

PRAXAIR INC  
Form 10-Q  
July 25, 2012  
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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 June 30, 2012

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)

**06810-5113**  
(Zip Code)

**(203) 837-2000**

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject

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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 June 30, 2012, 298,171,508 shares of common stock (\$0.01 par value) of the Registrant were outstanding.

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**Table of Contents****PRAXAIR, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(Millions of dollars, except per share data)

(UNAUDITED)

	Quarter Ended June 30,	
	2012	2011
<b>SALES</b>	<b>\$ 2,811</b>	<b>\$ 2,858</b>
Cost of sales, exclusive of depreciation and amortization	1,602	1,640
Selling, general and administrative	310	309
Depreciation and amortization	247	254
Research and development	25	23
Other income (expense) - net	9	(5)
<b>OPERATING PROFIT</b>	<b>636</b>	<b>627</b>
Interest expense - net	33	36
<b>INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS</b>	<b>603</b>	<b>591</b>
Income taxes	169	163
<b>INCOME BEFORE EQUITY INVESTMENTS</b>	<b>434</b>	<b>428</b>
Income from equity investments	10	11
<b>NET INCOME (INCLUDING NONCONTROLLING INTERESTS)</b>	<b>444</b>	<b>439</b>
Less: noncontrolling interests	(15)	(14)
<b>NET INCOME - PRAXAIR, INC.</b>	<b>\$ 429</b>	<b>\$ 425</b>
<b>PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS</b>		
Basic earnings per share	\$ 1.43	\$ 1.40
Diluted earnings per share	\$ 1.42	\$ 1.38
Cash dividends per share	\$ 0.55	\$ 0.50
<b>WEIGHTED AVERAGE SHARES OUTSTANDING (000 s):</b>		
Basic shares outstanding	298,885	303,709
Diluted shares outstanding	302,492	308,253

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

**Table of Contents****PRAXAIR, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(Millions of dollars, except per share data)

(UNAUDITED)

	Six Months Ended June 30,	
	2012	2011
<b>SALES</b>	\$ 5,651	\$ 5,560
Cost of sales, exclusive of depreciation and amortization	3,218	3,176
Selling, general and administrative	645	617
Depreciation and amortization	499	498
Research and development	49	45
Other income (expense) - net	23	(6)
<b>OPERATING PROFIT</b>	1,263	1,218
Interest expense - net	70	71
<b>INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS</b>	1,193	1,147
Income taxes	334	319
<b>INCOME BEFORE EQUITY INVESTMENTS</b>	859	828
Income from equity investments	17	20
<b>NET INCOME (INCLUDING NONCONTROLLING INTERESTS)</b>	876	848
Less: noncontrolling interests	(28)	(25)
<b>NET INCOME - PRAXAIR, INC.</b>	\$ 848	\$ 823
<b>PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS</b>		
Basic earnings per share	\$ 2.84	\$ 2.71
Diluted earnings per share	\$ 2.80	\$ 2.67
Cash dividends per share	\$ 1.10	\$ 1.00
<b>WEIGHTED AVERAGE SHARES OUTSTANDING (000 s):</b>		
Basic shares outstanding	298,981	303,890
Diluted shares outstanding	302,657	308,460

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

**Table of Contents****PRAXAIR, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Millions of dollars)

(UNAUDITED)

	Quarter Ended June 30,	
	2012	2011
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	\$ 444	\$ 439
OTHER COMPREHENSIVE INCOME (LOSS) (Net of Tax)		
Translation adjustments (Note 12)	(548)	133
Derivative instruments (Note 4)	4	(1)
Funded status - retirement obligations (Note 9)	9	(8)
COMPREHENSIVE INCOME (LOSS) (INCLUDING NONCONTROLLING INTERESTS)	(91)	563
Less: noncontrolling interests		(19)
COMPREHENSIVE INCOME (LOSS) - PRAXAIR, INC.	\$ (91)	\$ 544
	Six Months Ended June 30,	
	2012	2011
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	\$ 876	\$ 848
OTHER COMPREHENSIVE INCOME (LOSS) (Net of Tax)		
Translation adjustments (Note 12)	(276)	363
Derivative instruments (Note 4)	5	
Funded status - retirement obligations (Note 9)	16	(5)
COMPREHENSIVE INCOME (INCLUDING NONCONTROLLING INTERESTS)	621	1,206
Less: noncontrolling interests	(19)	(40)
COMPREHENSIVE INCOME - PRAXAIR, INC.	\$ 602	\$ 1,166

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

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**PRAXAIR, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollar amounts in millions)

(UNAUDITED)

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 104	\$ 90
Accounts receivable - net	1,843	1,795
Inventories	469	456
Prepaid and other current assets	236	266
<b>TOTAL CURRENT ASSETS</b>	<b>2,652</b>	<b>2,607</b>
Property, plant and equipment (less accumulated depreciation of \$10,719 in 2012 and \$10,497 in 2011)	10,466	10,131
Goodwill	2,353	2,372
Other intangible assets - net	152	167
Other long-term assets	1,065	1,079
<b>TOTAL ASSETS</b>	<b>\$ 16,688</b>	<b>\$ 16,356</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$ 896	\$ 896
Short-term debt	125	337
Current portion of long-term debt	909	387
Other current liabilities	798	915
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,728</b>	<b>2,535</b>
Long-term debt	5,961	5,838
Other long-term liabilities	1,873	1,966
<b>TOTAL LIABILITIES</b>	<b>10,562</b>	<b>10,339</b>
<b>Commitments and contingencies (Note 10)</b>		
Redeemable noncontrolling interests (Note 12)	232	220
<b>Praxair, Inc. Shareholders' Equity:</b>		
Common stock \$0.01 par value, authorized - 800,000,000 shares, issued 2012 - 382,968,729 shares and 2011 - 382,854,272 shares	4	4
Additional paid-in capital	3,835	3,809
Retained earnings	9,024	8,510
Accumulated other comprehensive income (loss)	(1,992)	(1,746)
Treasury stock, at cost (2012 - 84,797,221 shares and 2011 - 84,324,255 shares)	(5,256)	(5,089)
<b>Total Praxair, Inc. Shareholders' Equity</b>	<b>5,615</b>	<b>5,488</b>
Noncontrolling interests	279	309

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TOTAL EQUITY	5,894	5,797
TOTAL LIABILITIES AND EQUITY	\$ 16,688	\$ 16,356

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



**Table of Contents****PRAXAIR, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Millions of dollars)

(UNAUDITED)

	Six Months Ended June 30,	
	2012	2011
<b>OPERATIONS</b>		
Net income - Praxair, Inc.	\$ 848	\$ 823
Noncontrolling interests	28	25
Net income (including noncontrolling interests)	876	848
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	499	498
Deferred income taxes	83	82
Share-based compensation	35	30
Accounts receivable	(47)	(267)
Inventory	(14)	(50)
Prepaid and other current assets	3	(32)
Payables and accruals	(118)	(153)
Pension contributions	(109)	(85)
Long-term assets, liabilities and other	(81)	61
Net cash provided by operating activities	1,127	932
<b>INVESTING</b>		
Capital expenditures	(1,047)	(767)
Acquisitions, net of cash acquired	(51)	(80)
Divestitures and asset sales	71	37
Net cash used for investing activities	(1,027)	(810)
<b>FINANCING</b>		
Short-term debt borrowings (repayments) - net	(218)	26
Long-term debt borrowings	1,400	699
Long-term debt repayments	(730)	(204)
Issuances of common stock	107	142
Purchases of common stock	(313)	(485)
Cash dividends - Praxair, Inc. shareholders	(328)	(303)
Excess tax benefit on share-based compensation	44	41
Noncontrolling interest transactions and other	(41)	(1)
Net cash (used for) provided by financing activities	(79)	(85)
Effect of exchange rate changes on cash and cash equivalents	(7)	4
Change in cash and cash equivalents	14	41

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Cash and cash equivalents, beginning-of-period	90	39
Cash and cash equivalents, end-of-period	\$ 104	\$ 80

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 2011 Annual Report on Form 10-K. There have been no material changes to the company's significant accounting policies during 2012.

***Accounting Standards Implemented in 2012***

The following standards were effective for Praxair in 2012 and their adoption did not have a significant impact on the condensed consolidated financial statements:

**Testing for Goodwill Impairment** - In September 2011, the FASB issued updated guidance on the periodic testing of goodwill for impairment. This guidance provides companies with the option to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform a quantitative two-step goodwill impairment test. Praxair applied the updated guidance during its annual goodwill review performed in the second quarter of 2012. Refer to Note 7.

**Other Comprehensive Income** - In June 2011, the FASB issued (and subsequently amended in December 2011) a revised standard regarding the presentation of other comprehensive income. Praxair has elected a two-statement approach. Refer to the Condensed Consolidated Statements of Comprehensive Income (Loss) following the Consolidated Statements of Income.

**Expanded Disclosures for Fair Value Measurements** - In May 2011, the FASB issued additional guidance expanding the disclosures for Fair Value Measurements, particularly Level 3 inputs. Refer to Note 5 for the additional guidance, as applicable.

***Accounting Standards to be Implemented***

**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. This guidance will be effective for Praxair beginning with the first quarter 2013. Praxair does not expect this requirement to have any impact on the consolidated financial statements.

**Table of Contents****2. Supplemental Information*****Inventories***

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

<i>(Millions of dollars)</i>	June 30, 2012	December 31, 2011
<b>Inventories</b>		
Raw materials and supplies	\$ 158	\$ 153
Work in process	65	58
Finished goods	246	245
<b>Total inventories</b>	<b>\$ 469</b>	<b>\$ 456</b>

***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 \$45 million and \$53 million at June 30, 2012 and December 31, 2011, respectively, net of reserves of \$44 million and \$64 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 reduction in the balances during 2012 was due primarily to the collection of a portion of the government receivables, foreign currency movements and the write-off of a long-term note receivable which was fully reserved.

**Table of Contents****3. Debt**

The following is a summary of Praxair's outstanding debt at June 30, 2012 and December 31, 2011:

<i>(Millions of dollars)</i>	June 30, 2012	December 31, 2011
<b>SHORT-TERM</b>		
Commercial paper and U.S. bank borrowings	\$ 8	\$ 159
Other bank borrowings (primarily international)	117	178
<b>Total short-term debt</b>	<b>125</b>	<b>337</b>
<b>LONG-TERM</b>		
U.S. borrowings		
Commercial paper <sup>(d)</sup>	575	
6.375% Notes due 2012 <sup>(e)</sup>		501
1.75% Notes due 2012 <sup>(a, b, d)</sup>	402	405
3.95% Notes due 2013 <sup>(d)</sup>	350	350
2.125% Notes due 2013 <sup>(a, b)</sup>	508	513
4.375% Notes due 2014 <sup>(a)</sup>	299	299
5.25% Notes due 2014	400	400
4.625% Notes due 2015	500	500
3.25% Notes due 2015 <sup>(a, b)</sup>	434	434
5.375% Notes due 2016	400	400
5.20% Notes due 2017	325	325
4.50% Notes due 2019 <sup>(a)</sup>	597	597
3.00% Notes due 2021 <sup>(a)</sup>	498	498
4.05% Notes due 2021 <sup>(a)</sup>	496	496
2.45% Notes due 2022 <sup>(a, c)</sup>	598	
Other	5	6
International bank borrowings	472	490
Obligations under capital leases	11	11
	<b>6,870</b>	<b>6,225</b>
Less: current portion of long-term debt	(909)	(387)
<b>Total long-term debt</b>	<b>5,961</b>	<b>5,838</b>
<b>Total debt</b>	<b>\$ 6,995</b>	<b>\$ 6,562</b>

(a) Amounts are net of unamortized discounts.

(b) June 30, 2012 and December 31, 2011 include a \$44 million and \$54 million fair value increase, respectively, related to hedge accounting. See Note 4 for additional information.

(c) In February 2012, Praxair issued \$600 million of 2.45% notes due 2022. The proceeds were used for general corporate purposes.

(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 long-term agreement.

(e) In April 2012, Praxair repaid \$500 million of 6.375% notes that became due.

**Table of Contents****4. 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 June 30, 2012 and December 31, 2011:

	Notional Amounts		Fair Value			
	June 30, 2012	December 31, 2011	June 30, 2012	Assets December 31, 2011	Liabilities June 30, 2012	December 31, 2011
<i>(Millions of dollars)</i>						
<b>Derivatives Not Designated as Hedging Instruments:</b>						
Currency contracts:						
Balance sheet items (a)	\$ 1,541	\$ 1,541	\$ 1	\$ 2	\$ 2	\$ 2
<b>Derivatives Designated as Hedging Instruments:</b>						
Currency contracts:						
Forecasted purchases (a)	\$ 25	\$ 59	\$	\$	\$ 1	\$ 2
Interest rate contracts:						
Interest rate swaps (b)	400	400	34	35		
Treasury rate lock (a)	500		7			
<b>Total</b>	\$ 925	\$ 459	\$ 41	\$ 35	\$ 1	\$ 2
<b>Total Derivatives</b>	\$ 2,466	\$ 2,000	\$ 42	\$ 37	\$ 3	\$ 4

(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.

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### **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.

#### ***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 June 30, 2012 and December 31, 2011, such derivatives were outstanding during the six month periods ended June 30, 2012 and 2011. 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 June 30, 2012, Praxair had an interest-rate swap agreement outstanding related to the \$400 million 3.25% fixed-rate notes that mature in 2015 which effectively convert 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 June 30, 2012, \$34 million was recognized as an increase in the fair value of this note (\$35 million at December 31, 2011).



**Table of Contents****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) Quarter Ended		Amount of Gain Recognized in Earnings (a) Six Months Ended		Unrecognized Gain (a)	
			June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	December 31, 2011
<b>Interest Rate Swaps</b>								
<i>Underlying debt instrument (b):</i>								
\$500 million 2.125% fixed-rate notes that mature in 2013	2011	\$ 18	\$ 3	\$ 1	\$ 5	\$ 1	\$ 8	\$ 13
\$400 million 1.75% fixed-rate notes that mature in 2012	2010	13	1	2	3	3	2	5
\$500 million 6.375% fixed-rate notes that matured in 2012	2002	47		1	1	2		1
<b>Total</b>		\$ 78	\$ 4	\$ 4	\$ 9	\$ 6	\$ 10	\$ 19

(a) 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.

**Table of Contents****Treasury Rate Locks**

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

<i>(Millions of Dollars)</i>	<b>Year Terminated</b>	<b>Original Gain / (Loss)</b>	<b>Unrecognized Gain / (Loss) (a)</b>	
			<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>Outstanding Treasury Rate Locks (b)</b>			\$ 7	\$
<b>Terminated Treasury Rate Locks</b>				
<i>Underlying debt instrument:</i>				
\$500 million 3.000% fixed-rate notes that mature in 2021 (c)	2011	\$ (11)	(10)	(11)
\$600 million 4.50% fixed-rate notes that mature in 2019 (c)	2009	16	12	12
\$500 million 4.625% fixed-rate notes that mature in 2015 (c)	2008	(7)	(3)	(3)
<b>Total - pre-tax</b>			\$ 6	\$ (2)
Less: income taxes			(3)	1
<b>After- tax amounts</b>			\$ 3	\$ (1)

- (a) The unrecognized gains / (losses) for the treasury rate locks are shown in accumulated other comprehensive income ( AOCI ) and upon termination will be recognized on a straight line basis to interest expense net over the term of the underlying debt agreements. Upon settlement of the treasury rate lock contracts, the cash received or paid is 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.
- (b) In June 2012 Praxair entered into a treasury rate lock contract with a notional amount of \$500 million, maturing in December 2012 and covering a period of 10 years from settlement. Praxair entered into this contract in order to hedge the interest rate risk associated with the first \$500 million of forecasted long-term debt issuance planned for the second half of 2012. This issuance is deemed probable and the treasury rate lock has been deemed highly effective.
- (c) 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 impacts of the company's derivatives on the condensed consolidated statements of income and AOCI:

<i>(Millions of dollars)</i>	Amount of Pre-Tax Gain (Loss) Recognized in Earnings (a)				Net Change in AOCI	
	Quarter Ended June 30,		Six Months Ended June 30,			
	2012	2011	2012	2011		
<b>Derivatives Not Designated as Hedging Instruments</b>						
Currency contracts:						
Balance sheet items						
Debt-related	\$ (19)	\$	\$ 18	\$ (6)		
Other balance sheet items	(3)	3	(5)	5		
Anticipated net income		(2)	(4)	(5)		
<b>Total</b>	<b>\$ (22)</b>	<b>\$ 1</b>	<b>\$ 9</b>	<b>\$ (6)</b>		

  

<i>(Millions of dollars)</i>	Amount of Gain (Loss) Recognized in AOCI (b)		Quarter Ended Amount of Gain (Loss) Reclassified from AOCI to the Consolidated Statement of Income (c)		Net Change in AOCI	
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2012	2011	2012	2011	2012	2011
<b>Derivatives Designated as Hedging Instruments</b>						
Currency contracts:						
Forecasted purchases (b)	\$ (2)	\$	\$	\$	\$ (2)	\$
Interest rate contracts:						
Treasury rate locks (b)	7				7	
<b>Total - pre tax</b>	<b>\$ 5</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 5</b>	<b>\$</b>
Less: income taxes	(1)				(1)	
<b>Total - Net of Taxes</b>	<b>\$ 4</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 4</b>	<b>\$</b>

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	Amount of Gain (Loss) Recognized in AOCI (b)		Six Months Ended Amount of Gain (Loss) Reclassified from AOCI to the Consolidated Statement of Income (c)		Net Change in AOCI	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	<i>(Millions of dollars)</i>					
<b>Derivatives Designated as Hedging Instruments</b>						
Interest rate contracts:						
Treasury rate locks (b)	7				7	
Less: income taxes	(2)				(2)	
<b>Total - Net of Taxes</b>	<b>\$ 5</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 5</b>	<b>\$</b>

- (a) 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 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.
- (b) The gains (losses) on forecasted purchases and treasury rate locks are recorded as a component of AOCI within derivative instruments in the consolidated statements of equity. There was no ineffectiveness for these instruments during 2012 or 2011.
- (c) 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 contracts are reclassified to earnings as interest expense net on a straight-line basis over the remaining maturity of the underlying debt. Net gains (losses) of \$1 million are expected to be reclassified to earnings during the next twelve months.

**Table of Contents****5. 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:

<i>(Millions of dollars)</i>	Fair Value Measurements Using					
	Level 1		Level 2		Level 3	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
<b>Assets</b>						
Derivative assets			\$ 42	\$ 37		
<b>Liabilities</b>						
Derivative liabilities			\$ 3	\$ 4		

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 June 30, 2012, the estimated fair value of Praxair's long-term debt portfolio was \$7,324 million versus a carrying value of \$6,870 million. At December 31, 2011, the estimated fair value of Praxair's long-term debt portfolio was \$6,692 million versus a carrying value of \$6,225 million. Differences from carrying amounts are attributable to interest-rate changes subsequent to when the debt was issued.

***Assets measured at Fair Value on a Non-Recurring Basis***

Certain assets are valued at fair value on a non-recurring basis. During the first quarter 2012, the company reduced the value of certain assets in Brazil, Colombia and Chile to estimated fair value which resulted in a \$21 million pre-tax charge to other income (expense) net in the South America segment.

**Table of Contents****6. 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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Numerator (Millions of dollars)</b>				
Net income - Praxair, Inc.	\$ 429	\$ 425	\$ 848	\$ 823
<b>Denominator (Thousands of shares)</b>				
Weighted average shares outstanding	298,316	303,081	298,414	303,265
Shares earned and issuable under compensation plans	569	628	567	625
Weighted average shares used in basic earnings per share	298,885	303,709	298,981	303,890
<b>Effect of dilutive securities</b>				
Stock options and awards	3,607	4,544	3,676	4,570
Weighted average shares used in diluted earnings per share	302,492	308,253	302,657	308,460
<b>Basic Earnings Per Share</b>	\$ 1.43	\$ 1.40	\$ 2.84	\$ 2.71
<b>Diluted Earnings Per Share</b>	\$ 1.42	\$ 1.38	\$ 2.80	\$ 2.67

There were no antidilutive shares for the quarter ended June 30, 2012. Stock options of 1,611,500 were antidilutive and therefore excluded in the computation of diluted earnings per share for the six months ended June 30, 2012. There were no antidilutive shares for the quarter and six months ended June 30, 2011.

**7. Goodwill and Other Intangible Assets**

Changes in the carrying amount of goodwill for the six months ended June 30, 2012 were as follows:

(Millions of dollars)	North America	South America	Europe	Asia	Surface Technologies	Total
Balance, December 31, 2011	\$ 1,375	\$ 215	\$ 618	\$ 24	\$ 140	\$ 2,372
Acquisitions	9		1			10
Purchase adjustments & other	6					6
Foreign currency translation		(18)	(15)		(2)	(35)
Balance, June 30, 2012	\$ 1,390	\$ 197	\$ 604	\$ 24	\$ 138	\$ 2,353

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 2012 test completed this quarter, Praxair applied the FASB's updated accounting guidance (refer to Note 1) 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.



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Changes in the carrying amounts of other intangibles for the six months ended June 30, 2012 were as follows:

<i>(Millions of dollars)</i>	Customer & License/Use Agreements	Non-compete Agreements	Patents & Other	Total
<b>Cost:</b>				
Balance, December 31, 2011	\$ 208	\$ 37	\$ 27	\$ 272
Additions	13	2		15
Foreign currency translation	(1)			(1)
Other	(16)	(5)	(6)	(27)
Balance, June 30, 2012	\$ 204	\$ 34	\$ 21	\$ 259
<b>Less: Accumulated amortization</b>				
Balance, December 31, 2011	\$ (75)	\$ (20)	\$ (10)	\$ (105)
Amortization expense	(5)	(4)	(1)	(10)
Foreign currency translation	(1)			(1)
Other	1	5	3	9
Balance, June 30, 2012	\$ (80)	\$ (19)	\$ (8)	\$ (107)
Net balance at June 30, 2012	\$ 124	\$ 15	\$ 13	\$ 152

There are no expected residual values related to these intangible assets. The remaining weighted-average amortization period for intangible asset is approximately 12 years.

Total estimated annual amortization expense is as follows:

<i>(Millions of dollars)</i>	
Remaining 2012	\$ 12
2013	21
2014	19
2015	18
2016	17
Thereafter	65
	\$ 152

**8. Share-Based Compensation**

Share-based compensation of \$18 million (\$13 million after-tax) and \$16 million (\$11 million after-tax) was recognized during the quarters ended June 30, 2012 and 2011, respectively. Share-based compensation of \$35 million (\$24 million after-tax) and \$30 million (\$21 million after-tax) was recognized for the six months ended June 30, 2012 and 2011, respectively. 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 2011 Annual Report on Form 10-K.

**Stock Options**



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The weighted-average fair value of options granted during six months ended June 30, 2012 was \$17.43 (\$17.70 in 2011) based on the Black-Scholes Options-Pricing model. The decrease in grant date fair value year-over-year is attributable to the impact of lower interest rates partially offset by increases in Praxair's stock price.

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The following weighted-average assumptions were used for grants in 2012 and 2011 :

	Six Months Ended June 30,	
	2012	2011
Dividend yield	2.0%	2.0%
Volatility	22.5%	22.3%
Risk-free interest rate	0.86%	2.2%
Expected term years	5	5

The following table summarizes option activity under the plans as of June 30, 2012 and changes during the six 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, 2012	13,540	\$ 65.30		
Granted	1,650	109.64		
Exercised	(1,893)	51.61		
Cancelled or Expired	(41)	99.75		
Outstanding at June 30, 2012	13,256	72.67	6.1	\$ 478
Exercisable at June 30, 2012	10,129	\$ 63.94	5.1	\$ 454

The aggregate intrinsic value represents the difference between the company's closing stock price of \$108.73 as of June 30, 2012 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 six months ended June 30, 2012 was \$40 million and \$114 million, respectively (\$78 million and \$147 million during the same time periods in 2011, respectively).

Cash received from option exercises under all share-based payment arrangements for the quarter and six months ended June 30, 2012 was \$29 million and \$98 million (\$61 million and \$134 million for the same time periods in 2011, respectively). The cash tax benefit realized from share-based compensation totaled \$15 million and \$61 million for the quarter and six months ended June 30, 2012, of which \$44 million in excess tax benefits was classified as financing cash flows for the six months ended June 30, 2012 (\$28 million and \$52 million tax benefit for the same periods 2011 of which \$41 million represented excess tax benefit for the six months ended June 30, 2011).

As of June 30, 2012, \$38 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 six months ended June 30, 2012, 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 150 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.

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During the six months ended June 30, 2012, the company also granted restricted stock units to employees. The majority of the restricted stock units vest at the end of or ratably over 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 six months ended June 30, 2012 was \$103.13 and \$108.60, respectively (\$92.06 and \$92.19 for the same periods in 2011). 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 June 30, 2012 and changes during the six months then ended (shares based on target amounts, averages are calculated on a weighted basis):

	Performance-Based		Restricted Stock	
	Number of Shares (000 s)	Average Grant Date Fair Value	Number of Shares (000 s)	Average Grant Date Fair Value
Non-vested at January 1, 2012	962	\$ 71.58	340	\$ 75.51
Granted (a)	403	103.13	89	108.60
Vested	(508)	56.41	(95)	62.87
Cancelled	(10)	87.84	(9)	80.01
Non-vested at June 30, 2012	847	\$ 88.90	325	\$ 88.27

(a) Performance-based stock unit grants during 2012 include 120 thousand shares relating to the actual payout of the 2009 PSU grants. The original grant date fair value of these shares was \$56.02, the cost of which was expensed in prior periods.

As of June 30, 2012, based on current estimates of future performance, \$44 million of unrecognized compensation cost related to performance-based awards is expected to be recognized through the first quarter of 2015 and \$17 million of unrecognized compensation cost related to the restricted stock awards is expected to be recognized through the first quarter of 2017.

**9. Retirement Programs**

The components of net pension and postretirement benefits other than pensions ( OPEB ) costs for the quarters and six-months ended June 30, 2012 and 2011 are shown below:

(Millions of dollars)	Quarter Ended June 30,				Six Months Ended June 30,			
	Pensions		OPEB		Pensions		OPEB	
	2012	2011	2012	2011	2012	2011	2012	2011
Service cost	\$ 12	\$ 11	\$ 1	\$ 1	\$ 25	\$ 22	\$ 2	\$ 2
Interest cost	30	32	3	4	61	63	6	8
Expected return on plan assets	(39)	(38)			(78)	(76)		
Net amortization and deferral	17	12	(2)	(2)	34	23	(3)	(4)
Net periodic benefit cost	\$ 20	\$ 17	\$ 2	\$ 3	\$ 42	\$ 32	\$ 5	\$ 6

Praxair estimates that 2012 contributions to its pension plans will be in the area of \$120 million, of which \$109 million have been made through June 30, 2012.



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In 2011 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 expects to record a pension settlement expense of approximately \$9 million in the third quarter 2012 when the payments are made to the retirees.

### **10. Commitments and Contingencies**

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 2011 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.

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 (see Note 2 of Praxair's 2011 Annual Report on Form 10-K). 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 June 30, 2012 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 \$190 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.

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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.

From 2003 to 2012, Praxair and several other co-defendants were the subject of welding fume litigation in which thousands of welders alleged personal injury caused by manganese contained in welding fumes. In January 2012, Praxair and the other co-defendants in this litigation entered into a Resolution Agreement ( Agreement ) that resolved all remaining cases against Praxair in exchange for Praxair's payment of less than \$1 million.

***Contingent Asset-Resolution***

Praxair's Brazilian-based subsidiary, White Martins, had a long-standing claim against a Brazilian power company, Bandeirante Energia SA, which had been successfully litigated, and in 2011 the courts released a cash deposit to White Martins, subject to completion of an appeal process. During the first quarter of 2012, White Martins was notified that the appeal process was favorably concluded, and accordingly, recognized a \$24 million gain to other income (expense), net of legal fees and another litigation matter.

**Table of Contents****11. Segments**

Sales and operating profit by segment for the quarters and six-month periods ended June 30, 2012 and 2011 are shown below. For a description of Praxair's operating segments, refer to Note 18 to the consolidated financial statements of Praxair's 2011 Annual Report on Form 10-K.

<i>(Millions of dollars)</i>	Quarter Ended June 30,		Six Months Ended June 30,	
	2012	2011 (b)	2012	2011 (b)
<b>SALES<sup>(a)</sup></b>				
North America	\$ 1,393	\$ 1,361	\$ 2,791	\$ 2,686
Europe	382	370	759	715
South America	520	611	1,082	1,169
Asia	348	348	682	665
Surface Technologies	168	168	337	325
	<b>\$ 2,811</b>	<b>\$ 2,858</b>	<b>\$ 5,651</b>	<b>\$ 5,560</b>
<b>OPERATING PROFIT</b>				
North America	\$ 363	\$ 326	\$ 724	\$ 638
Europe	68	72	136	140
South America	110	139	225	272
Asia	68	63	125	116
Surface Technologies	27	27	53	52
Total operating profit	<b>\$ 636</b>	<b>\$ 627</b>	<b>\$ 1,263</b>	<b>\$ 1,218</b>

- (a) Intersegment sales, primarily from North America to other segments, were not significant for the quarters and six months ended June 30, 2012 and 2011.
- (b) During the 2012 first quarter, Praxair changed the measurement of its segment sales and operating profit to be based on the country in which the customer is domiciled instead of where the company's selling subsidiary is domiciled. The company believes these changes better represent the sales and profitability by geographic segment. These changes primarily relate to helium and specialty gas sales and result in slightly higher sales and operating profit in the Europe and Asia segments with offsetting declines in the North America segment. Prior period amounts have been reclassified to conform to the current year presentation.

**Table of Contents****12. Equity and Redeemable Noncontrolling Interests***Equity*

A summary of the changes in total equity for the quarters and six months ended June 30, 2012 and 2011 is provided below:

(Millions of dollars)

<b>Activity</b>	<b>2012</b>			<b>Quarter Ended June 30,</b>		
	<b>Praxair, Inc. Shareholders Equity</b>	<b>Noncontrolling Interests</b>	<b>Total Equity</b>	<b>Praxair, Inc. Shareholders Equity</b>	<b>2011 Noncontrolling Interests</b>	<b>Total Equity</b>
Balance, beginning of period	\$ 5,940	\$ 327	\$ 6,267	\$ 6,165	\$ 372	\$ 6,537
Net Income (b)	429	10	439	425	14	439
Translation Adjustments	(533)	(15)	(548)	128	5	133
Derivative Instruments, net of \$1 million taxes in 2012 and net of less than \$1 million 2011	4		4	(1)		(1)
Funded Status - retirement obligations, net of \$3 million in 2012 and 2011	9		9	(8)		(8)
Comprehensive income (loss)	(91)	(5)	(96)	544	19	563
Dividends and other capital reductions to noncontrolling interests		(43)	(43)		(19)	(19)
Additions (Reductions) to noncontrolling interests (a)					(2)	(2)
Redemption value adjustment to redeemable noncontrolling interests	(2)		(2)			
Dividends to Praxair, Inc. common stock holders (\$0.55 per share in 2012 and \$0.50 per share in 2011)	(164)		(164)	(151)		(151)
Issuances of common stock:						
For the dividend reinvestment and stock purchase plan				2		2
For employee savings and incentive plans	30		30	67		67
Purchases of common stock	(131)		(131)	(268)		(268)
Tax benefit from share-based compensation	15		15	25		25
Share-based compensation	18		18	16		16
Balance, end of period	\$ 5,615	\$ 279	\$ 5,894	\$ 6,400	\$ 370	\$ 6,770



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<b>Activity</b>	<b>2012</b>			<b>Six Months Ended June 30,</b>		
	<b>Praxair, Inc. Shareholders Equity</b>	<b>Noncontrolling Interests</b>	<b>Total Equity</b>	<b>Praxair, Inc. Shareholders Equity</b>	<b>Noncontrolling Interests</b>	<b>Total Equity</b>
Balance, beginning of period	\$ 5,488	\$ 309	\$ 5,797	\$ 5,792	\$ 353	\$ 6,145
Net Income (b)	848	18	866	823	25	848
Translation Adjustments	(267)	(9)	(276)	348	15	363
Derivative Instruments, net of \$2 million taxes in 2012	5		5			
Funded Status - retirement obligations, net of \$7 million taxes in 2012 and \$4 million taxes in 2011	16		16	(5)		(5)
Comprehensive income	602	9	611	1,166	40	1,206
Dividends and other capital reductions to noncontrolling interests		(39)	(39)		(22)	(22)
Additions (reductions) to noncontrolling interests (a)					(1)	(1)
Redemption value adjustment to redeemable noncontrolling interests	(6)		(6)			
Dividends to Praxair, Inc. common stock holders (\$1.10 per share in 2012 and \$1.00 per share in 2011)	(328)		(328)	(303)		(303)
Issuances of common stock:						
For the dividend reinvestment and stock purchase plan	3		3	4		4
For employee savings and incentive plans	88		88	144		144
Purchases of common stock	(313)		(313)	(478)		(478)
Tax benefit from stock options	46		46	45		45
Share-based compensation	35		35	30		30
Balance, end of period	\$ 5,615	\$ 279	\$ 5,894	\$ 6,400	\$ 370	\$ 6,770

(a) Praxair increased (decreased) 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.

(b) In 2012, Net income for noncontrolling interests excludes Net income related to redeemable noncontrolling interests of \$5 million and \$10 million for the quarter and six months ended June 30, 2012, respectively, which is not part of total equity (see below). There were no redeemable noncontrolling interests recorded at June 30, 2011.

The components of AOCI are as follows:

<i>(Millions of dollars)</i>	June 30, 2012	December 31, 2011
Cumulative translation adjustments (CTA)	\$ (1,333)	\$ (1,057)
Derivative instruments		(5)
Funded status - retirement obligations	(668)	(684)
	(2,001)	(1,746)
Less: noncontrolling interests (CTA)	(9)	

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AOCI - Praxair, Inc.

\$ (1,992)

\$ (1,746)

**Table of Contents***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.

The following is a summary of redeemable noncontrolling interests for the six months ended June 30, 2012:

<i>(Millions of dollars)</i>	
<i>Balance, December 31, 2011</i>	\$ 220
Net income	10
Distributions to noncontrolling interest	(4)
Redemption value adjustment/accretion	6
<i>Balance, June 30, 2012</i>	\$ 232

**13. Income Taxes**

In June 2012, the Company settled its 2007 and 2008 U.S. income tax audit with the Internal Revenue Service. The settlement was not significant to the consolidated financial statements.

In 2011, the Company requested a pre-filing agreement (PFA) with the U.S. Internal Revenue Service related to a loss of a liquidated subsidiary. The PFA may be settled during the third quarter of 2012, and if resolved favorably, could result in a benefit to income tax expense.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Consolidated Results**

For the second quarter, Praxair's reported sales were 2% below the prior-year quarter. Volume growth and higher prices were more than offset by the negative effects of foreign currency translation due to the strengthening of the US dollar against most foreign currencies, and lower cost pass-through, primarily lower natural gas prices. These two factors reduced sales in the quarter by 8% as compared to the prior year. Excluding these effects, sales grew 6% in the quarter from higher volumes, prices, and acquisitions. Underlying sales grew in all geographic segments except Europe. Sales growth was strongest in North America, coming from solid demand from the energy, metals, and manufacturing markets. Sales in Asia reflect new plant start-ups for chemicals and metals customers. Sales in Europe and South America as compared to the prior-year quarter reflect significant currency headwinds and lower volumes due to softer demand resulting from overall weak macro-economic conditions. New project development activity continues to be robust in North America, South America, and Asia. Reported operating profit grew 1% from the prior-year quarter. Excluding currency effects operating profit grew 9%, higher than the underlying increase in sales. Higher overall volumes, higher pricing, productivity gains, and an increase in other income contributed to the growth in operating profit. By end market, overall sales growth was strongest to the energy, metals and manufacturing markets.

The following table provides summary data for the quarters and six months ended June 30, 2012 and 2011:

<i>(Dollar amounts in millions, except per share data)</i>	Quarter Ended June 30,			Six Months Ended June 30,		
	2012	2011	Variance	2012	2011	Variance
<b>Reported Amounts</b>						
Sales	\$ 2,811	\$ 2,858	(2)%	\$ 5,651	\$ 5,560	2%
Cost of sales, exclusive of depreciation and amortization	\$ 1,602	\$ 1,640	(2)%	\$ 3,218	\$ 3,176	1%
Gross margin	\$ 1,209	\$ 1,218	(1)%	\$ 2,433	\$ 2,384	2%
As a percent of sales	43.0%	42.6%		43.1%	42.9%	
Selling, general and administrative	\$ 310	\$ 309	%	\$ 645	\$ 617	5%
As a percent of sales	11.0%	10.8%		11.4%	11.1%	
Depreciation and amortization	\$ 247	\$ 254	(3)%	\$ 499	\$ 498	%
Other income (expense) - net	\$ 9	\$ (5)		\$ 23	\$ (6)	
Operating profit	\$ 636	\$ 627	1%	\$ 1,263	\$ 1,218	4%
As a percent of sales	22.6%	21.9%		22.4%	21.9%	
Interest expense - net	\$ 33	\$ 36	(8)%	\$ 70	\$ 71	(1)%
Effective tax rate	28.0%	27.6%		28.0%	27.8%	
Income from equity investments	\$ 10	\$ 11	(9)%	\$ 17	\$ 20	(15)%
Noncontrolling interests	\$ (15)	\$ (14)	7%	\$ (28)	\$ (25)	12%
Net income - Praxair, Inc.	\$ 429	\$ 425	1%	\$ 848	\$ 823	3%
Diluted earnings per share	\$ 1.42	\$ 1.38	3%	\$ 2.80	\$ 2.67	5%
Diluted shares outstanding	302,492	308,253	(2)%	302,657	308,460	(2)%

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

Factors Contributing to Changes	Quarter Ended June 30, 2012 vs. 2011 % Change		Six Months Ended June 30, 2012 vs. 2011 % Change	
	Sales	Operating Profit	Sales	Operating Profit
Volume	2%	2%	3%	5%
Price	2%	6%	2%	7%
Cost pass-through	(2)%	%	(1)%	%
Currency	(6)%	(8)%	(4)%	(6)%
Acquisitions/divestitures	2%	1%	2%	2%
Other	%	%	%	(4)%
	(2)%	1%	2%	4%

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

Sales by End Markets	Quarter Ended June 30, % of Sales			Six Months Ended June 30, % of Sales		
	2012	2011	% Change Organic Sales*	2012	2011	% Change Organic Sales*
Manufacturing	26%	24%	7%	25%	24%	7%
Metals	18%	18%	3%	18%	18%	6%
Energy	11%	11%	18%	11%	11%	17%
Chemicals	10%	10%	(2)%	10%	10%	%
Electronics	8%	9%	(6)%	8%	9%	(7)%
Healthcare	8%	8%	5%	8%	9%	5%
Food & Beverage	6%	6%	(2)%	6%	6%	1%
Aerospace	3%	3%	11%	3%	3%	10%
Other	10%	11%	(6)%	11%	10%	(1)%
	100%	100%		100%	100%	

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

Sales by Distribution Method	Quarter Ended June 30, % of Sales		Six Months Ended June 30, % of Sales	
	2012	2011	2012	2011
On- Site	25%	25%	25%	25%
Packaged Gas	29%	27%	29%	28%
Merchant	31%	31%	31%	31%
Other	15%	17%	15%	16%
	100%	100%	100%	100%



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Sales declined \$47 million, or 2%, for the second quarter and increased \$91 million, or 2%, for the six months ended June 30, 2012 versus the respective 2011 periods. For both the quarter and year-to-date periods, sales increased due to higher volumes and higher overall pricing. Volume growth was 2% in the quarter and 3% in the year-to-date period, attributable primarily to growth in North America and Asia, including new plant start-ups. Higher overall pricing increased sales by 2% in both the quarter and six month period. Acquisitions increased sales by 2% for both the quarter and six month periods, primarily due to the consolidation of an industrial gas business in Scandinavia in the fourth quarter of 2011. Weaker foreign currencies relative to the US Dollar reduced sales by 6% and 4% for the quarter and year-to-date periods, respectively, as compared to the same periods in 2011, and lower cost pass-through due to lower natural gas prices reduced sales by 2% in the quarter and 1% for the six month period. By customer end-market, organic sales growth to energy, metals, and manufacturing customers was strongest compared with the prior year. A further discussion of sales by segment is included in the segment discussion that follows.

Gross margin in 2012 decreased \$9 million, or 1%, in the second quarter and increased \$49 million, or 2%, for the six months ended June 30, 2012 versus the respective 2011 periods. For the quarter, the decrease was a result of negative currency effects which more than offset the increased margin from higher volumes and pricing. The increase for the year-to-date period came primarily from higher volumes and price, partially offset by negative currency effects. Gross margin as a percentage of sales for the second quarter and year-to-date periods increased modestly versus the prior year. Excluding the effect of lower cost pass-through on sales, the gross margin percentage was modestly below the prior-year for the quarter and six months.

Selling, general and administrative (SG&A) expenses increased \$1 million for the second quarter and \$28 million, or 5%, for the six months ended June 30, 2012 versus the respective 2011 periods. The increase was due primarily to increased pension and other benefit costs, incentive compensation and acquisitions, partially offset by negative currency effects.

Depreciation and amortization expense decreased \$7 million, or 3%, for the second quarter and increased \$1 million for the six months ended June 30, 2012 versus the respective 2011 periods. Excluding currency impacts, depreciation and amortization increased in both periods due to new project start-ups and acquisitions.

Other income (expense) net was a \$9 million and \$23 million benefit for the quarter and six months ended June 30, 2012, respectively versus a \$5 million expense and \$6 million expense in the respective 2011 periods. The quarter and six month period included, among other items, a gain on a land sale in Korea and other asset sales, partially offset by severance and other charges. The year-to-date period also included a gain from litigation settlements in South America, partially offset by business restructuring costs in South America. The 2011 quarter and six-month periods included \$1 million and \$2 million of currency-related net losses, respectively, primarily related to net income hedges.

Operating profit increased \$9 million, or 1%, for the second quarter and increased \$45 million, or 4%, for the six months ended June 30, 2012 versus the respective 2011 periods. For the quarter, operating profit increased 9% excluding currency effects. Operating margin increased slightly from the prior year periods. A discussion of operating profit by segment is included in the segment discussion that follows.

Interest expense net decreased \$3 million, or 8%, for the second quarter and \$1 million, or 1%, for the six months ended June 30, 2012 versus the respective periods in 2011 despite higher debt levels due to lower interest rates.

The effective tax rate for the second quarter 2012 was 28.0% versus 27.6% for the same period in 2011. The effective tax rate for the six months ended June 30, 2012 was 28.0% versus 27.8% for the same period in 2011.

Praxair's significant sources of equity income are in China, Italy and the Middle East. Income from equity investments decreased \$1 million in the second quarter and decreased \$3 million for the six months ended June 30, 2012 versus the respective 2011 periods. This decrease relates to the acquisition of a controlling interest in an industrial gas business in Scandinavia in October 2011, which required consolidation. This decrease was partially offset by higher earnings from affiliates in Italy, the Middle East, and China.

At June 30, 2012, noncontrolling interests consisted primarily of noncontrolling shareholders' investments in Asia (primarily in China and India), Europe (primarily in Italy and Scandinavia), and North America (primarily within

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the U.S. packaged gas business). Noncontrolling interests increased \$1 million for the second quarter and increased \$3 million for the six months ended June 30, 2012 versus the respective periods in 2011 due to higher earnings of these entities and the consolidation of the Scandinavian industrial gas business.

Net income Praxair, Inc. increased \$4 million, or 1%, for the second quarter and increased \$25 million, or 3%, for the six months ended June 30, 2012 versus the respective periods in 2011. The increase was due primarily to higher operating profit and lower interest expense, partially offset by higher income taxes.

EPS increased \$0.04 per diluted share, or 3%, for the second quarter and increased \$0.13 per diluted share, or 5%, for the six months ended June 30, 2012 versus the respective periods in 2011. The increase in EPS is attributable to an increase in net income Praxair, Inc. coupled with a lower number of diluted shares outstanding due to the impact of the company's net repurchases of common stock.

Comprehensive income for the 2012 quarter includes a negative currency translation adjustment of \$548 million reflecting the impact of translating foreign subsidiary balance sheets to US Dollars using exchange rates at June 30, 2012. The impact is negative because the US Dollar strengthened significantly against almost all foreign currencies during the quarter, primarily the Brazilian Real and Euro. For the six months, the currency translation adjustment impact was a negative \$276 million.

**Segment Discussion**

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

<i>(Dollar amounts in millions)</i>	Quarter ended June 30,			Six Months Ended June 30,		
	2012	2011 (a)	Variance	2012	2011 (a)	Variance
<b>SALES</b>						
North America	\$ 1,393	\$ 1,361	2%	\$ 2,791	\$ 2,686	4%
Europe	382	370	3%	759	715	6%
South America	520	611	(15)%	1,082	1,169	(7)%
Asia	348	348	%	682	665	3%
Surface Technologies	168	168	%	337	325	4%
	\$ 2,811	\$ 2,858		\$ 5,651	\$ 5,560	
<b>OPERATING PROFIT</b>						
North America	\$ 363	\$ 326	11%	\$ 724	\$ 638	13%
Europe	68	72	(6)%	136	140	(3)%
South America	110	139	(21)%	225	272	(17)%
Asia	68	63	8%	125	116	8%
Surface Technologies	27	27	%	53	52	2%
Total operating profit	\$ 636	\$ 627		\$ 1,263	\$ 1,218	

- a) During the 2012 first quarter, Praxair changed the measurement of its segment sales and operating profit. Prior period amounts have been reclassified to conform to the current year classification (See Note 11). These reclassified amounts are reflected in the segment tables below.



**Table of Contents****North America**

	Quarter Ended June 30,			Six Months Ended June 30,		
	2012	2011	Variance	2012	2011	Variance
Sales	\$ 1,393	\$ 1,361	2%	\$ 2,791	\$ 2,686	4%
Cost of sales, exclusive of depreciation and amortization	742	748		1,483	1,463	
Gross margin	651	613		1,308	1,223	
Operating expenses	167	162		338	338	
Depreciation and amortization	121	125		246	247	
Operating profit	\$ 363	\$ 326	11%	\$ 724	\$ 638	13%
Margin %	26.1%	24.0%		25.9%	23.8%	

Factors Contributing to Changes	2012 vs. 2011 % Change		2012 vs. 2011 % Change	
	Sales	Operating Profit	Sales	Operating Profit
Volume	4%	6%	6%	10%
Price	2%	8%	2%	9%
Cost pass-through	(4)%	%	(3)%	%
Currency	(2)%	(3)%	(2)%	(2)%
Acquisitions/divestitures	2%	%	1%	1%
Other	%	%	%	(5)%
	2%	11%	4	13

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

Sales by End Markets	Quarter Ended June 30,			Six Months Ended June 30,		
	% of Sales 2012	% of Sales 2011	% Change Organic Sales	% of Sales 2012	% of Sales 2011	% Change Organic Sales
Manufacturing	33%	29%	12%	32%	28%	12%
Metals	14%	14%	3%	14%	14%	6%
Energy	16%	16%	21%	16%	16%	21%
Chemicals	10%	11%	(6)%	11%	11%	(2)%
Electronics	5%	6%	(9)%	5%	6%	(7)%
Healthcare	7%	8%	(2)%	7%	9%	(1)%
Food & Beverage	5%	5%	(4)%	5%	5%	%
Other	10%	11%	(1)%	10%	11%	5%
	100%	100%		100%	100%	

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	Quarter Ended June 30, % of Sales		Six Months Ended June 30, % of Sales	
	2012	2011	2012	2011
<b>Sales by Distribution Method</b>				
On- Site	27%	28%	27%	28%
Packaged Gas	34%	31%	34%	32%
Merchant	32%	32%	32%	32%
Other	7%	9%	7%	8%
	100%	100%	100%	100%

Segment sales growth in the quarter and six month periods came from higher volumes and higher pricing, partially offset by negative currency effects and lower cost pass-through, primarily lower natural gas prices passed through to hydrogen customers. In the quarter, sales grew \$32 million, or 8%, excluding currency and cost pass-through. Volumes increased 4% and pricing increased 2%. Acquisitions of packaged gas distributors increased sales by 2%. The effects of currency and cost pass-through reduced sales by 6%. For the six month period, sales increased \$105 million, or 9%, excluding currency and cost pass-through. Volumes, pricing and acquisitions increased sales by 6%, 2% and 1%, respectively, and were partially offset by the effects of currency and cost pass-through which reduced sales by 5%.

Operating profit increased \$37 million, or 11%, for the second quarter and increased \$86 million, or 13%, for the six months ended June 30, 2012 versus the respective 2011 periods. Higher volumes, pricing and productivity savings drove the increase and more than offset inflationary cost increases and the negative impact of currency translation. The operating margin rose to 26.0% for the quarter and year-to-date periods. Lower cost pass-through which reduces sales with minimal impact on operating profit benefited operating margin by 1% in both the quarter and year-to-date periods.

**Europe**

	Quarter Ended June 30,			Six Months Ended June 30,		
	2012	2011	Variance %	2012	2011	Variance %
Sales	\$ 382	\$ 370	3%	\$ 759	\$ 715	6%
Cost of sales, exclusive of depreciation and amortization	217	213		430	412	
Gross margin	165	157		329	303	
Operating expenses	60	51		118	96	
Depreciation and amortization	37	34		75	67	
Operating profit	\$ 68	\$ 72	(6)%	\$ 136	\$ 140	(3)%
Margin %	17.8%	19.5%		17.9%	19.6%	

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	2012 vs. 2011		2012 vs. 2011	
	% Change	% Change	% Change	% Change