PRAXAIR INC
Form 10-Q
October 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
PRAXAIR, INC.
(Exact name of registrant as specified in its charter)
DELAWARE
(State or other jurisdiction of incorporation)

1-11037	06-1249050
(Commission File Number)	(IRS Employer Identification No.)
39 OLD RIDGEBURY ROAD, DANBURY, CT	06810-5113
(Address of principal executive offices)	(Zip Code)

(203) 837-2000
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ý	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 ý
At September 30, 2014, 291,372,541 shares of common stock ($0.01 par value) of the Registrant were outstanding.

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

	Quarter Ended September 30,	
	2014	2013
SALES	$3,144	$3,013
Cost of sales, exclusive of depreciation and amortization	1,780	1,697
Selling, general and administrative	327	336
Depreciation and amortization	301	281
Research and development	25	24
Venezuela currency devaluation and other charges	—	9
Other income (expense) - net	—	4
OPERATING PROFIT	711	670
Interest expense - net	45	41
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	666	629
Income taxes	187	175
INCOME BEFORE EQUITY INVESTMENTS	479	454
Income from equity investments	11	8
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	490	462
Less: noncontrolling interests	(13)	(17)
NET INCOME - PRAXAIR, INC.	$477	$445
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	$1.63	$1.51
Diluted earnings per share	$1.62	$1.49
Cash dividends per share	$0.65	$0.60
WEIGHTED AVERAGE SHARES OUTSTANDING (000's):		
Basic shares outstanding	292,170	295,124
Diluted shares outstanding	295,239	298,357

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

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

	Nine Months Ended September 30,	
	2014	2013
SALES	$9,283	$8,915
Cost of sales, exclusive of depreciation and amortization	5,273	5,045
Selling, general and administrative	988	1,017
Depreciation and amortization	879	822
Research and development	72	72
Venezuela currency devaluation and other charges	—	32
Other income (expense) - net	12	8
OPERATING PROFIT	2,083	1,935
Interest expense - net	134	122
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	1,949	1,813
Income taxes	546	513
INCOME BEFORE EQUITY INVESTMENTS	1,403	1,300
Income from equity investments	30	29
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	1,433	1,329
Less: noncontrolling interests	(41)	(48)
NET INCOME - PRAXAIR, INC.	$1,392	$1,281
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	$4.75	$4.33
Diluted earnings per share	$4.70	$4.28
Cash dividends per share	$1.95	$1.80
WEIGHTED AVERAGE SHARES OUTSTANDING (000’s):		
Basic shares outstanding	293,103	295,799
Diluted shares outstanding	296,240	299,077

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

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

	Quarter Ended September 30, 2014	2013
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	$490	$462
OTHER COMPREHENSIVE INCOME (LOSS)		
Translation adjustments:		
Foreign currency translation adjustments	(604)	77
Income taxes	(5)	—
Translation adjustments	(609)	77
Funded status - retirement obligations (Note 11):		
Retirement program remeasurements	18	5
Reclassifications to net income	12	31
Income taxes	(9)	(13)
Funded status - retirement obligations	21	23
Derivative instruments (Note 6):		
Current quarter unrealized gain (loss)	—	1
Derivative instruments	—	1
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(588)	101
COMPREHENSIVE INCOME (LOSS) (INCLUDING NONCONTROLLING INTERESTS)	(98)	563
Less: noncontrolling interests	7	(23)
COMPREHENSIVE INCOME (LOSS) - PRAXAIR, INC.	$(91)	$540

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

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

	Nine Months Ended September 30,	
	2014	2013
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	$1,433	$1,329
OTHER COMPREHENSIVE INCOME (LOSS)		
Translation adjustments:		
Foreign currency translation adjustments	(460)	(354)
Reclassifications to net income	(3)	—
Income taxes	(20)	19
Translation adjustments	(483)	(335)
Funded status - retirement obligations (Note 11):		
Retirement program remeasurements	2	(4)
Reclassifications to net income	39	76
Income taxes	(13)	(23)
Funded status - retirement obligations	28	49
Derivative instruments (Note 6):		
Current period unrealized gain	3	1
Income taxes	(1)	—
Derivative instruments	2	1
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(453)	(285)
COMPREHENSIVE INCOME (INCLUDING NONCONTROLLING INTERESTS)	980	1,044
Less: noncontrolling interests	(18)	(40)
COMPREHENSIVE INCOME - PRAXAIR, INC.	$962	$1,004

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

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

	September 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$168	$138
Accounts receivable - net	1,959	1,892
Inventories	545	506
Prepaid and other current assets	386	380
TOTAL CURRENT ASSETS	3,058	2,916
Property, plant and equipment (less accumulated depreciation of $12,049 in 2014 and $11,753 in 2013)	12,268	12,278
Goodwill	3,189	3,194
Other intangible assets - net	610	596
Other long-term assets	1,259	1,271
TOTAL ASSETS	$20,384	$20,255
LIABILITIES AND EQUITY		
Accounts payable	$864	$921
Short-term debt	619	782
Current portion of long-term debt	413	3
Other current liabilities	1,064	958
TOTAL CURRENT LIABILITIES	2,960	2,664
Long-term debt	8,089	8,026
Other long-term liabilities	2,205	2,255
TOTAL LIABILITIES	13,254	12,945
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests	190	307
Praxair, Inc. Shareholders’ Equity:		
Common stock $0.01 par value, authorized - 800,000,000 shares, issued - 383,230,625 shares for both periods	4	4
Additional paid-in capital	3,981	3,970
Retained earnings	11,348	10,528
Accumulated other comprehensive income (loss)	(2,411)	(1,981)
Treasury stock, at cost (2014 - 91,858,084 shares and 2013 - 89,096,761 shares)	(6,370)	(5,912)
Total Praxair, Inc. Shareholders’ Equity	6,552	6,609
Noncontrolling interests	388	394
TOTAL EQUITY	6,940	7,003
TOTAL LIABILITIES AND EQUITY	$20,384	$20,255

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

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

	Nine Months Ended September 30,	
	2014	2013
OPERATIONS		
Net income - Praxair, Inc.	$1,392	$1,281
Noncontrolling interests	41	48
Net income (including noncontrolling interests)	1,433	1,329
Adjustments to reconcile net income to net cash provided by operating activities:		
Venezuela currency devaluation	—	23
Depreciation and amortization	879	822
Deferred income taxes	(32)	88
Share-based compensation	42	52
Working capital:		
Accounts receivable	(144)	(139)
Inventory	(52)	(63)
Prepaid and other current assets	18	(54)
Payables and accruals	(3)	18
Pension contributions	(14)	(48)
Long-term assets, liabilities and other	(31)	(75)
Net cash provided by operating activities	2,096	1,953
INVESTING		
Capital expenditures	(1,207)	(1,504)
Acquisitions, net of cash acquired	(191)	(1,311)
Divestitures and asset sales	86	65
Net cash used for investing activities	(1,312)	(2,750)
FINANCING		
Short-term debt borrowings (repayments) - net	(161)	504
Long-term debt borrowings	867	2,105
Long-term debt repayments	(312)	(939)
Issuances of common stock	85	108
Purchases of common stock	(562)	(458)
Cash dividends - Praxair, Inc. shareholders	(570)	(531)
Excess tax benefit on share-based compensation	28	31
Noncontrolling interest transactions and other	(123)	(24)
Net cash (used for) provided by financing activities	(748)	796
Effect of exchange rate changes on cash and cash equivalents	(6)	(22)
Change in cash and cash equivalents	30	(23)
Cash and cash equivalents, beginning-of-period	138	157
Cash and cash equivalents, end-of-period	$168	$134

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

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

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

1. Summary of Significant Accounting Policies

Presentation of Condensed Consolidated Financial Statements - In the opinion of Praxair, Inc. (Praxair) management, the accompanying condensed consolidated financial statements include all adjustments necessary for a fair presentation of the results for the interim periods presented and such adjustments are of a normal recurring nature. The accompanying condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements of Praxair, Inc. and subsidiaries in Praxair’s 2013 Annual Report on Form 10-K. There have been no material changes to the company’s significant accounting policies during 2014.

Inventories - Effective July 1, 2014, the Company changed its method of accounting for all remaining operations that were using the last-in, first-out (“LIFO”) method to the average-cost method. This change only impacted approximately 6% of Praxair's inventories which were accounted for under the LIFO method. See Note 4.

Accounting Standards Implemented in 2014

The following standards were effective for Praxair in 2014 and their adoption did not have a significant impact on the condensed consolidated financial statements:

- Accounting for Cumulative Translation Adjustment – In March 2013, the Financial Accounting Standards Board ("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. The adoption of this guidance did not have a significant impact on the condensed consolidated financial statements.
- Presentation of Unrecognized Tax Benefits – In July 2013, the FASB issued updated guidance on the presentation of unrecognized tax benefits. The new guidance requires an entity to present certain unrecognized tax benefits, or a portion thereof, as a reduction to the related deferred tax asset, primarily for loss and tax credit carryforwards. The adoption of this guidance did not have a significant impact on the condensed consolidated financial statements.

Accounting Standards to be Implemented

- Reporting Discontinued Operations – In April 2014, the FASB issued updated guidance on the reporting and disclosures of discontinued operations. The new guidance requires that the disposal of a component of an entity be reported as discontinued operations only if the action represents a strategic shift that will have a major effect on an entity’s operations and financial results, and would require expanded disclosures. This guidance will be effective for Praxair beginning in the first quarter of 2015, with early adoption optional.
- Revenue Recognition – In May 2014, the FASB issued updated guidance on the reporting and disclosure of revenue. The new guidance requires the evaluation of contracts with customers to determine the recognition of revenue when or as the entity satisfies a performance obligation, and would require expanded disclosures. This guidance will be effective for Praxair beginning in the first quarter 2017 and includes several transition options. Praxair is in the early stages of reviewing the new guidance and will provide updates on the expected impact to Praxair in future filings, as determined.
- Accounting for Share-based Compensation - In June 2014, the FASB issued updated guidance on the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. Praxair does not expect this requirement to have a significant impact on the consolidated financial statements. This guidance will be effective for Praxair beginning in the first quarter 2016, with early adoption optional.

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

2. 2013 Venezuela Currency Devaluation and Other Charges

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. In the first quarter 2013 Praxair recorded a $23 million pre-tax charge ($23 million after-tax

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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.

Pension Settlement Charge

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. Accordingly, Praxair recorded a settlement charge related to net unrecognized actuarial losses of \$9 million (\$6 million after-tax) in the third quarter 2013, when the cash payments were made to the retirees.

3. Acquisitions

2014 Acquisitions

During the nine months ended September 30, 2014 Praxair had acquisitions totaling \$191 million. These consisted primarily of an industrial gases business in Italy and packaged gases businesses in North and South America. These transactions resulted in goodwill and other intangible assets of \$71 million and \$53 million, respectively (see Note 9). The allocation of the purchase price is based on preliminary estimates and assumptions, and are subject to revision based on final information received, including appraisals and other analyses that support the underlying estimates. Adjustments, if any, are not expected to be material.

2013 Acquisitions

NuCO_2

On March 1, 2013 Praxair acquired 100% of NuCO_2 Inc. ("NuCO_2") for \$1,095 million. NuCO_2 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_2 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_2 was accounted for as a business combination. Following the acquisition date, 100% of NuCO_2's results were consolidated in the North America business segment. For the quarters ended March 31, 2014 and 2013, Praxair's consolidated income statement includes sales of \$63 million and \$20 million, respectively, related to NuCO_2. Pro forma results for 2013 have not been included as the impact of the acquisition is not material to the consolidated statements of income.

The following table summarizes the fair value of identifiable assets acquired and liabilities assumed in the acquisition of NuCO_2 as of the acquisition date. Purchase accounting has been finalized and adjustments made subsequent to the acquisition date were not significant.

(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 (i) expected growth from market penetration into the quick service restaurants, convenience stores and themed restaurant chains in the United States and select international markets as we leverage Praxair's customer and distribution networks worldwide, and (ii) cost synergies related to the procurement of raw materials, distribution-related expenses and administrative costs as we integrate and rationalize administration tasks and leverage Praxair's purchasing scale. The goodwill is not deductible for income tax purposes.

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Other Acquisitions

On May 29, 2013 Praxair acquired Dominion Technology Gases (“Dominion”), a leading global supplier of diving, welding, industrial, laboratory and calibration gases and associated equipment to the offshore oil and gas industry based in Aberdeen, Scotland. Dominion provides products and services to the expanding global offshore oil and gas market.

On June 3, 2013 Praxair acquired Volgograd Oxygen Factory (“VOF”), the largest independent industrial gas business in southern Russia, expanding Praxair's production and distribution capabilities in the Volgograd region. Additionally, Praxair acquired several smaller independent package gas distributors in the United States and a customer contract with operating assets in China.

The results of operations of these acquisitions were consolidated from the respective acquisition dates, primarily in the Europe business segment and the impact was not significant. The aggregate purchase price for these acquisitions was $216 million and resulted in the recognition of $186 million of intangible assets, including $99 million of goodwill and $87 million relating to other intangible assets, which will be amortized over their estimated useful life.

4. Supplemental Information
Inventories
The following is a summary of Praxair’s consolidated inventories:

(Millions of dollars)	September 30, 2014	December 31, 2013
Inventories *		
Raw materials and supplies	$176	$167
Work in process	61	58
Finished goods	308	281
Total inventories	$545	$506

* Effective July 1, 2014, Praxair changed its method of accounting for all remaining operations that were using the last-in, first-out (“LIFO”) method to the average-cost method, primarily raw materials. This change only impacted approximately 6% of consolidated inventories which were accounted for under the LIFO method. Praxair applied this change as a cumulative effect adjustment in the third quarter 2014 and did not restate prior periods because the impact was not material. The accounting change increased inventories by $9 million at September 30, 2014, and decreased cost of sales, exclusive of depreciation and amortization $9 million ($6 million after-tax) for both the quarter and nine-month periods ended September 30, 2014. The Company believes the change is preferable because it will better reflect the impact of current costs in both the consolidated balance sheets and consolidated statements of income, is comparable accounting to the peer group and is aligned with Praxair's inventory management.

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 $47 million and $36 million at September 30, 2014 and December 31, 2013, respectively. These amounts are net of reserves of $52 million and $51 million, respectively. The amounts in both periods relate primarily to government receivables in Brazil and other long-term notes receivable from customers. Collectability is reviewed regularly and uncollectible amounts are written-off as appropriate. The account balance changes during 2014 were primarily the result of additional receivables, net of reserves.

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5. Debt

The following is a summary of Praxair’s outstanding debt at September 30, 2014 and December 31, 2013:

(Millions of dollars)	September 30, 2014	December 31, 2013
SHORT-TERM		
Commercial paper and U.S. bank borrowings	$565	$712
Other bank borrowings (primarily international)	54	70
Total short-term debt	619	782
LONG-TERM		
U.S. borrowings (U.S. dollar denominated unless otherwise noted)		
4.375% Notes due 2014 (a)	—	300
4.625% Notes due 2015 (b)	500	500
3.25% Notes due 2015 (c, d)	411	418
0.75% Notes due 2016	400	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	500	500
1.25% Notes due 2018 (c, d)	478	478
4.50% Notes due 2019 (c)	598	598
1.90% Notes due 2019	500	500
1.50% Euro-denominated notes due 2020 (c, e)	754	—
4.05% Notes due 2021 (c)	498	498
3.00% Notes due 2021 (c)	497	497
2.45% Notes due 2022 (c)	598	598
2.20% Notes due 2022 (c)	499	499
2.70% Notes due 2023 (c)	499	498
3.55% Notes due 2042 (c)	466	466
Other	5	5
International bank borrowings (b)	166	140
Obligations under capital leases	8	9
	8,502	8,029
Less: current portion of long-term debt	(413)	(3)
Total long-term debt	8,089	8,026
Total debt	$9,121	$8,811

(a) In March 2014, Praxair repaid $300 million of 4.375% notes that became due.

(b) Classified as long-term because of the company’s intent to refinance this debt on a long-term basis and the availability of such financing under the terms of an existing $2 billion long-term credit facility.

(c) Amounts are net of unamortized discounts.

(d) September 30, 2014 and December 31, 2013 include a $14 million and $22 million fair value increase, respectively, related to hedge accounting. See Note 6 for additional information.

(e) During March 2014, Praxair issued €600 million 1.50% Euro-denominated notes due 2020. This debt issuance has been designated as a hedge of the net investment position in European operations where the Euro is the functional currency (see Note 6). The proceeds of this debt issuance were used for general corporate purposes, including acquisitions, repayment of debt and share repurchases under the company's share repurchase program.

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6. Financial Instruments

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

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

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

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

The following table is a summary of the notional amount and fair value of derivatives outstanding at September 30, 2014 and December 31, 2013 for consolidated subsidiaries:

(Millions of dollars)	Notional Amounts		Fair Value Assets		Liabilities	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Derivatives Not Designated as Hedging Instruments:						
Currency contracts:						
Balance sheet items (a)	$2,269	$ 2,197	$4	$ 4	$34	$ 14
Derivatives Designated as Hedging Instruments:						
Currency contracts:						
Forecasted purchases (a)	$—	$ 5	$—	$ —	$—	$ —
Interest rate contracts:						
Interest rate swaps (b)	875	875	14	22	—	—
Total	$875	$ 880	$14	$ 22	$—	$ —
Total Derivatives	$3,144	$ 3,077	$18	$ 26	$34	$ 14

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

Currency Contracts

Balance Sheet Items

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

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

Net Investment Hedge

Praxair has designated the €600 million ($754 million as of September 30, 2014) 1.50% Euro-denominated notes due 2020, as a hedge of the net investment position in its European operations. This Euro-denominated debt instrument reduces the company's exposure to changes in the currency exchange rate on investments in foreign subsidiaries with Euro functional currencies. Since the time the Euro-denominated notes were issued in March 2014 through September 30, 2014, exchange rate movements have reduced long-term debt by $74 million, with the offsetting gain shown within the cumulative translation component of AOCI in the condensed consolidated balance sheets and the condensed consolidated statements of comprehensive income.

Interest Rate Contracts

Outstanding Interest Rate Swaps

At September 30, 2014, Praxair had $875 million notional amount of interest-rate swap agreements outstanding related to the $400 million 3.25% fixed-rate notes that mature in 2015 and to the $475 million 1.25% notes that mature 2018, which effectively convert fixed-rate interest to variable-rate interest. These swap agreements were designated as fair value hedges 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 September 30, 2014, $14 million was recognized as an increase in the fair value of these notes ($22 million at December 31, 2013).

Terminated Interest Rate Swap

During 2010, Praxair entered into a $500 million notional amount of interest-rate swap agreement that effectively converted fixed-rate interest to variable-rate interest on the $500 million 2.125% notes that matured in June 2013. This swap agreement was terminated in 2011, and Praxair received a $18 million cash payment. This $18 million gain was recognized in earnings as a reduction to interest expense over the remaining term of the underlying debt. Accordingly, during the nine months ended September 30, 2013, $4 million was recognized as a reduction to interest expense. No other periods presented herein were impacted.

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) September 30, 2014	December 31, 2013
Treasury Rate Locks				
Underlying debt instrument:				
$500 million 2.20% fixed-rate notes that mature in 2022 (b)	2012	$(2)	$ (1)	$ (2)
$500 million 3.00% fixed-rate notes that mature in 2021 (b)	2011	(11)	(8)	(9)
$600 million 4.50% fixed-rate notes that mature in 2019 (b)	2009	16	8	10
$500 million 4.625% fixed-rate notes that mature in 2015 (b)	2008	(7)	—	(1)
Total - pre-tax			$ (1)	$ (2)
Less: income taxes			—	1
After- tax amounts			$ (1)	$ (1)

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

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

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

	Amount of Pre-Tax Gain (Loss) Recognized in Earnings *			
	Quarter Ended September 30,		Nine Months Ended September 30,	
(Millions of dollars)	2014	2013	2014	2013
Derivatives Not Designated as Hedging Instruments				
Currency contracts:				
Balance sheet items				
Debt-related	$(45)	$(4)	$(16)	$(10)
Other balance sheet items	(5)	1	(1)	(9)
Total	$(50)	$(3)	$(17)	$(19)

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

Derivatives Designated as Hedging Instruments **

	Quarter Ended			
	Amount of Gain (Loss) Recognized in AOCI		Amount of Gain (Loss) Reclassified from AOCI to the Consolidated Statement of Income	
(Millions of dollars)	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Currency contracts:				
Forecasted purchases	$—	$1	$—	$—