the prior-year quarter. New project development activity continues to be strong in North America, South America, and Asia. Adjusted operating profit was 1% below the prior-year quarter as growth from price, productivity gains and acquisitions was offset by the impact of unfavorable product mix and higher costs. The following table provides summary data for the quarters ended March 31, 2013 and 2012:

(Dollar amounts in millions, except per share data)	Quarter Ended March 31,		Variance	
	2013	2012		
Reported Amounts				
Sales	\$2,888	\$2,840	2	%
Cost of sales, exclusive of depreciation and amortization	\$1,638	\$1,616	1	%
Gross margin	\$1,250	\$1,224	2	%
As a percent of sales	43.3	% 43.1	%	
Selling, general and administrative	\$337	\$335	1	%
As a percent of sales	11.7	% 11.8	%	
Depreciation and amortization	\$266	\$252	6	%
Venezuela currency devaluation (a)	\$23	\$—	100	%
Other income (expense) - net	\$—	\$14		
Operating profit	\$600	\$627	(4)	)%
As a percent of sales	20.8	% 22.1	%	
Interest expense - net	\$40	\$37	8	%
Effective tax rate	29.3	% 28.0	%	
Income from equity investments	\$10	\$7	43	%
Noncontrolling interests	\$(15	) \$(13	) 15	%
Net income - Praxair, Inc.	\$391	\$419	(7)	)%
Diluted earnings per share	\$1.30	\$1.38	(6)	)%
Diluted shares outstanding	299,700	302,876	(1)	)%
Adjusted Amounts for 2013 (a)				
Operating profit	\$623	\$627	(1)	)%
As a percent of sales	21.6	% 22.1	%	
Effective tax rate	28.1	% 28.0	%	
Net income - Praxair, Inc.	\$414	\$419	(1)	)%
Diluted earnings per share	\$1.38	\$1.38	—	%



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Adjusted amounts for 2013 are non-GAAP measures and are presented to facilitate comparisons with 2012, which (a) are not adjusted. Non-GAAP adjustments for 2013 are summarized below and a reconciliation of reported amounts to adjusted amounts can be found in the “Non-GAAP Financial Measures” section of this MD&A.

The following item was recorded in the condensed consolidated financial statements and was excluded for adjusted amounts. See Note 2 to the condensed consolidated financial statements for a more detailed description of this item.

**2013 Venezuela Currency Devaluation**

On February 8, 2013, Venezuela announced a devaluation of the Venezuelan Bolivar from 4.30 to 6.30 (a 32% devaluation), effective on February 13, 2013. Praxair recorded a \$23 million charge (\$23 million after-tax or \$0.08 per diluted share) due primarily to the remeasurement of the local Venezuelan balance sheet to reflect the new official 6.30 exchange rate. The company does not expect the impact of the devaluation on future results of operations to be significant.

**Results of Operations**

As previously described, references to “adjusted” amounts refer to reported amounts adjusted to exclude the impact of special items and are non-GAAP measures. A reconciliation of reported amounts to adjusted amounts can be found in the “Non-GAAP Financial Measures” section of this MD&A.

The change in consolidated sales and adjusted operating profit compared to the prior year is attributable to the following:

	Quarter Ended March 31, 2013 vs. 2012	
	% Change	
	Sales	Adjusted Operating Profit
Factors Contributing to Changes		
Volume	—	% (8 )%
Price	2	% 10 %
Cost pass-through	1	% — %
Currency	(2	)% (1 )%
Acquisitions/divestitures	1	% 1 %
Other	—	% (3 )%
	2	% (1 )%

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

	Quarter Ended March 31,		% Change Organic Sales*
	% of Sales 2013	2012	
Sales by End Markets			
Manufacturing	25	% 25	% 1 %
Metals	18	% 18	% 6 %
Energy	12	% 11	% 4 %
Chemicals	10	% 10	% 4 %
Electronics	8	% 8	% (2 )%
Healthcare	8	% 8	% 3 %
Food & Beverage	7	% 6	% (3 )%
Aerospace	3	% 3	% 1 %
Other	9	% 11	% (6 )%

100 % 100 %

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

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	Quarter Ended March 31, % of Sales		
	2013	2012	
Sales by Distribution Method			
On- Site	26	% 24	%
Packaged Gas	28	% 29	%
Merchant	32	% 31	%
Other	14	% 16	%
	100	% 100	%

Sales increased \$48 million, or 2%, for the first quarter ended March 31, 2013 versus 2012. Sales growth from higher pricing, acquisitions and higher cost pass-through was partially offset by the negative effects of foreign currency translation. By end-market, sales grew to energy, metals and chemicals customers, as compared to the prior-year quarter. Overall volumes were flat as compared to the prior year, as growth in Asia from new project start-ups was offset by lower volumes in other geographic segments, primarily resulting from weaker macroeconomic conditions in Europe, weaker volumes to the electronics and other end-markets in North America. Fewer working days as compared to the year-ago quarter reduced volumes by 1%.

Gross margin increased \$26 million, or 2%, for the first quarter versus 2012 primarily due to higher pricing. Gross margin as a percentage of sales for the quarter increased modestly versus the respective prior-year period.

Selling, general and administrative expenses increased \$2 million for the quarter as compared to 2012 as higher costs resulting from acquisitions were partially offset by benefits from cost reduction efforts and currency impacts.

Depreciation and amortization expense increased \$14 million for the quarter as compared to 2012. Higher expense due to new plant start-ups and acquisitions was partially offset by currency impacts.

Other income (expense) – net was \$0 million for the quarter, versus a \$14 million benefit in 2012. The prior-year quarter included, among other items, gains from litigation settlements in South America and a land sale in Korea, partially offset by business restructuring costs in South America.

Adjusted operating profit decreased \$4 million for the quarter versus 2012. Excluding currency effects, adjusted operating profit was comparable to the prior year as growth from price, productivity gains and acquisitions was offset by the impact on volumes of fewer working days and product mix, and higher costs. A discussion of operating profit by segment is included in the segment discussion that follows.

Interest expense-net increased \$3 million for the quarter versus 2012 primarily due to higher debt levels, incurred primarily to fund acquisitions, capital expenditures and share repurchases.

The adjusted effective tax rate was 28% in both the first quarters of 2013 and 2012.

Praxair's significant sources of equity income are in China, Italy, and the Middle East. Income from equity investments increased \$3 million for the quarter due primarily to higher earnings in China resulting from stronger volumes.

At March 31, 2013, 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 US packaged gas business). Non-controlling interests increased \$2 million for the quarter versus 2012 due to higher earnings of these entities.

Adjusted net income-Praxair, Inc. decreased \$5 million, or 1%, for the quarter due to lower operating profit and higher interest expense.

Adjusted diluted earnings per share ("EPS") of \$1.38 for the first quarter 2013 was comparable to 2012 as the impact of lower net income - Praxair, Inc. was offset by a 1% reduction in the number of diluted shares outstanding as a result of the company's net repurchases of common stock during the quarter.

Comprehensive income of \$399 million includes a negative currency adjustment of \$19 million, reflecting the impact of translating foreign subsidiary balance sheets to U.S. dollars using exchange rates as of March 31, 2013. In the 2012 quarter, this currency impact was a positive \$272 million.



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## 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 March 31,		Variance	
	2013	2012		
<b>SALES</b>				
North America	\$ 1,457	\$ 1,398	4	%
Europe	370	377	(2)	)%
South America	531	562	(6)	)%
Asia	367	334	10	%
Surface Technologies	163	169	(4)	)%
	\$2,888	\$2,840		
<b>OPERATING PROFIT</b>				
North America	\$358	\$361	(1)	)%
Europe	62	68	(9)	)%
South America	114	115	(1)	)%
Asia	63	57	11	%
Surface Technologies	26	26	—	%
Segment operating profit	623	627		
Venezuela currency devaluation (Note 2)	(23	) —		
Total operating profit	\$600	\$627		

## North America

	Quarter Ended March 31,		Variance	
	2013	2012		
Sales	\$1,457	\$1,398	4	%
Cost of sales, exclusive of depreciation and amortization	772	742		
Gross margin	685	656		
Operating expenses	194	171		
Depreciation and amortization	133	124		
Operating profit	\$358	\$361	(1)	)%
Margin %	24.6	% 25.8	%	

Factors Contributing to Changes	Quarter Ended March 31, 2013 vs. 2012			
	% Change		Operating Profit	
	Sales			
Volume	(3	)%	(8	)%
Price	3	%	13	%
Cost pass-through	1	%	—	%
Currency	—	%	—	%
Acquisitions/divestitures	3	%	2	%
Other	—	%	(8	)%
	4	%	(1	)%

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



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	Quarter Ended March 31,		% Change Organic Sales	
	% of Sales			
	2013	2012		
Sales by End Markets				
Manufacturing	31	% 31	% 3	%
Metals	14	% 14	% —	%
Energy	17	% 16	% 2	%
Chemicals	11	% 11	% —	%
Electronics	4	% 5	% (12)	)%
Healthcare	7	% 7	% —	%
Food & Beverage	6	% 5	% (5)	)%
Aerospace	1	% —	% 11	%
Other	9	% 11	% (9)	)%
	100	% 100	%	

	Quarter Ended March 31,			
	% of Sales			
	2013	2012		
Sales by Distribution Method				
On- Site		26	% 27	%
Packaged Gas		34	% 34	%
Merchant		33	% 32	%
Other		7	% 7	%
		100	% 100	%

Segment sales increased \$59 million, or 4%, for the first quarter versus 2012 . Higher pricing increased sales by 3% and was offset by lower volumes. Fewer working days as compared to the prior-year quarter reduced volumes by 2%.

Sales grew to manufacturing, energy, and aerospace markets, partially offset by lower sales to electronics.

Acquisitions, including NuCO<sub>2</sub> and several packaged gas distributors, contributed 3% to sales in the quarter. Cost pass-through, primarily higher natural gas prices passed through to hydrogen customers, increased sales by 1%.

Operating profit decreased \$3 million, or 1%, for the first quarter versus 2012. The increase in operating profit from higher pricing, acquisitions and productivity savings was more than offset by lower volumes partially attributable to fewer working days and higher costs.

Europe

	Quarter Ended March 31,		Variance %	
	% of Sales			
	2013	2012		
Sales	\$370	\$377	(2	)%
Cost of sales, exclusive of depreciation and amortization	213	213		
Gross margin	157	164		
Operating expenses	54	58		
Depreciation and amortization	41	38		
Operating profit	\$62	\$68	(9	)%
Margin %	16.8	% 18.0	%	

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	Quarter Ended March 31, 2013 vs. 2012			
	% Change Sales		% Change Operating Profit	
Factors Contributing to Changes				
Volume	(3	)%	(26	)%
Price	1	%	8	%
Cost pass-through	(1	)%	—	%
Currency	1	%	3	%
Acquisitions/divestitures	—	%	—	%
Other	—	%	6	%
	(2	)%	(9	)%

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

	Quarter Ended March 31,		% Change	
	% of Sales		Organic Sales	
	2013	2012		
Sales by End Markets				
Manufacturing	23	% 23	% (5	)%
Metals	17	% 16	% 4	%
Energy	4	% 3	% 14	%
Chemicals	16	% 17	% (2	)%
Electronics	8	% 7	% 8	%
Healthcare	12	% 12	% (6	)%
Food & Beverage	9	% 9	% (3	)%
Aerospace	—	% —	% —	%
Other	11	% 13	% (14	)%
	100	% 100	%	
		Quarter Ended March 31,		
		% of Sales		
		2013	2012	
Sales by Distribution Method				
On- Site		20	% 20	%
Packaged Gas		41	% 42	%
Merchant		34	% 34	%
Other		5	% 4	%
		100	% 100	%

Segment sales decreased \$7 million, or 2%, for the first quarter ended March 31, 2013 versus the respective 2012 period. Higher pricing was offset by lower sales volumes due to weaker industrial activity which resulted in lower packaged gases volumes in Spain and Italy. Fewer working days reduced volumes by 2% versus the prior-year. Operating profit decreased by \$6 million, or 9%, for the first quarter ended March 31, 2013 versus 2012. Operating profit decreased primarily due to the impact of lower volumes partially offset by higher pricing and benefits from cost reduction actions. Depreciation increased \$3 million for the quarter ended March 31, 2013 due primarily to plant start ups in Scandinavia and Russia.

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## South America

	Quarter Ended March 31,		Variance	
	2013	2012		
Sales	\$531	\$562	(6	)%
Cost of sales, exclusive of depreciation and amortization	300	326		
Gross margin	231	236		
Operating expenses	69	73		
Depreciation and amortization	48	48		
Operating profit	\$114	\$115	(1	)%
Margin %	21.5	% 20.5	%	
		Quarter Ended March 31, 2013 vs. 2012		
		% Change	% Change	
		Sales	Operating Profit	
Factors Contributing to Changes				
Volume		2	% (2	)%
Price		1	% 6	%
Cost pass-through		1	% —	%
Currency		(10	)% (9	)%
Acquisitions/divestitures		—	% —	%
Other		—	% 4	%
		(6	)% (1	)%

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

Sales by End Markets	Quarter Ended March 31,		% Change	
	% of Sales 2013	2012	Organic Sales	
Manufacturing	22	% 23	% 1	%
Metals	29	% 27	% 7	%
Energy	4	% 4	% 15	%
Chemicals	6	% 6	% 5	%
Electronics	—	% —	% —	%
Healthcare	16	% 14	% 11	%
Food & Beverage	12	% 11	% 1	%
Aerospace	—	% —	% —	%
Other	11	% 15	% (5	)%
	100	% 100	%	

Sales by Distribution Method	Quarter Ended March 31,		% Change	
	% of Sales 2013	2012	Organic Sales	
On- Site		24	% 22	%
Packaged Gas		26	% 26	%
Merchant		37	% 39	%
Other		13	% 13	%
		100	% 100	%



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Sales decreased \$31 million or 6%, for the first quarter versus 2012. Excluding negative currency translation impacts of 10%, underlying sales grew 3% from higher volumes and higher pricing. Higher on-site and merchant liquid volumes increased sales by 2% and were driven by new on-site production facilities. Volumes to packaged gas customers were below prior year largely attributable to lower industrial production rates in Brazil. The cost pass-through impact of 1% relates to the contractual pass-through of power costs primarily to on-site customers, with no impact on operating profit. By end-market, year-over-year sales increased to metals and healthcare customers and were relatively flat to manufacturing customers.

Operating profit decreased in the 2013 period versus 2012, primarily due to currency translation impacts which reduced operating profit by 9%. Excluding currency effects, operating profit in the quarter increased 8% from the prior year due to higher pricing and lower costs. Reported operating expenses were below prior-year amounts due primarily to productivity and cost reduction actions. Depreciation and amortization was comparable to the prior year as the start up of new on-site production facilities was offset by currency impacts.

Asia

	Quarter Ended March 31,		Variance	
	2013	2012		
Sales	\$367	\$334	10	%
Cost of sales, exclusive of depreciation and amortization	246	225		
Gross margin	121	109		
Operating expenses	24	21		
Depreciation and amortization	34	31		
Operating profit	\$63	\$57	11	%
Margin %	17.2	% 17.1	%	

	Quarter Ended March 31, 2013 vs. 2012			
	% Change Sales	% Change Operating Profit		
Factors Contributing to Changes				
Volume	11	% 13		%
Price	(1	)% (2		)%
Cost pass-through	—	% —		%
Currency	—	% (1		)%
Acquisitions/divestitures	—	% —		%
Other	—	% 1		%
	10	% 11		%

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

	Quarter Ended March 31, % of Sales		% Change Organic Sales	
	2013	2012		
Sales by End Markets				
Manufacturing	11	% 12	% 3	%
Metals	27	% 25	% 19	%
Energy	—	% —	% —	%
Chemicals	13	% 11	% 29	%
Electronics	35	% 38	% —	%
Healthcare	1	% 1	% 27	%
Food & Beverage	3	% 3	% (10)	)%
Aerospace	—	% —	% —	%
Other	10	% 10	% 19	%
	100	% 100	%	

	Quarter Ended March 31, % of Sales			
	2013	2012		
Sales by Distribution Method				
On- Site		45	% 40	%
Packaged Gas		11	% 13	%
Merchant		29	% 30	%
Other		15	% 17	%
		100	% 100	%

Segment sales increased \$33 million, or 10%, in the first quarter versus 2012. Strong volume growth increased sales by 11% due to higher volumes in China, India, Korea, and Thailand. New plant start-ups in China primarily for metals and chemicals customers contributed significantly to this volume growth.

Operating profit increased \$6 million, or 11% for the first quarter versus 2012 due to higher volumes, partially offset by lower merchant gases pricing, primarily in China.

Surface Technologies

	Quarter Ended March 31,		Variance	
	2013	2012		
Sales	\$163	\$169	(4	)%
Cost of sales, exclusive of depreciation and amortization	107	110		
Gross margin	56	59		
Operating expenses	20	22		
Depreciation and amortization	10	11		
Operating profit	\$26	\$26	—	%
Margin %	16.0	% 15.4	%	

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	Quarter Ended March 31, 2013 vs. 2012			
	% Change Sales		% Change Operating Profit	
Factors Contributing to Changes				
Volume/Price	(2	)%	(11	)%
Cost pass-through	(1	)%	—	%
Currency	(1	)%	(1	)%
Acquisitions/divestitures	—	%	—	%
Other	—	%	12	%
	(4	)%	—	%

The following table provides sales by end-market:

Sales by End Markets	Quarter Ended March 31, % of Sales		% Change Organic Sales	
	2013	2012		
Manufacturing	13	% 14	% (9	)%
Metals	8	% 8	% (3	)%
Energy	28	% 28	% —	%
Chemicals	2	% 2	% (3	)%
Electronics	1	% —	% —	%
Healthcare	—	% —	% —	%
Food & Beverage	3	% 3	% (4	)%
Aerospace	34	% 34	% (2	)%
Other	11	% 11	% (2	)%
	100	% 100	%	

Segment sales decreased \$6 million, or 4% for the quarter ended March 31, 2013 versus 2012. Higher pricing in the quarter partially offset the impact of lower volume. Cost pass-through reduced sales by 1% and relates to precious metal costs, used to make powders used in thermal spray coatings, with no impact on operating profit. Currency translation negatively impacted sales by 1% for the quarter, due primarily to the weakening of the Japanese Yen versus the U.S. Dollar.

Operating profit of \$26 million was comparable to the prior year. Lower sales volumes, primarily industrial and military aviation coatings, and unfavorable product mix reduced operating profit compared to the prior-year period. These decreases were more than offset by higher pricing and lower costs resulting from productivity and previous restructuring actions.

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 used in the countries in which the company operates. 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.

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To help understand the reported results, the following is a summary of the significant currencies underlying Praxair's consolidated results and the exchange rates used to translate the financial statements (rates of exchange expressed in units of local currency per U.S. dollar):

Currency	Percentage of YTD 2013 Consolidated Sales (a)	Exchange Rate for Income Statement Year-To-Date Average		Exchange Rate for Balance Sheet	
		2013	2012	March 31, 2013	December 31, 2012
Brazil real	15	% 2.00	1.77	2.01	2.04
Euro	13	% 0.76	0.76	0.78	0.76
Canada dollar	9	% 1.01	1.01	1.02	0.99
Mexico peso	7	% 12.64	13.27	12.36	13.05
China yuan	5	% 6.26	6.31	6.21	6.29
Korea won	3	% 1,085	1,136	1,113	1,073
India rupee	2	% 54.17	50.59	54.28	54.85
Singapore dollar	1	% 1.24	1.27	1.24	1.22
Argentina peso	1	% 5.02	4.34	5.12	4.91
Colombia peso	<1%	1,792	1,798	1,832	1,768
Taiwan dollar	<1%	29.48	29.88	29.91	29.04
Thailand bhat	<1%	29.80	31.02	29.32	30.64
Venezuela bolivar (b)	<1%	5.30	4.30	6.30	4.30

(a) Certain Surface technologies segment sales are included in European, Indian and Brazilian sales.

On February 8, 2013, the Venezuelan government announced a devaluation of the Venezuelan Bolivar from an

(b) exchange rate of 4.30 to 6.30 effective February 13, 2013. See Note 2 to the condensed consolidated financial statements for a more detailed description of this item.

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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)	Three months ended March 31,	
	2013	2012
<b>NET CASH PROVIDED BY (USED FOR):</b>		
<b>OPERATING ACTIVITIES</b>		
Net income - Praxair, Inc. plus depreciation and amortization	\$657	\$671
Noncontrolling interests	15	13
Net income plus depreciation and amortization (including noncontrolling interests)	672	684
Adjustments to reconcile net income to net cash provided by operating activities:		
Venezuela currency devaluation (a)	23	—
Deferred income taxes	1	69
Working capital	(183	) (265
Pension contributions	(5	) (106
Long-term assets, liabilities and other	(36	) 20
Net cash provided by operating activities	\$472	\$402
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(466	) (483
Acquisitions, net of cash acquired	(1,098	) (12
Divestitures and asset sales	31	64
Net cash used for investing activities	\$(1,533	) \$(431
<b>FINANCING ACTIVITIES</b>		
Debt increases (reductions) - net	1,316	278
Issuances (purchases) of common stock - net	(117	) (102
Cash dividends - Praxair, Inc. shareholders	(178	) (164
Excess tax benefit on share-based compensation	14	32
Noncontrolling interest transactions and other	(5	) —
Net cash (used for) provided by financing activities	\$1,030	\$44

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

**Cash Flow from Operations**

Cash provided by operations of \$472 million for the three months ended March 31, 2013 increased \$70 million versus 2012. The increase was primarily due to lower working capital requirements and pension contributions compared to the prior-year period.

Praxair estimates that total 2013 contributions to its pension plans will be in the area of \$50 million, of which \$5 million have been made through March 31, 2013. In addition, Praxair expects to make \$29 million of cash payments in the next twelve months related to the 2012 cost reduction program (see Note 2 to the condensed consolidated financial statements).

**Investing**

Net cash used for investing of \$1,533 million for the three months ended March 31, 2013 increased \$1,102 million versus 2012 primarily due to the NuCO<sub>2</sub> acquisition, completed on March 1, 2013 (see Note 3 to the condensed consolidated financial statements).

**Financing**

Cash provided by financing activities was \$1,030 million in 2013. Net debt increased \$1,316 million primarily to fund acquisitions and capital expenditures. Cash dividends increased \$