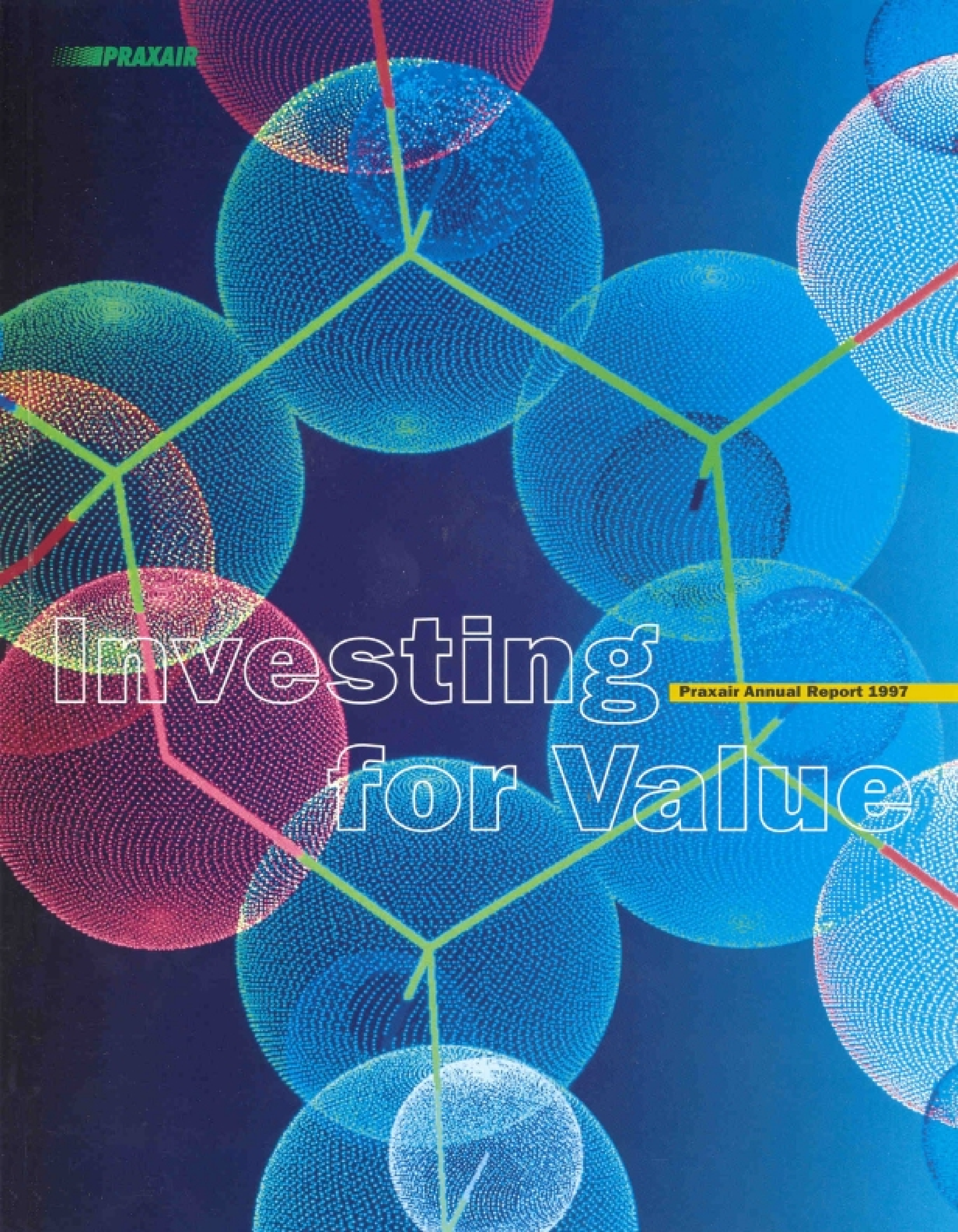
PRAXAIR

Investing for Value

Praxair Annual Report 1997



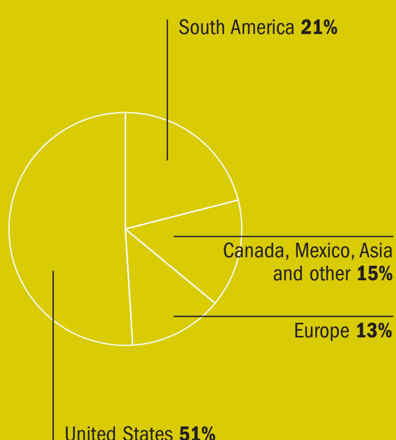
Praxair's vision is to be the best-performing industrial gases company in the world as determined by our customers, shareholders, suppliers, employees and neighbors.

Praxair, Inc. is the largest industrial gases supplier in North and South America, and the third largest worldwide. It serves industries as diverse as primary metals, electronics, food and beverages, chemicals, healthcare, aerospace and pulp and paper. As a pioneer in the worldwide industrial gases industry, Praxair has been a leader in developing a wide range of proprietary and patented applications and supply-systems technology.

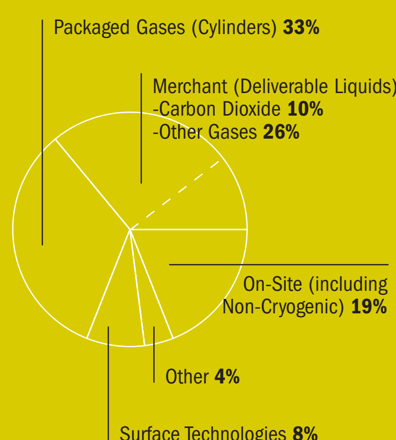
Praxair's primary products are atmospheric gases (oxygen, nitrogen, argon, rare gases) and process gases (carbon dioxide, helium, hydrogen, electronics gases, acetylene). The company also designs, engineers and constructs cryogenic and non-cryogenic supply systems.

Praxair Surface Technologies applies metallic and ceramic coatings and powders to metal surfaces in order to resist wear, high temperatures and corrosion. Aircraft engines are its primary market, but it also serves the printing, textile, chemical, computer and primary metals markets. Aircraft-engine and airframe-component overhaul services are another offering.

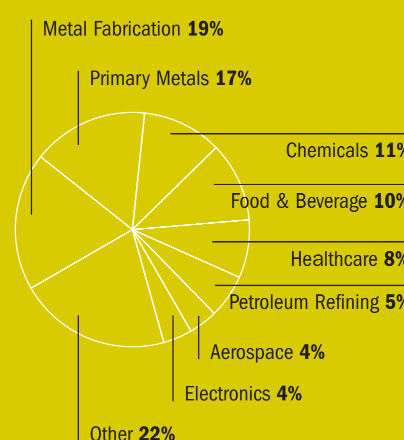
1997 Sales by Geographic Area



1997 Sales by Distribution Method



1997 Sales by End Market



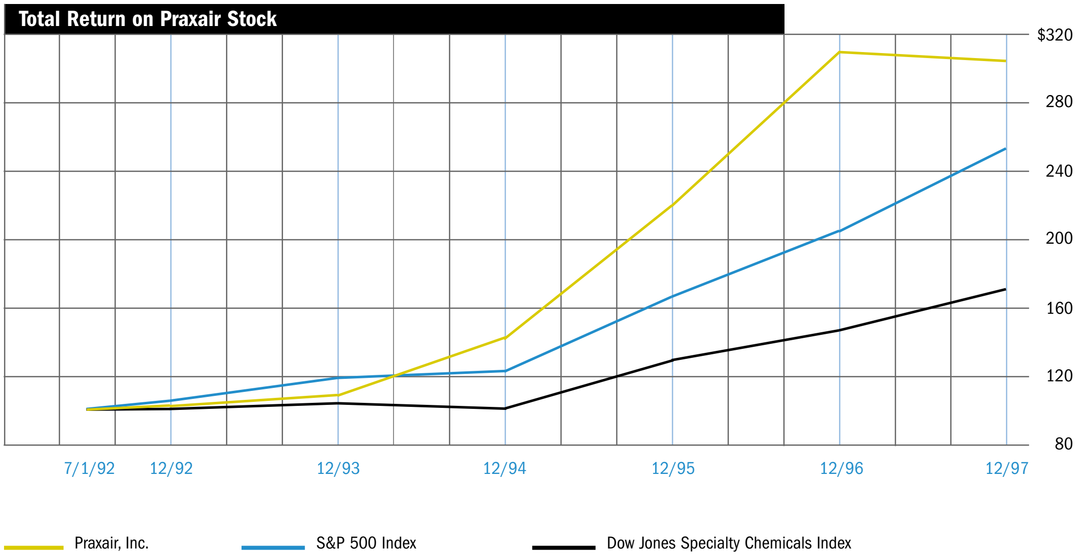
Year Ended December 31,	1997	1996	1995
For the Year:			
Sales	$4,735	$4,449	$3,146
Operating profit[a]	848	732	548
Income[a]	422	335	262
Diluted income per share[a]	2.57	2.11	1.82
Return on average shareholders' equity[a]	21%	22%	27%
Capital expenditures and acquisitions[b]	$1,003	$3,333	$802
At year end:			
Debt-to-capital ratio	55%	57%	46%
Number of employees	25,388	25,271	18,222

(Millions of dollars, except per share data)

(a) Results exclude non-recurring special charges in 1997 and 1996 and the cumulative effect of an accounting change in 1997.

(b) 1996 capital expenditures and acquisitions include $2.2 billion associated with the CBI acquisition.

Total Return on Praxair Stock



During 1997, Praxair turned in a solid business performance and increased earnings per share by 22 percent (excluding special charges and an accounting change). However, it was disappointing to see our share price decline late in the year to about the same level it was in the beginning of 1997.

What happened?

Early in the year, Praxair, like many other companies, experienced the impact of a significant strengthening of the dollar against the major European currencies. Strong performance in other geographic markets, plus significant synergies from the integration of Liquid Carbonic, helped offset these negative currency translations.

But later in the year, turmoil struck the economies of Asia where we have smaller, but profitable, businesses in Thailand and Korea. The result was large currency devaluations and the slowing of growth rates which had been among the world's highest. As concern mounted about a potential spillover to Latin America, and particularly to Brazil where Praxair has a large, successful business, the Brazilian government raised interest rates to protect its currency, causing a temporary slowdown in its economic growth. All of these factors, particularly the Brazilian situation, caused investor concern about our ability to continue our exceptional earnings growth into 1998, resulting in a decline in Praxair's stock price.

But we believe the long-term potential for growth in Asia and Brazil remains high. We will continue to invest selectively in China, India and other Asian economies as they recover, and we will draw on 50 years of profitable experience in Brazil to lead us through the current economic pressures there. Meanwhile, Praxair's businesses are performing well in nine other South American countries where growth rates are twice the world average.

Despite the stock price decline in 1997, business performance was strong. Volumes worldwide increased six percent in an economic environment that grew, on average, less than four percent. Our industrial gases business in North America enjoyed outstanding volume growth, reflecting particularly strong demand from customers in the steel, refining and chemicals industries. The North American team also was highly successful in integrating Liquid Carbonic, achieving productivity goals and expanding its operating margins. Praxair Surface Technologies turned in another year of above 20-percent sales growth and improved margins.

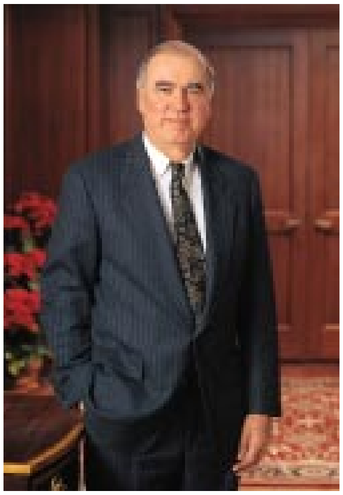
Having exceeded our 15-percent earnings-per-share target in 1997, it's time to prove ourselves again. We remain committed to this target, but it will be difficult to achieve in 1998 given global economic trends. We will stay on course with our fundamental strategies, fine-tuned to reflect economic realities:

Achieve sustainable growth

We can achieve sustainable growth by understanding and anticipating the evolving needs of our customers, and meeting those needs with exceptional technology, service, quality and reliability. Our emphasis is on offering customers new products and technologies that will help their businesses grow more profitable by improving quality, productivity and environmental performance. We are focusing our resources on the most profitable opportunities in the following global markets: chemicals, refining, steel and metal fabrication, food and beverage, electronics and healthcare.

Improve productivity and efficiency

To achieve even greater productivity from our base businesses, we are streamlining work processes, with emphasis on global programs in procurement, plant design and construction, and transaction processing. Action also is being taken to increase volumes and margins and lower the cost structure of our North American packaged gases business. We expect this business to increase earnings by more than 15 percent in 1998.



Similar actions are being taken to lower the cost structure of our Brazilian business to improve its profitability. These programs will strengthen White Martins' position as the leading industrial gases supplier in South America.

Balance investments

We are making both long-term and short-term investments in order to balance the timing of returns. Praxair will invest more than $1 billion in 1998, with two-thirds going toward growth, and the balance for maintenance, efficiency improvements and cost reduction. This year we are emphasizing projects that will add to earnings and cash flow more quickly – acquisitions of North American packaged gases businesses and surface technologies companies worldwide, for example. Additional investments will be made in productivity-improvement programs, small on-site systems and carbon dioxide production facilities.

Cultivate world-class business leaders

As always, excellent people and a diverse workforce are a key factor in achieving challenging goals. So we are developing business leaders around the world who are now spearheading efforts to find creative, innovative ways to propel us to the next phase of our growth and productivity improvement. These leaders are dedicated to anticipating and seizing opportunities at every level to continue to improve Praxair's competitive position.

Among their activities in 1998 will be improving Praxair's safety performance. During 1996 and 1997, Praxair's historically excellent worldwide safety performance deteriorated. Our acquisition of new businesses added many facilities that need to be brought up to Praxair's standards and many people who need to be trained in Praxair's safety policies and procedures. Bringing the entire organization to a level of performance which meets or exceeds historical levels is of the highest priority in 1998. We must learn from the 75 percent of Praxair facilities around the world which operated the entire year of 1997 with zero incidents and zero lost-workday injuries.

In December, the board of directors elected Ed Hotard to the position of chief operating officer in addition to president. He will direct the presidents of Praxair's geographic business units, as well as several new positions created to align the management team with Praxair's key market segments. At the same time, John Clerico, chief financial officer, was elected executive vice president. John will lead our productivity initiatives with a priority on procurement and materials-management processes.

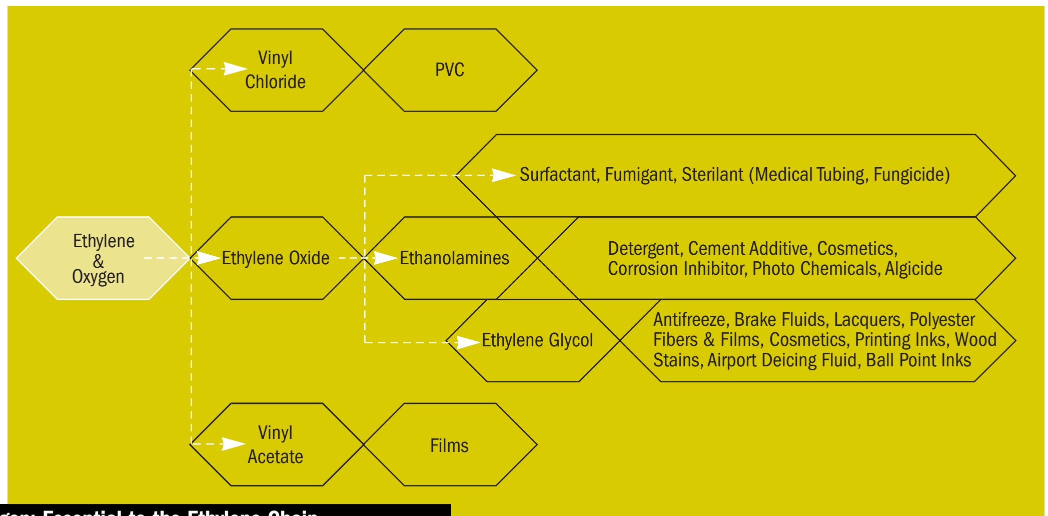
I am optimistic about Praxair's future. The demand for industrial gases continues to grow at its historical rate of about one-and-a-half to two times the growth rates of the economies in which we do business. We are a leader in applications and process technology. We are helping customers improve their competitive position and productivity. We have people in place who thrive on challenge and achieving excellence. And, I speak for the entire Praxair team when I say that we are totally committed to continuing to deliver value to you – our owners.

H.W. Lichtenberger
Chairman and Chief Executive Officer
February 6, 1998

Chemicals

Oxygen

As the world's second-largest industrial gases supplier to the chemical industry, Praxair has a long history of developing technologies that help chemical producers operate more efficiently, cleanly and safely. Just a sampling of leading-edge applications introduced by Praxair includes direct injection enrichment for nitric acid and acrylonitrile production; advanced gas reactor for inorganic oxidations and hydrogenation; and liquid oxidation reactor (see page 15). Ethylene oxide is the building block for many other chemical products (see illustration). When Praxair's high-purity oxygen is used in the ethylene production chain, yield is significantly increased. One customer reports annual savings in the millions of dollars because of Praxair's advanced applications technology. During 1997, Praxair started up large projects at chemical production sites in North America, South America and Asia.

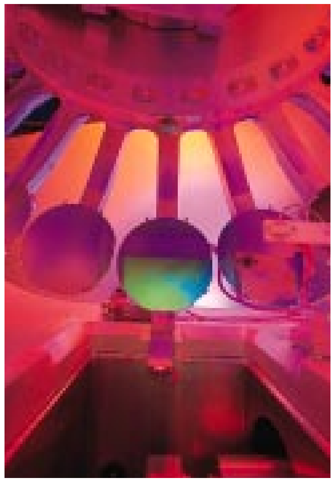


Oxygen: Essential to the Ethylene Chain

Review of Operations

Praxair's industrial gases business turned in a solid performance in 1997, generating a six-percent increase in volumes at a time when economic growth averaged between three and four percent. On-site volumes, reflecting continuing demand from steel, refining and chemical customers, were particularly strong, as was demand for liquid argon, carbon dioxide and helium in the merchant part of our business. Praxair Surface Technologies also continued its healthy growth trend, increasing sales by 23 percent.

Praxair's worldwide organization focused on Praxair's strategy for achieving its goal of 15 percent annual increases in earnings per share. This strategy calls for increasing sales about 10 percent per year; improving productivity five percent per year; and developing the company's next generation of leadership.



Examples of multi-million-dollar projects that will come on stream in 1999 are our extended hydrogen pipeline network on the U.S. Gulf Coast, and gas systems for SGS-Thomson's semiconductor plant in France. On the short-term side of the scale, we acquired surface technologies companies in Brazil, Spain and Italy and packaged gases companies in North America, Europe and India. These acquisitions generate revenues immediately, and increase our market penetration in industries ranging from welding to agriculture. We also are constructing carbon dioxide plants in China.

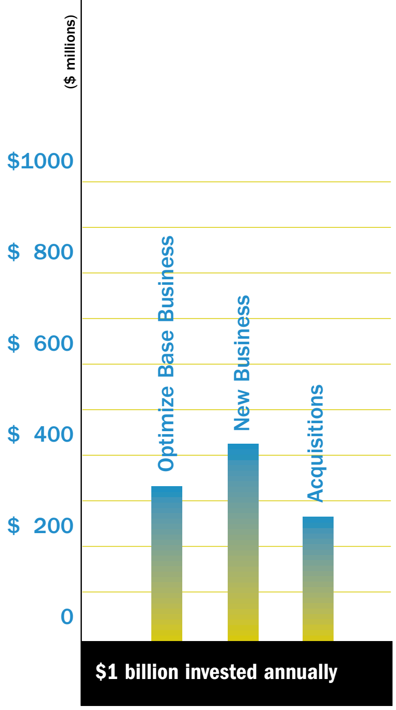
Investing in profitable growth

To accelerate sales growth, we implemented the first phase of a global strategic marketing process. This involved a two-year effort by 65 teams around the world who analyzed industry and demographic trends to identify more than 100 new growth opportunities. These have been prioritized, and many of the market segments chosen for increased emphasis are profiled in the previous tables and in subsequent pages. This portfolio matches customer needs with Praxair strengths in products, services, supply systems and applications technology.

Two-thirds of Praxair's total capital spending is devoted to growth projects. Praxair's investment approach is to balance short-term and long-term investments in order to optimize the timing of returns. In 1997, we took advantage of investments with long-term returns, and in 1998 we will emphasize investments with returns that contribute more quickly to our bottom line. Examples of long-term investments include large on-site cryogenic plants and hydrogen facilities. Investments that produce returns more quickly include those in non-cryogenic and other small on-site facilities, carbon dioxide plants and acquisitions.

A major example of a long-term investment that positions Praxair for future growth in the chemicals and refining markets is our expanded hydrogen plant and the associated 34-mile hydrogen pipeline that started up in Louisiana early in the year. The facility supplies hydrogen, carbon monoxide and synthesis gas (a blend of hydrogen and carbon monoxide) by pipeline to customers such as Exxon for oil-refining applications. Exxon uses the hydrogen to more cost-effectively manufacture clean-burning fuels required by the U.S. Clean Air Act. Praxair operates additional hydrogen pipeline networks in the Texas Gulf Coast area, Michigan and Alberta, Canada.

Praxair is investing $1 billion annually to boost sales and productivity. By balancing long-term and short-term investments, we optimize the timing of returns.



Another example is an air separation plant Praxair will build and sell to the Star Enterprise refinery in Delaware City, Delaware. Star will use oxygen and nitrogen in its coke gasification process to transform coal into synthesis gas. Under a separate agreement, Praxair retains the rights to up to 500 tons per day of liquid oxygen, nitrogen and argon. Scheduled to begin operations in 1999, the project will provide Praxair significant revenue from the plant sale, while improving our ability to meet customer demand in the region. This arrangement is consistent with Praxair's strategy of sourcing liquid products from on-site plants which is more cost-effective than building stand-alone liquid capacity.

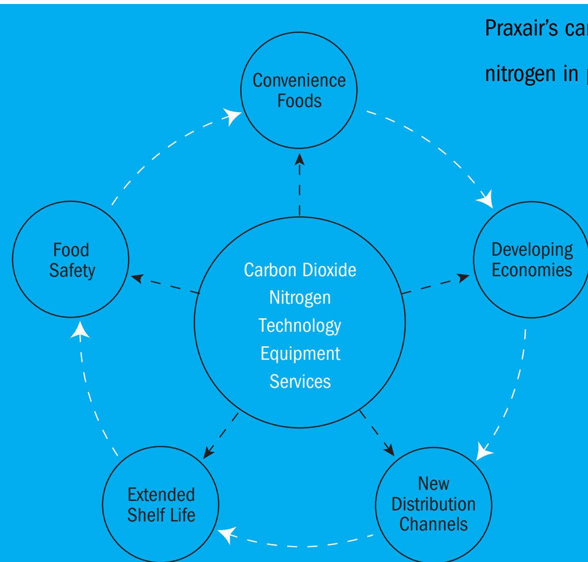
In Canada, Dow Chemical and Praxair are extending their 20-year strategic partnership in Fort Saskatchewan. Praxair is building an $18.5-million air separation plant to accommodate Dow's expanding ethylene-oxide-based operations in western Canada. These chemicals are used in antifreeze, cosmetics, plastic bottles, paints and other applications (see illustration, page 9). When it comes on stream in 1998, Praxair's new plant will boost Dow Chemical's output by more than 25 percent and will be Canada's largest oxygen plant. Praxair also supplies Dow in Europe and South America.

Chemicals and steel customers also generated volume gains in our South American business. Long-term contracts were signed or projects started up for steel customers in Brazil, Colombia, Argentina and Chile, and for chemicals customers in Brazil and Argentina. However, economic growth in Brazil slowed the second half of the year, brought about by the impact of the Asian currency crisis, which led the government to substantially increase interest rates and institute an austerity program. Brazil's 1997 inflation rate was the lowest it has been in four decades and our business there was affected adversely by general industrial price deflation in many markets. The other nine countries where Praxair operates in South America continue to enjoy above-average growth rates and the company strengthened its position in these markets during the year.

Food and Beverage

Carbon Dioxide

As the world's largest supplier of carbon dioxide, Praxair is well-positioned to meet the growing demand from the food and beverage, pulp and paper and water-treatment industries. Ninety-five percent of the carbon dioxide Praxair supplies is purchased from other companies whose processes produce it as a by-product. Within the food and beverage industry, rising demand for convenience foods, coupled with increased focus on food safety, is leading food processors to use Praxair's carbon dioxide and nitrogen in packaging, freezing and chilling applications. In 1997, Praxair introduced patented technology that extends the shelf life of diary foods. We also opened the unique, state-of-the-art Praxair Food Technology Center near Chicago where we develop and test new technologies and evaluate customers' processes to determine their best options for technology and equipment.



Food Industry Trends Generating Demand

As part of its expanding supply to major steel companies in Europe, Praxair signed a long-term contract with Sollac of the Usinor group to supply oxygen to its plant near Marseilles, France. The oxygen will be used in the powdered-coal injection process. Activity also picked up in the steel and food segments in Spain and Italy. Compagnie de Saint-Gobain, the world's largest glassmaker based in Paris, France, started up oxy-fuel glass furnaces in France and the United States, incorporating Praxair's advanced oxygen-supply systems and oxy-fuel combustion technology. The strengthening of the U.S. dollar masked underlying business improvement in Europe. On a constant-dollar basis, our European businesses would have reported a 10-percent increase in sales.

For electronics customers around the world, Praxair continues to expand its product, technology and service offerings. In 1997, Praxair received a second U.S. patent for technology that captures, recovers and purifies perfluorinated compounds (PFCs) generated at semiconductor manufacturing plants. PFCs are associated with global warming gases.

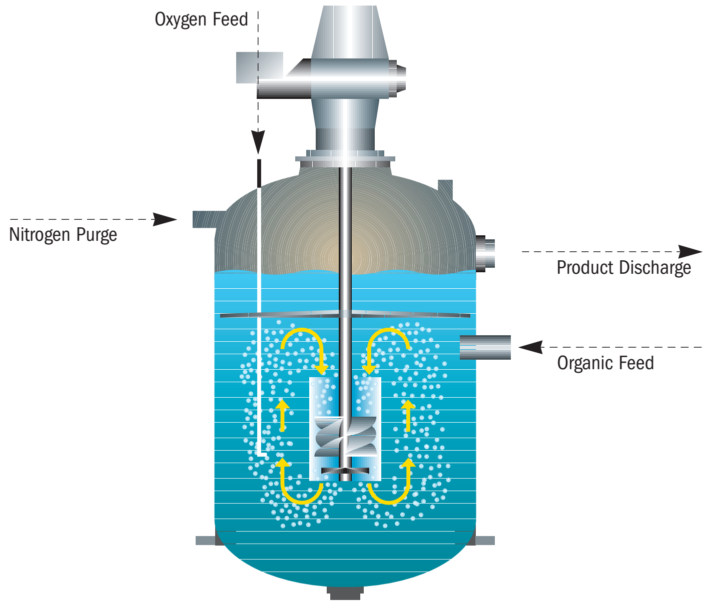
Praxair's proprietary applications technology helps customers around the world increase productivity and save millions of dollars annually.

Customers in this market segment signed up for Praxair's comprehensive gas-management services, offered in conjunction with supply of ultra-high purity semiconductor process gases, gas-monitoring systems and equipment, patented on-site nitrogen plants and piping systems. For example, Praxair signed an agreement to build and service a complete turnkey gas system for SGS-Thomson Microelectronics' new semiconductor manufacturing site in Rousset, France. Praxair will design, construct and operate the customer's total gas management system and supply semiconductor process gases. Praxair also serves SGS-Thomson's wafer plant in Arizona.

In China, Praxair formed a joint venture, Shanghai Praxair Yidian, Inc., to supply Hua Hong, a Chinese majority-owned new plant that will produce electronic wafers with advanced technologies. The agreement includes the design, construction and operation of a patented ultra-high-purity nitrogen and oxygen plant as well as the supply of specialty electronic gases.

Our strategy in China also involves investing in the long-term development of people. Praxair is sponsoring a joint education program between the University of Buffalo and Renmin University in Beijing, China. The program offers a master's degree in business that will help a new generation of Chinese general managers obtain skills needed in today's market-driven economy. In another activity designed to promote constructive cross-cultural relationships, Praxair sponsored a group of Chinese patent examiners on a trip to Washington, D.C. to participate in discussions on intellectual property rights and patent protection.

Patented Praxair Liquid Oxidation Reactor Technology



With over 2,000 active patents, and more pending, Praxair is a leader in commercializing applications technology that helps customers improve product quality, yield and environmental performance while reducing costs and energy use. In 1997, Praxair's patented liquid oxidation reactor (LOR) technology was a finalist for the prestigious Kirkpatrick Award. LOR helps chemicals manufacturers increase rates of production, lower costs and decrease effluent. Praxair also received a second patent for a system that offers the semiconductor industry a way to reduce emissions of gases associated with global warming.

In South Korea, a plant and pipeline expansion was completed in the petrochemical complex near Yeochun. At the same time, a number of small on-site accounts were successfully started up in the chemicals and metals segments.

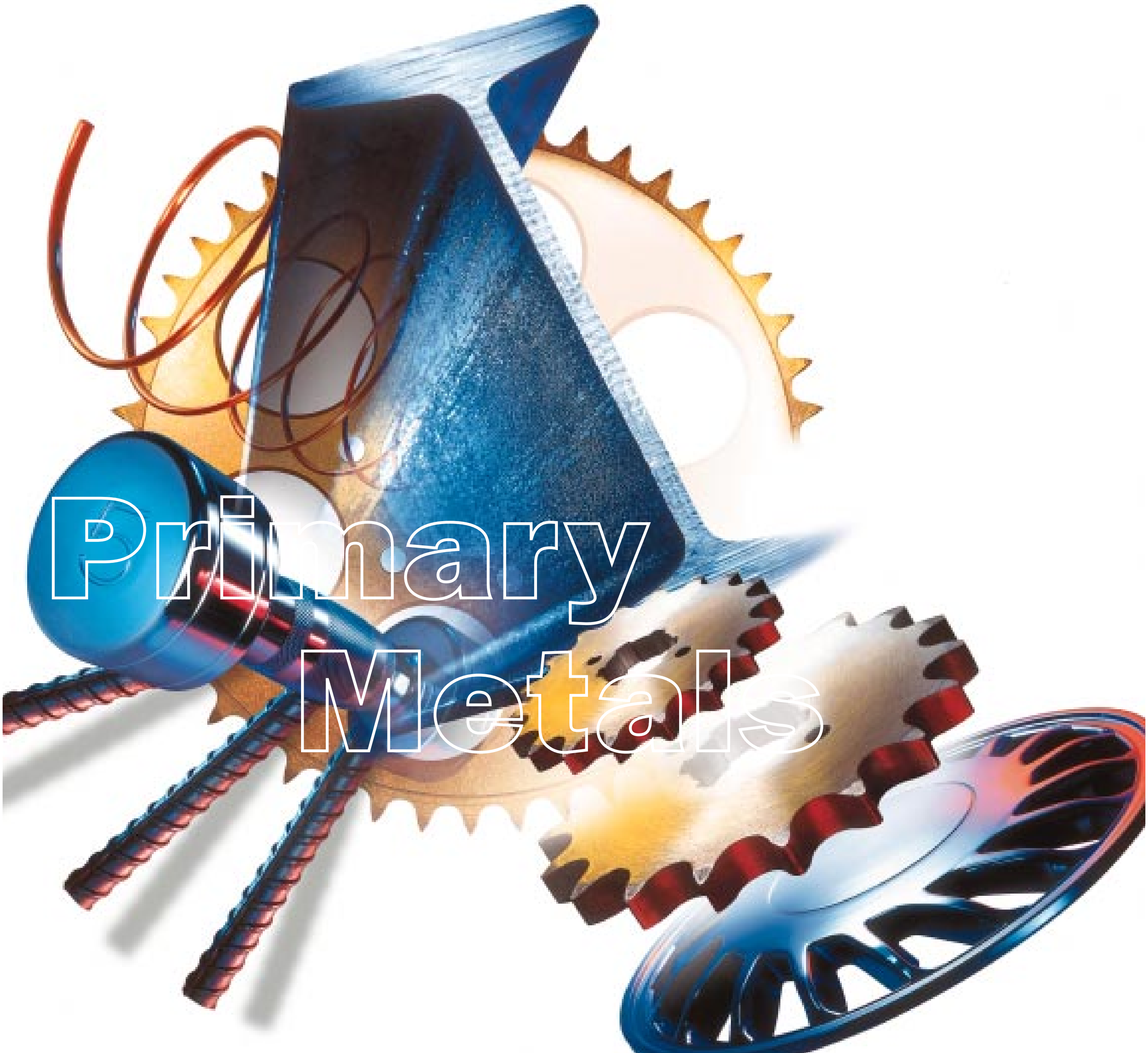
Praxair is investing more than $15 million to build an air separation plant and pipeline at Haldia Petrochemical in India as part of our ongoing strategy to selectively invest in India's basic industries as they develop. The plant, which will include a liquefier to supply the local merchant market, will start up in 1999. Also in India, we acquired two packaged gases companies and introduced our small on-site supply systems.

A variety of markets are increasing their demand for rare gases (xenon, neon, and krypton), and Praxair will expand its production capacity in Indiana. Growth will come from newer applications such as the use of xenon in satellite positioning thrusters, in anesthesia applications, and in computerized axial tomography (CAT) scans. Demand for neon has grown with the increased use of laser scanners in stores and in surgeon's scalpels. Praxair will invest in state-of-the-art neon purification and analytical equipment to comply with specifications of new technology such as plasma display panels for high-definition television.

Investments with near-term returns

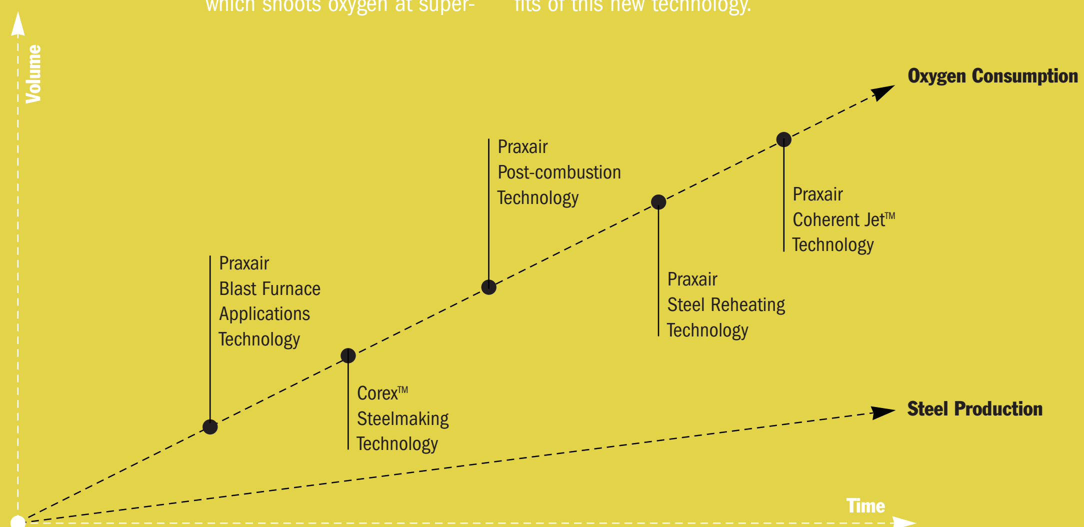
Benefiting from the expanding aerospace and electronics markets, our global surface technologies business increased sales by more than 20 percent during the year, and margins continued to expand. During 1997 we purchased a laser welding and cladding supplier in Italy and a coatings company in Spain. Praxair Surface Technologies entered South America for the first time with the purchase of the leading supplier of laser and mechanically engraved anilox rolls and other products to the printing industry. This acquisition broadens our capabilities for supplying the printing market and provides opportunities to expand into other industrial markets in South America.

Primary Metals



Coherent Jet

Use of Praxair's industrial gases by the steel industry is growing at a faster rate than underlying steel production because Praxair's applications technologies deliver lower costs, higher productivity and improved product quality. Our latest innovation is Praxair Coherent Jet™ Technology which shoots oxygen at super-sonic speeds into molten steel. This technology eliminates the expense, maintenance and complications of conventional oxygen-delivery systems; achieves greater consistency and higher product quality; and improves cost and labor efficiencies. Five customers already are reaping the bene-fits of this new technology. Steel producers around the world are among Praxair's largest customers. We serve more than half of all steel manufacturers in North and South America, and others in Europe, China and India.



Applications Technologies for Steelmakers

We will continue to make acquisitions in North American packaged gases, although during 1997 we temporarily slowed down this program while we concentrated on the complex task of integrating Liquid Carbonic's packaged-gases operations and other recent acquisitions. By year-end, we had purchased 20 packaged-gases distributors representing $54 million in additional sales. In the first quarter of 1998, we purchased a distributor with operations in Utah and Idaho with annual sales of approximately $34 million, and acquired the remaining shares of a distributor in the midwest with annual sales of $90 million. Praxair also acquired a packaged-gases company in Germany, bringing us closer to customers in western Germany with a broad offering in packaged, healthcare and specialty gases and related equipment and services.

Significantly expanding its ability to serve water-treatment markets, Praxair formed a joint venture with Trailigaz, the world's leading supplier of ozone-generating equipment. Trailigaz is a subsidiary of Compagnie Generale des Eaux, headquartered in France. The Praxair-Trailigaz ozone alliance supplies oxygen and ozone-generating systems for purifying municipal drinking water and industrial wastewater. Major

Building on its leading position in the relatively stable U.S. marketplace, Praxair is investing in Asia and South America to expand its global presence. Despite recent economic turmoil, these regions represent good opportunities for future growth. In Europe, Praxair's businesses in Spain and Italy were particularly successful in 1997, although currency translation masked their results.

contracts gained during the year include building the largest municipal ozone installation in North America – a two-plant purification system for the city of Las Vegas, Nevada. Ozone in a water treatment system reduces the amount of chlorine required for disinfection.

Demand for helium is growing dramatically worldwide, driven by its use in magnetic resonance imaging equipment, optical fiber production and other "high-tech" industries. Praxair reached agreement with a new helium supplier in Colorado that increased our capacity by 25 percent. In April, we announced the long-term supply of high-purity helium gases to Samsung Electronics Co., Ltd. to produce optical fiber cable. Along with a reliable supply of helium, Praxair will provide a patented helium recovery system. Praxair also signed a $30-million contract to supply high-purity helium to Corning Incorporated for use in producing optical fiber. In 1997, Praxair earned Corning's preferred supplier rating for the sixth straight year. Praxair is one of only two suppliers to have achieved this rating to date.

To serve the food and beverage industries, Praxair took several steps during the year to further strengthen our new carbon dioxide product line. Praxair does not generate carbon dioxide, but purchases it from other companies which produce it as a by-product. In July, we started up a new facility in New Brunswick, Canada, to supply seafood processors and other customers in the Maritime Provinces and New England. We acquired two independent carbon dioxide beverage-carbonation distributors in Wisconsin and Texas which contributed immediately to our business.

A new carbon dioxide plant was commissioned in Thailand, further strengthening Praxair's leading supply position in that country. This new capacity will meet continuing demand from global customers in the food and beverage industries, as well as local customers serving domestic and export food markets. Despite economic difficulties in Thailand, Praxair's volumes grew six percent.

We are growing a global position with aggressive investment in both stable, mature markets and in emerging economies.

Supplying helium for magnetic resonance imaging (MRI) is among the variety of Praxair's offerings to the healthcare market worldwide. Building on its established home healthcare businesses in Canada, Mexico and Brazil, Praxair successfully introduced Medigas™ products and services in Italy during the year. Sales to this market segment in Mexico were particularly strong in 1997, up 17 percent.

For restaurant and entertainment businesses, Praxair introduced a more convenient carbon dioxide supply system: small, low-pressure, bulk-liquid containers to be used in place of standard high-pressure cylinders. These 'mini-bulk' tanks reduce customers' service and maintenance requirements, and use less storage space than cylinders. Praxair's mini-bulk supply systems currently are available in the U.S. and Canada and we plan to expand this service into other geographic regions.

Praxair technologies help customers compete

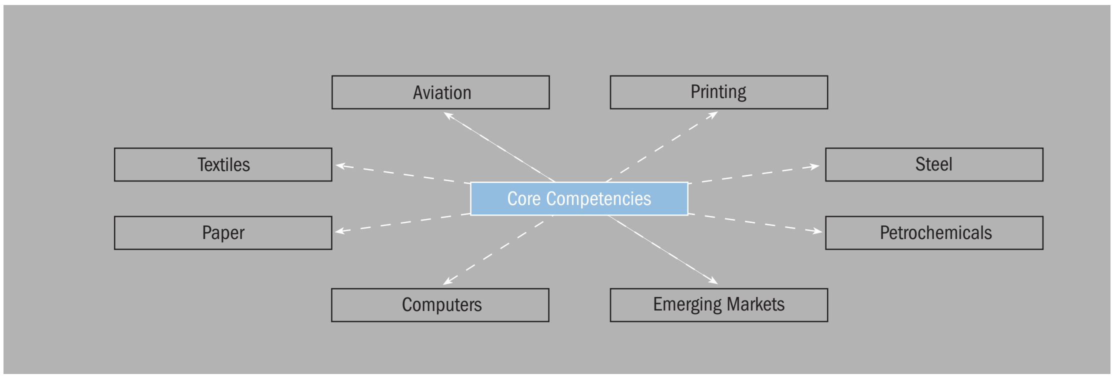
Across a spectrum of industries, Praxair products and technology assist its customers in improving their productivity, product quality, safety and environmental performance while reducing costs. In addition to maintaining and growing our existing base business, we are targeting new areas of growth that will allow Praxair to capture more of the value delivered to the customer. We intend to do this by commercializing proprietary applications and processes that are high value-added for our customers.

For example, during the year we introduced technology that uses carbon dioxide to double the shelf life of dairy products, cut processors' costs and extend distribution channels. Developed by a team at our Chicago Food Technology Center, in cooperation with Cornell University, Praxair's process is a cost-effective alternative to upgrades of packaging and processing equipment and can reduce the need for artificial preservatives. At the Food Technology Center, scientists and engineers also provide customers with on-site product evaluations, testing, installation design and start-up support.

Surface Technologies

Coatings

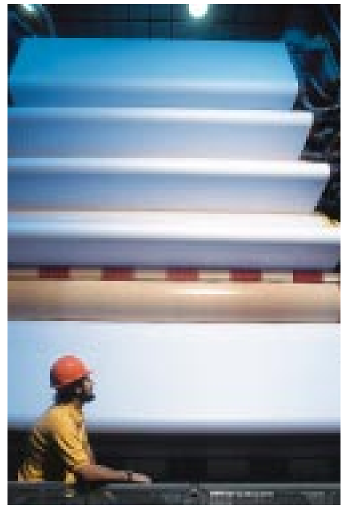
Printing rolls, plastic eyeglass lenses, computer hard disks, power-generator blades, artificial hip joints, helicopter blades. This diverse list of products is linked by a reliance on surface integrity for optimum performance. Praxair Surface Technologies, Inc., a subsidiary of Praxair with 33 plants around the world, is the global leader in high-performance coatings and powders which protect metal and other surfaces from wear, heat and corrosion. The largest single segment of the business is component repair services for aircraft and gas turbine engines. Over 75 percent of the parts in flying engines have a coating on them. Growing at 20 percent per year, the surface technologies business is expanding through acquisitions and strategic alliances. Acquisitions in Brazil, Italy and Spain were completed in 1997. Another source of growth is the continuous creation of new technology-based products, applications and services. Our powders group alone developed 1,000 new products during 1997. We are rapidly extending our core technologies to new markets with the goal of becoming the leading supplier in each segment.



Coatings and Powders Serve Diverse Markets

For primary metals customers, we introduced Praxair Coherent Jet™ Technology (a patent is pending), currently being used at steel mills and being tested for applications in copper refining and stainless-steel production (see page 17). Praxair received a patent during the year for its argon-purging system that can save a typical steel mill an estimated $500,000 a year. Praxair has received more than 275 patents for steel-making technologies using industrial gases in innovative, money-saving ways.

Characterized by lower capital costs and energy and manpower efficiencies, small on-site systems offer a cost-effective and highly reliable source of industrial gases for an expanding array of customers. Praxair now has converted nearly 25 percent of its traditional liquid customers' requirements to small on-site plants, while new customers also continue to be attracted to these systems. Praxair signed more than 40 contracts worldwide to provide small on-site supply systems to customers in the chemicals, metal fabrication, food and glass markets. We contracted for nearly 2,000 additional tons per day of non-cryogenic capacity worldwide, topping 10,000 tons per day for the first time (see chart on page 23).



Praxair's leading supply-system technology permits us to match increments in demand with efficient increments of supply. During 1997, Praxair introduced new non-cryogenic supply systems that are able to produce as little as one ton per day of oxygen and others that produce up to 240 tons per day. These systems lower installation costs and energy use, add flexibility and shorten cycle time. Lower-cost oxygen for the steel, wastewater treatment, chemical, glass and pulp and paper industries is a source of significant growth for Praxair.

In 1997, we introduced the industry's smallest-capacity high-purity cryogenic nitrogen generating system. Praxair also patented and commercialized the industry's first small on-site hydrogen production system which offers our customers savings of approximately 20 percent over conventional hydrogen supply.

To develop and commercialize a revolutionary technology that will economically convert natural gas to synthesis gas using ceramic membranes, Praxair formed an alliance with Amoco Production Company, British Petroleum, Den norske stats oljeselskap (Statoil) and Sasol Technology. Synthesis gas is a building block for the production of liquid fuels and chemicals.

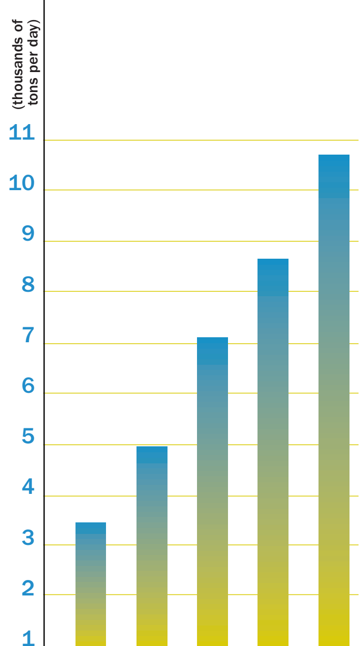
Accelerated productivity improvement

Praxair recognizes that investment for growth must be accompanied by equally aggressive emphasis on productivity improvement. Praxair's target is to achieve productivity gains of five percent per year. The improvement will come from holding down fixed-cost increases and from efficiency improvements and work-process reengineering. We intend to make productivity improvement a permanent way of life at Praxair, ensuring that increases in costs remain well below the rate of top-line growth.

During 1997, results benefited from a full year of efficiencies from the integration of former Liquid Carbonic operations. An example is the consolidation of four Praxair and Liquid Carbonic locations in the Chicago area into a new building in Burr Ridge, southwest of downtown Chicago. The new space encourages teamwork and collaboration by bringing together sales, marketing, product development and a state-of-the-art food laboratory in a single complex.

Praxair's advanced on-site supply systems are changing the face of the industrial gases business.

We are attracting new customers with the broadest range of supply options in our industry.



Growth in Non-Cryogenic Contracted Capacities 1993-97

Praxair operates in many more countries than it did five years ago, and this offers greater opportunity for increased efficiency. Full-time, cross-functional teams were formed to focus on global initiatives in procurement, plant construction and transaction processing. These teams plan to deliver millions of dollars of bottom-line benefits over the next 24 to 36 months. We expect to see initial results in the second half of 1998.

In the procurement area, we are aggressively forging alliances, renegotiating with suppliers and changing operating procedures in order to capture substantial cost savings based on our global buying power.

In plant design and construction, we aim to significantly reduce the time and capital required to build air separation units by sharing resources worldwide and standardizing product lines. This effort also will benefit from success in the procurement area. Capital costs already are coming down.

Streamlining transaction-processing is the third initiative, involving the integration of many systems and services across national borders. Creating common processes, procedures and systems will eliminate redundant work and move Praxair closer to our "best-performing" vision.

In addition to the global initiatives, Praxair employees throughout the organization are working on more than 200 projects at the regional and local level. For example, a new information system is being tested in Spain and Italy to automate production-related information in order to generate more accurate and timely certificates of analysis and other reports for customers. In North America, a maintenance project saved $3.6 million in 1997 by improving truck fleet safety, efficiency, reliability and availability.

A worldwide alliance formed by Praxair and Trailigaz, the world's leading supplier of ozone, offers customers a single source for oxygen, ozone and related equipment and technology used to treat industrial wastewater and municipal drinking water. Praxair Trailigaz Ozone is working on several projects worldwide, serving the pulp and paper, textiles, pharmaceuticals and chemicals industries as well as municipalities.

In Asia, a new, integrated financial software system links operations in Thailand, China, Indonesia and India to the regional headquarters in Singapore. White Martins in Brazil was able to substantially reduce operating costs by installing computerized transaction-processing equipment in the cab of delivery trucks at six locations. Praxair Surface Technologies has significantly improved efficiency in all of its business segments. One team reduced turnaround times by 67 percent while handling a 50-percent increase in volume.

Looking to the future, we initiated the first phase of a program to support our goal of preparing Praxair's next generation of leaders to successfully navigate the rapidly changing global marketplace. The "Global Leaders Program" brought 23 men and women together from around the world to prepare them for the leadership challenges in the 21st century. Additional groups will participate in the program each year.

In summary

The Praxair team continues to strive to achieve its vision of becoming "best-performing". In addition to the motivation provided by success in the marketplace, a variety of incentive compensation programs align employee interests with those of Praxair shareholders. Share-ownership guidelines are in place for Praxair's approximately 100 senior executives. The top three executives own the equivalent of 17 times their base salaries in Praxair stock.

The team has accepted the challenge to step up Praxair's rate of growth while substantially improving productivity. We recognize that success in achieving our targets will represent an unprecedented level of performance in our industry. Given the current economic conditions around the world, this will be extremely difficult in 1998, but we believe we have the strategies and talent to realize our goals.

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Five-Year Financial Summary

Year Ended December 31,	1997	1996[a]	1995	1994	1993
From the Income Statement					
Sales	$4,735	$4,449	$3,146	$2,711	$2,438
Cost of sales	2,764	2,564	1,777	1,507	1,387
Selling, general and administrative	662	688	496	409	392
Depreciation and amortization	444	420	279	273	262
Research and development	79	72	61	58	58
Special charges	10	85	–	–	–
Other income (expenses) – net	62	27	15	(17)	2
Operating profit	838	647	548	447	341
Interest expense	216	195	116	108	105
Income before income taxes	622	452	432	339	236
Income taxes	151	110	122	82	48
Income of consolidated entities	471	342	310	257	188
Minority interests	(66)	(68)	(50)	(61)	(49)
Income from equity investments	11	8	2	7	4
Income before cumulative effect of accounting changes	416	282	262	203	143
Cumulative effect of accounting changes [b]	(11)	–	–	–	(25)
Net income	$ 405	$ 282	$ 262	$ 203	$ 118
Net income excluding special charges and accounting changes	$ 422	$ 335	$ 262	$ 203	$ 143
Per Share Data[c]					
Basic earnings per share:					
Income before cumulative effect of accounting changes	$ 2.63	$ 1.85	$ 1.89	$ 1.49	$ 1.07
Cumulative effect of accounting changes[b]	(.07)	–	–	–	(.19)
Net income	$ 2.56	$ 1.85	$ 1.89	$ 1.49	$ .88
Diluted earnings per share:					
Income before cumulative effect of accounting changes	$ 2.53	$ 1.77	$ 1.82	$ 1.45	$ 1.06
Cumulative effect of accounting changes[b]	(.07)	–	–	–	(.19)
Net income	$ 2.46	$ 1.77	$ 1.82	$ 1.45	$ .87
Cash dividends per share	$ .44	$ .38	$ .32	$ .28	$ .25
Weighted average shares outstanding (000's)					
Basic shares outstanding	158,095	152,654	138,818	136,254	133,084
Diluted shares outstanding	164,053	159,038	144,147	139,991	135,131
Capital					
Total debt	$3,305	$3,265	$1,318	$1,265	$1,360
Minority interests	521	493	408	371	345
Preferred stock	75	75	–	–	–
Shareholders' equity	2,122	1,924	1,121	839	635
Total capital	$6,023	$5,757	$2,847	$2,475	$2,340
Other Information and Ratios					
Operating profit as a percentage of sales	17.7%	14.5%	17.4%	16.5%	14.0%
Return on average shareholders' equity[d]	20.9%	22.0%	26.7%	27.6%	25.0%
Capital expenditures and investments	$1,003	$3,333	$ 802	$ 385	$ 350
Total assets	$7,810	$7,538	$4,134	$3,520	$3,255
Shares outstanding at year-end (000's)	157,373	157,489	140,536	137,863	134,450
Debt-to-capital ratio	54.9%	56.7%	46.3%	51.1%	58.1%
Number of employees	25,388	25,271	18,222	17,780	16,766

(Millions of dollars, except per share data)

[a] Effective in 1996, results reflect the acquisition of CBI Industries, Inc.(see Note 2 to the consolidated financial statements).Capital expenditures and acquisitions include $2.2 billion associated with the CBI acquisition (including $735 million of debt assumed).Number of employees excludes those at facilities held for sale.

[b] Required changes in 1997 related to accounting for previously capitalized business process reengineering costs associated with information technology transformation.Required changes in 1993 related to accounting for postemployment benefits.

[c] Includes special charges of $0.04 per share in 1997 and $0.34 per share in 1996 for both basic and diluted calculations (see Note 3 to the consolidated financial statements).

[d] 1997 and 1996 exclude special charges (see Note 3 to the consolidated financial statements).1997 and 1993 are based on income before cumulative effect of accounting changes. The 1993 shareholders'equity and capital have been retroactively adjusted for the cumulative effect of an accounting change.

Praxair's 1997 results reflect strong product demand in major customer markets and significant productivity improvements including the successful integration of the Liquid Carbonic business acquired in 1996. During 1996, Praxair acquired CBI Industries, Inc.(CBI) for $2.2 billion, including assumed debt of $735 million. The discussion of Praxair's consolidated and geographic segment results as it relates to the comparison of 1996 to 1995 is based upon the unaudited pro forma consolidated results of operations reflecting the CBI acquisition as though it had occurred at January 1, 1995 (see Note 2 to the consolidated financial statements).

CONSOLIDATED RESULTS

The following provides summary data for 1997, 1996, and 1995 pro forma (unaudited) and actual:

Year Ended December 31,	1997	1996	1995 Pro Forma	1995 Actual
Sales	$4,735	$4,449	$4,109	$3,146
Selling, general and administrative	$ 662	$ 688	$ 690	$ 496
Depreciation and amortization	$ 444	$ 420	$ 395	$ 279
Operating profit	$ 838	$ 647	$ 576	$ 548
Interest expense	$ 216	$ 195	$ 219	$ 116
Income before cumulative effect of an accounting change	$ 416	$ 282	$ 190	$ 262
Number of employees[a]	25,388	25,271	25,562	18,222
Excluding special charges[b]:				
Operating profit	$ 848	$ 732	$ 630	$ 548
Effective tax rate	25%	26%	29%	28%
Income before cumulative effect of an accounting change	$ 422	$ 335	$ 223	$ 262

(Millions of dollars, except percentages and employee data)

[a] Excludes employees related to assets held for sale.

[b] During 1997, Praxair recorded a $10 million pre-tax special charge ($6 million after tax) related primarily to profit improvement initiatives in the North American packaged gases business. During 1996, Praxair recorded an $85 million pre-tax special charge ($53 million after tax and minority interest) for CBI integration costs (see Note 3 to the consolidated financial statements).

1997 compared with 1996

The sales growth of 6% in 1997 as compared to 1996 was predominately due to increased sales volumes and the effect of newly acquired packaged gases and Surface Technologies subsidiaries. This increase was partly offset by unfavorable currency translation effects. Overall pricing was unchanged for the year. Surface Technologies posted record sales, increasing 23% to $381 million for the year primarily due to volume growth and acquisitions.

The operating profit growth of 16% for 1997 as compared to 1996 (both excluding the special charges), was primarily due to the sales growth and productivity gains including the integration of the Liquid Carbonic business, partly offset by cost inflation and unfavorable currency translation effects. Increased depreciation and amortization reflected new projects coming on-stream, as well as packaged gases and Surface Technologies acquisitions. Selling, general and administrative expenses decreased primarily due to productivity improvements and cost synergies, including the integration of the Liquid Carbonic business, partly offset by cost inflation.

Interest expense increased due to higher debt levels (after adjustment for the debt associated with the purchase of the assets held for sale) and higher interest rates in certain international countries. The effective tax rate for 1997 was 25%, a 1% decrease from the 1996 effective tax rate (both excluding the special charges). This decrease is due primarily to planned tax initiatives.

Net income for 1997 increased 26% over 1996 (both excluding the special charges and accounting changes) due principally to higher operating profit, the lower effective tax rate and improved income from equity investments, partially offset by higher interest expense and negative currency translation effects. In addition, the Company recorded an $11 million charge in the fourth quarter of 1997 related to a required accounting change for capitalized business process reengineering costs associated with information technology transformation. This charge was reflected as a cumulative effect of an accounting change.

The number of employees at December 31, 1997 increased 117 as compared to December 31, 1996 due primarily to an increase associated with new acquisitions (678 employees) and the addition of employees to support volume growth partially offset by decreases resulting from profit improvement efforts in South America and the North American packaged gases business, the integration of the Liquid Carbonic business and other cost improvement efforts.

1996 compared with 1995

The 1996 sales growth of 8%, as compared to the 1995 pro forma amount, was primarily due to increased sales volumes and the effect of newly acquired and recently consolidated packaged gases and Surface Technologies subsidiaries. Additionally, merchant, packaged gases and carbon dioxide prices were up in all geographic segments. Surface Technologies posted record sales, increasing 21% to $311 million, primarily due to volume growth and acquisitions.

The sales growth along with productivity gains were primarily responsible for the 16% increase in operating profit as compared to the 1995 pro forma amount (both excluding the CBI special charges). Increased depreciation and amortization reflected new projects coming on-stream which contributed to the sales growth, as well as goodwill associated with packaged gases and surface technologies acquisitions. Selling, general and administrative expenses decreased slightly primarily due to productivity improvements and cost synergies associated with the integration of the Liquid Carbonic business, mostly offset by the increases due to the newly acquired subsidiaries. Selling, general and administrative expenses as a percentage of sales, excluding the newly acquired subsidiaries, declined 8% as compared to the 1995 pro forma amount.

Interest expense decreased in 1996 versus the 1995 pro forma amount, primarily due to lower interest rates and the issuance of 12.6 million shares of Praxair common stock at the end of the first quarter of 1996, the proceeds of which were used to lower debt levels. The 1996 effective tax rate was 26% (excluding the impact associated with the 1996 special charges), a decrease of 3% from the effective tax rate of the 1995 pro forma period. The decrease is due primarily to tax planning initiatives.

Net income, excluding the special charges, increased 50% over the 1995 pro forma amount due principally to higher operating profit, lower interest expense and a lower effective tax rate.

The number of employees at December 31, 1996 decreased by 291 as compared to December 31, 1995 due primarily to Praxair's worldwide productivity improvement initiatives and the integration of the Liquid Carbonic business partly offset by new acquistions (955 employees) and the addition of employees to support volume growth.

SEGMENT DISCUSSION

This summary of sales, operating profit and operating profit excluding the 1997 and 1996 special charges by geographic segment provides a basis for the discussion that follows:

			1995	
Year Ended December 31,	1997	1996	Pro Forma	Actual
Sales:				
United States	$2,411	$2,157	$1,929	$1,569
South America	996	990	957	667
Europe	603	613	557	494
Canada, Mexico, Asia and Other	725	689	666	416
Total	$4,735	$4,449	$4,109	$3,146
Operating profit:				
United States	$ 465	$ 322	$ 239	$ 285
South America	197	190	193	137
Europe	110	113	98	90
Canada, Mexico, Asia and Other	89	52	83	53
Corporate	(23)	(30)	(37)	(17)
Total	$ 838	$ 647	$ 576	$ 548
Operating profit excluding special charges:				
United States	$ 474	$ 359	$ 288	$ 285
South America	197	203	194	137
Europe	110	117	98	90
Canada, Mexico, Asia and Other	90	80	85	53
Corporate	(23)	(27)	(35)	(17)
Total	$ 848	$ 732	$ 630	$ 548

(Millions of dollars)

United States

Volume growth and the effect of newly acquired packaged gases and Surface Technologies subsidiaries accounted for the 12% sales increases both in 1997 and 1996 as compared to the prior period. In 1997, U.S. industrial gases volumes increased 8% while merchant liquid pricing decreased 1% and carbon dioxide pricing increased 1%. Packaged gases sales increased 15% to $508 million as compared to the 1996 period. In 1996, U.S. industrial gases volumes increased 7%, while merchant liquid pricing increased 2% and carbon dioxide pricing increased 8%. Packaged gases 1996 sales increased 76% to $441 million as compared to the 1995 period.

Operating profit improved 32% for 1997 as compared to the 1996 period (both excluding the special charges). Operating margin for 1997 increased to 19.7% from 16.6% in 1996. The improvement is due primarily to the increased sales, cost synergies associated with the integration of the Liquid Carbonic business, higher profitability in the Surface Technologies business and other cost improvements. Operating profit improved 25% for 1996 as compared to the 1995 pro forma amounts (both excluding the special charges). The improvement is due primarily to the increased sales and the realization of synergies related to the integration of the Liquid Carbonic business. Operating margin for 1996 versus 1995 pro forma amounts increased to 16.6% from 14.9%. Also affecting the comparisons for both periods was an increase in the U.S. business portfolio of packaged gases businesses which are characterized by lower operating margins and higher capital turnover.

During 1997, Praxair's packaged gases business embarked on a profit improvement program focused on increasing its operating performance to levels above those achieved prior to the 1996 Liquid Carbonic acquisition. In support of that program, packaged gases has initiated a 10% headcount reduction in late 1997. The benefits of this program will be derived from the consolidation of administrative processes and facilities, the realignment of its sales force, the implementation of a national industrial hardgoods procurement and warehousing strategy, the optimization of its gas distribution network and improved operational efficiencies through standardized practices.

Additionally, at December 31, 1997 the U.S. packaged gases business' equity investment, Gas Tech, Inc., had sales of $90 million. Effective in 1998, Praxair gained operating control of Gas Tech, Inc. by acquiring the remaining shares that it did not already own; therefore, Praxair will consolidate Gas Tech, Inc. in 1998.

South America

Praxair's South American operations are conducted by its majority-owned subsidiary, S.A. White Martins (White Martins), which is the largest industrial gases company in Brazil. Sales for 1997 increased 1% as compared to 1996, primarily due to sales volume growth of approximately 8%, mostly offset by price declines and unfavorable currency translation effects. The price declines are attributable to the ongoing effects of the Brazilian government economic plan ("Real Plan") which has resulted in industrial commodity pricing deflation across a wide range of industries, and an increased competitive environment in Brazil. Excluding the currency translation effects, sales increased by 6% as compared to the 1996 period. Sales for 1996 as compared to the 1995 pro forma results increased 3% primarily due to sales volume growth.

Operating profit for 1997 decreased 3% as compared to 1996 (excluding the 1996 special charges). This was due to unfavorable currency translation effects, price declines, and higher energy and distribution costs partly offset by sales volume growth, productivity improvements and an $11 million benefit due to a favorable judgment related to a dispute with the Rio de Janeiro State public hospitals. Excluding the currency translation effects, operating profit increased 5% (excluding the 1996 special charges). Operating profit for 1996 as compared to the 1995 pro forma results, excluding the special charges, increased slightly.

Historically, Brazil has been considered a hyperinflationary economy and, accordingly, Praxair has managed its Brazilian operations with a focus on U.S. dollar results. Since the implementation of the "Real Plan" in mid-1994, Brazil has produced steady economic growth and, for the first time in decades, single-digit inflation. However, during 1997 and especially in the last half of 1997, economic growth slowed and in the fourth quarter the government implemented a new fiscal package aimed at minimizing inflation and maintaining the strength of the Brazilian currency (the "Real"). As a result, economic growth in 1998 is initially expected to be flat or slightly recessionary and then improve later in the year. These recent developments in Brazil have created uncertainty in anticipating 1998 business results.

As required by accounting standards, effective January 1, 1998, Praxair will no longer account for Brazil as a hyperinflationary economy and the Brazilian Real will replace the U.S. dollar as Brazil's functional currency. Praxair currently estimates that this change will result in an increase in consolidated operating profit which will be offset by an increase to interest expense. On January 1, 1998, the functional currency change will require Praxair to record additional balance sheet deferred income tax liabilities with a reduction to shareholders' equity (cumulative translation adjustment) of approximately $60 million. In 1998 and beyond, translation losses in Brazil will also be charged directly to shareholders' equity like Praxair's other international operations. At current levels of Real devaluation (approximately 7% per year) and holding the December 31, 1997 balance sheet constant, the translation losses charged to shareholders' equity would be approximately $70 million for 1998. Also, refer to the Market Risks and Sensitivity Analysis section of the Management's Discussion and Analysis for additional information on Praxair's approach to managing currency exchange risks.

Europe

Sales for 1997 decreased 2% as compared to the 1996 period. The decrease was due primarily to unfavorable currency translation effects in Spain and Italy partly offset by volume increases and increased sales associated with Surface Technologies acquisitions. Excluding the currency translation effects, sales increased by 10%.Sales for 1996 increased 10% as compared to the 1995 pro forma amounts due primarily to volume growth, the effect of newly acquired subsidiaries, improved merchant and packaged gases pricing in Southern Europe and improved Surface Technologies results.

Operating profit for 1997 decreased 6% as compared to 1996 (excluding the 1996 special charges).Excluding the currency translation effects, operating profit increased 9%, primarily due to increased volumes and Surface Technologies acquisitions. Operating profit for 1996 (excluding the 1996 special charges) increased19% as compared to the 1995 pro forma period due primarily to the sales growth and continued productivity improvements.

Canada, Mexico, Asia and Other

Sales for 1997 increased 5% as compared to 1996, due to volume growth in Mexico and Asia and pricing improvement in Mexico partly offset by unfavorable currency translation effects. Excluding the currency translation effects, sales increased by 10%.Sales increased 3% in 1996 as compared to the 1995 pro forma amounts due to volume growth in Mexico and Asia.

Operating profit for 1997 increased 13% as compared to 1996 (both excluding the special charges), primarily due to the sales growth and synergies realized from the integration of the Liquid Carbonic business in Canada.This was partly offset by increased business development costs in Asia and unfavorable currency translation effects. Excluding the currency translation effects, operating profit increased 20%. Operating profit for 1996 compared to the 1995 pro forma amounts (excluding the special charges) decreased $5 million primarily due to higher business development expenses in Asia and an increase in technology costs, which more than offset the sales growth.

In the second half of 1997 and continuing into 1998, the U.S. dollar has strengthened considerably against several Asian currencies (including the Korean Won and the Thailand Baht) producing uncertainty about the economic outlook in these countries. Since Asia represents a small percentage of Praxair's sales and operating profit, there should be no material impact on Praxair's 1998 results.

Selling, General and Administrative Expenses

In 1997, selling, general and administrative expenses were $662 million, a $26 million decrease from the 1996 amount.The decrease is primarily due to cost improvements, including the integration of the Liquid Carbonic business, partly offset by cost inflation. Selling, general and administrative expenses as a percentage of sales declined to 14.0% in 1997 from 15.5% in 1996.

In 1996, selling, general and administrative expenses were $688 million, a $2 million decrease from the 1995 pro forma amount.The decrease is primarily due to cost improvements associated with the integration of the Liquid Carbonic business, largely offset by newly acquired and recently consolidated subsidiaries. Selling, general and administrative expenses as a percentage of sales declined to 15.5% in 1996 from 16.8% in 1995 on a pro forma basis.

Other income (expenses) – net

In 1997, other income (expenses) – net increased $35 million over the 1996 amount of $27 million due primarily to an $11 million benefit due to the favorable judgment related to a dispute with the Rio de Janeiro State public hospitals, higher partnership income and higher non-recurring expenses in 1996 related to the integration of the Liquid Carbonic business.

In 1996, other income (expenses) – net increased $5 million over the 1995 pro forma amount of $22 million primarily due to currency and the 1995 productivity improvement charges partly offset by non-recurring credits in 1995.

Interest Expense

The 1997 interest expense increased $21 million from the 1996 amount due to higher debt levels (after adjustment for the debt associated with the purchase of the assets held for sale) and higher interest rates in certain international countries. As noted in the South American segment discussion, interest expense is expected to increase in 1998 due to the functional currency change in Brazil effective January 1, 1998.

The 1996 interest expense decreased $24 million from the 1995 pro forma amounts due primarily to lower interest rates and the issuance of 12.6 million shares of Praxair common stock at the end of the first quarter of 1996, the proceeds of which were used to lower debt levels.

Income Taxes

The effective tax rate for 1997 was 25%, a 1% decrease from the 1996 effective tax rate (excluding the tax benefits associated with the special charges).

The 1996 effective tax rate was 26% (excluding the tax benefit associated with the 1996 special charges), a decrease of 3% from the effective tax rate of the 1995 pro forma period. The decreases in both periods are due primarily to tax planning initiatives.

Minority Interests

On December 31, 1997, minority interests consisted primarily of minority shareholders' investments in three affiliates: S.A. White Martins (Brazil), Rivoira S.p.A. (Italy) and Praxair Korea. Additionally, Praxair records the dividends on preferred stock in minority interests. Minority shareholders' share of income for 1997 was $66 million, a decrease of $2 million as compared to the 1996 amount of $68 million. This decrease was primarily due to the lower income in South America. Minority shareholders' share of income for 1996 was $68 million, an increase of $3 million as compared to the 1995 pro forma amount of $65 million. This increase was primarily due to the recording of $6 million of preferred stock dividends and the increased income in South America mostly offset by the decreased minority position in White Martins.

Income from Equity Investments

Praxair's more significant equity investments are in the United States, Belgium, India, Italy, Spain, Turkey and China. Praxair's share of net income from corporate equity investments improved to $11 million from $8 million in the 1996 results primarily due to improved equity company results in the United States. In 1996, Praxair's share of net income from corporate equity investments improved to $8 million from $5 million in the 1995 pro forma results primarily due to improved equity company results in the United States and Europe.

Costs Relating to the Protection of the Environment

Praxair's principal operations relate to the production and distribution of atmospheric and other industrial gases which historically have not had a significant impact on the environment. However, worldwide costs relating to environmental protection may continue to grow due both to increasingly stringent laws and regulations and to Praxair's ongoing commitment to rigorous internal standards. Environmental protection costs for Praxair in 1997 were approximately $5 million of capital expenditures and $13 million of expenses. Included in the expenses were approximately $2 million for remedial projects. Praxair anticipates that future environmental protection expenditures will approximate the level of those in 1997 and will not have a material adverse effect on the consolidated financial position of Praxair or on the consolidated results of operations or cash flows in a given year.

Commitments and Contingencies

See Note 14 to the consolidated financial statements for information concerning commitments and contingencies.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL DATA

Cash Flow from Operations

Cash flow from operations increased to $752 million in 1997 from $606 million in 1996. The increase reflects cash inflows from higher net income, depreciation and amortization expense, deferred taxes, and lower working capital requirements partly offset by payments related to prior years' incentive compensation programs and the special charges. Working capital needs decreased as compared to the 1996 period primarily due to lower growth in outstanding accounts receivables and higher payments in 1996 related to the CBI acquisition partially offset by higher scheduled payments on accounts payable and other current liabilities, higher prepaid expenses and higher inventory required to support the sales growth.

Cash flow from operations decreased slightly in 1996 versus 1995 from $611 million to $606 million. The decrease reflects one-time after-tax cash payments made in 1996 related to the acquisition of CBI for integration charges, antitrust litigation settlements and other non-recurring payments totaling $75 million. Excluding these charges, operating cash flow increased $70 million due to increased net income, depreciation and amortization expense, deferred taxes and other non-cash charges partly offset by cash outflows from long-term assets and liabilities, and working capital.

Investing

Cash flow used for investing in 1997 totaled $703 million versus $2,334 million in 1996. This decrease was due primarily to the 1996 acquisition of CBI. Excluding the CBI acquisition in 1996, investing cash flow needs decreased $186 million reflecting the lower level of acquisitions and increased proceeds from asset sales.

Construction expenditures for 1997 totaled $902 million, up slightly from 1996, largely due to the timing of cash payments.

Acquisition expenditures for 1997 totaled $101 million primarily relating to investments in India, Surface Technologies acquisitions in Brazil and the United Kingdom, minority share purchases in South America, and the continuation of packaged gases acquisitions in North America. Acquisition expenditures in 1996 were $1,705 million ($260 million excluding the CBI acquisition).

Proceeds on divestitures and asset sales increased $36 million to $300 million in 1997 as compared to 1996 primarily due to the sale of substantially all of Praxair's investment in Chicago Bridge & Iron Company, N.V. in an initial public offering transaction (see Note 2 to the consolidated financial statements). Substantially all of the assets held for sale were sold as of December 31, 1997.

On a worldwide basis, construction and investment expenditures for the full year 1998 are expected to continue at approximately $1 billion primarily from industrial gases growth opportunities worldwide and the continuation of Praxair's packaged gases and Surface Technologies acquisition strategies.

Financing

At December 31, 1997, Praxair's total debt outstanding was $3,305 million, an increase of $40 million over 1996. Praxair's debt-to-capital ratio decreased from 56.7% at December 31, 1996 to 54.9% as of December 31, 1997. At December 31, 1997, there were no borrowings under Praxair's $1.5 billion U.S. bank credit facility and Praxair's investment grade credit rating for long-term debt was maintained at A3/BBB+.

During October 1997, Praxair issued $250 million of 6.625% non-redeemable Notes due 2007 with interest payable semi-annually. As discussed above, Praxair sold most of the remaining assets held for sale acquired in the CBI acquisition. The proceeds from these transactions were used to repay outstanding commercial paper and for general corporate purposes. Also, during 1997, a Canadian subsidiary of Praxair refinanced approximately $70 million of short-term debt on a long-term basis.

Praxair's financing strategy is to secure sufficient funds to support its operations in the United States and around the world. Praxair sources the funding through a combination of local borrowing and intercompany lending in order to minimize the total cost of funds and to manage and centralize currency exchange exposures. Praxair manages its exposure to interest rate changes through the use of financial derivatives (see Note 6 to the consolidated financial statements).

RAW MATERIALS AND MARKETS

Energy is the single largest cost item in the production and distribution of industrial gases. For some products, such as carbon dioxide, helium, hydrogen, specialty gases and surface coatings and powders, raw materials are largely purchased from outside sources. Praxair generally has contracts or commitments for, or readily available sources of, these raw materials.

Praxair's industrial gases are used by a diverse group of customers in a variety of industries including metal fabrication, primary metals, chemicals, healthcare, food processing, electronics, beverage, aerospace, petroleum refining, pulp and paper, oil and gas, glass, and numerous other markets. By using the gases Praxair produces and, in many cases, the proprietary processes that it invents, customers benefit through improved product quality, increased productivity, lower operating costs, conservation of energy and the attainment of environmental improvement objectives. Praxair has a large number of customers and no single customer accounts for a significant portion of Praxair's annual sales. Aircraft engines are Surface Technologies primary market, but it also serves the printing, textile, chemical and primary metals markets. Aircraft-engine and airframe-component overhaul services are another offering.

YEAR 2000

Praxair is aware of the potential for Year 2000 software failures and the associated impact on business operations. The Company has been actively working on this project since mid-1996 and teams are in place worldwide to address this situation. An assessment has been and continues to be conducted and plans are being developed to complete Year 2000 software compliance for business sensitive areas before the year 2000. Costs to complete this program are expected to approximate $15 million.

NEW ACCOUNTING STANDARDS

The FASB has issued SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" which will not become effective for Praxair until the fourth quarter of 1998. These standards will require Praxair to review its current segment information and report a new Comprehensive Income amount. Praxair has not determined what changes, if any, SFAS No. 131 will require to its current segment definitions.

MARKET RISKS AND SENSITIVITY ANALYSES

Like other global companies, Praxair is exposed to market risks relating to fluctuations in interest rates and currency exchange rates. The objective of financial risk management at Praxair is to minimize the negative impact of interest rate and foreign exchange rate fluctuations on the Company's earnings, cash flows and equity.

To manage these risks, Praxair uses various derivative financial instruments, including, interest rate swap, forward starting interest rate swap and interest rate cap and option agreements, and currency swap, forward and option contracts. These derivative financial instruments are generally held to maturity and Praxair only uses commonly traded and non-leveraged instruments. These contracts are entered into with major financial institutions thereby minimizing the risk of credit loss. Also, refer to Notes 1 and 6 to the consolidated financial statements for a more complete description of Praxair's accounting policies and use of such instruments.

As required by new Securities and Exchange Commission (SEC) rules, the following analyses present the sensitivity of the market value, earnings and cash flows of Praxair's financial instruments to hypothetical changes in interest and exchange rates as if these changes occurred at December 31, 1997. The range of changes chosen for these analyses reflect Praxair's view of changes which are reasonably possible over a one-year period. Market values are the present values of projected future cash flows based on the interest rate and exchange rate assumptions. These forward looking disclosures are selective in nature and only address the potential impacts from financial instruments. They do not include other potential effects which could impact Praxair's business as a result of these changes in interest and exchange rates.

Interest Rate and Debt Sensitivity Analysis

At December 31, 1997, Praxair has debt totaling $3,305 million and interest rate swaps with a net notional value of $1,150 million. Interest rate swaps are entered into as a hedge of underlying debt instruments to effectively change the characteristics of the interest rate without actually changing the debt instrument. At December 31, 1997, most of Praxair's interest rate swap agreements convert outstanding floating rate debt to fixed rate debt for a period of time. For fixed rate debt, interest rate changes affect the fair market value but do not impact earnings or cash flows. Conversely for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant.

At December 31, 1997 after adjusting for the effect of interest rate swap agreements, Praxair has fixed rate debt of $2,637 million and floating rate debt of $668 million. Holding other variables constant (such as foreign exchange rates and debt levels) a one percentage point decrease in interest rates would increase the unrealized fair market value of the fixed rate debt by approximately $105 million. The earnings and cash flows impact for the next year resulting from a one percentage point increase in interest rates would be approximately $6 million, holding other variables constant.

Exchange Rate Sensitivity Analysis

Praxair's exchange rate exposures result primarily from its investments and ongoing operations in South America (primarily Brazil), Europe (primarily Spain and Italy), Canada, Mexico, Asia (primarily China, India, Korea and Thailand) and certain other business transactions such as the procurement of equipment from foreign sources. Among other techniques, Praxair utilizes foreign exchange forward contracts to hedge these exposures. At December 31, 1997 Praxair had $324 million notional amount of foreign exchange contracts of which $254 million hedged recorded balance sheet exposures or firm commitments.

Holding other variables constant, if there were a ten percent adverse change in foreign currency exchange rates, the market value of foreign currency contracts outstanding at December 31, 1997 would decrease by approximately $21 million. Of this decrease, only about $4 million would impact earnings since the gain (loss) on the majority of these contracts would be offset by an equal (gain) loss on the underlying exposure being hedged.

Consolidated Statement of Income

Year Ended December 31,	1997	1996	1995
Sales	$4,735	$4,449	$3,146
Cost of sales, exclusive of depreciation and amortization	2,764	2,564	1,777
Selling, general and administrative	662	688	496
Depreciation and amortization	444	420	279
Research and development	79	72	61
Special charges	10	85	–
Other income (expenses) – net	62	27	15
Operating profit	838	647	548
Interest expense	216	195	116
Income before taxes	622	452	432
Income taxes	151	110	122
Income of consolidated entities	471	342	310
Minority interests	(66)	(68)	(50)
Income from equity investments	11	8	2
Income before cumulative effect of an accounting change	416	282	262
Cumulative effect of an accounting change	(11)	–	–
Net income	$ 405	$ 282	$ 262
Basic earnings per share:			
Income before cumulative effect of an accounting change	$ 2.63	$ 1.85	$ 1.89
Cumulative effect of an accounting change	(.07)	–	–
Net income	$ 2.56	$ 1.85	$ 1.89
Diluted earnings per share:			
Income before cumulative effect of an accounting change	$ 2.53	$ 1.77	$ 1.82
Cumulative effect of an accounting change	(.07)	–	–
Net income	$ 2.46	$ 1.77	$ 1.82

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

(Millions of dollars, except per share data)

Consolidated Balance Sheet

Year Ended December 31,	1997	1996
Assets		
Cash and cash equivalents	$ 43	$ 63
Accounts receivable	971	914
Inventories	329	312
Prepaid and other current assets	154	377
Total current assets	1,497	1,666
Property, plant and equipment – net	4,607	4,269
Equity investments	210	195
Other long-term assets	1,496	1,408
Total assets	$7,810	$7,538
Liabilities and Equity		
Accounts payable	$ 383	$ 408
Short-term debt	391	1,520
Current portion of long-term debt	40	42
Accrued taxes	51	69
Other current liabilities	501	511
Total current liabilities	1,366	2,550
Long-term debt	2,874	1,703
Other long-term liabilities	528	535
Deferred credits	324	258
Total liabilities	5,092	5,046
Minority interests	521	493
Preferred stock	75	75
Shareholders'equity:		
Common stock $.01 par value, authorized 500,000,000 shares, issued 159,969,641 shares in 1997 and 157,501,453 shares in 1996	2	2
Additional paid-in capital	1,471	1,350
Retained earnings	1,034	698
Cumulative translation adjustment	(256)	(126)
Less: Treasury stock, at cost (2,596,417 shares in 1997 and 12,496 shares in 1996)	(129)	–
Total shareholders'equity	2,122	1,924
Total liabilities and equity	$7,810	$7,538

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

(Millions of dollars)

Consolidated Statement of Cash Flows

Year Ended December 31,	1997	1996	1995
Increase (decrease) in cash and cash equivalents			
Operations			
Net income	$405	$282	$262
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	444	420	279
Special charges	(13)	37	–
Deferred income taxes	67	48	42
Gain on sale of fixed assets	(7)	(4)	1
Other non-cash charges	42	49	39
Working capital:			
Accounts receivable	(54)	(121)	(48)
Inventories	(14)	(4)	(52)
Prepaid and other	(10)	25	(12)
Payables and accruals	(41)	9	118
CBI acquisition payments	–	(75)	–
Long-term assets and liabilities	(67)	(60)	(18)
Net cash provided by operating activities	752	606	611
Investing			
Capital expenditures	(902)	(893)	(600)
Acquisitions	(101)	(1,705)	(202)
Divestitures and asset sales	300	264	82
Net cash used for investing activities	(703)	(2,334)	(720)
Financing			
Short-term borrowings (repayments) – net	(269)	1,114	3
Long-term borrowings	438	602	201
Long-term debt repayments	(110)	(489)	(154)
Minority transactions and other	(31)	4	(10)
Issuances of common stock	110	611	111
Purchases of common stock	(137)	(7)	(45)
Dividends	(69)	(58)	(45)
Net cash (used for) provided by financing activities	(68)	1,777	61
Effect of exchange rate changes on cash and cash equivalents	(1)	(1)	–
Change in cash and cash equivalents	(20)	48	(48)
Cash and cash equivalents, beginning-of-year	63	15	63
Cash and cash equivalents, end-of-year	$ 43	$ 63	$ 15
Supplemental data:			
Taxes paid	$ 58	$ 59	$ 74
Interest paid	$211	$241	$120
Short-term debt classified as long-term (Note 6)	$860	$ –	$ –
Other long-term liabilities reclassified to equity (Note 7)	$ 19	$ –	$ –
Acquired debt from CBI Industries, Inc.(Note 2)	$ –	$735	$ –

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

(Millions of dollars)

Consolidated Statement of Shareholders' Equity

Activity	Common Stock Shares	Common Stock Amounts	Additional Paid-In Capital	Retained Earnings	Cumulative Translation Adjustment	Treasury Stock Shares	Treasury Stock Amounts	Total
Balance, December 31, 1994	138,237	$1	$ 688	$ 257	$ (99)	374	$ (8)	$ 839
Net income				262				262
Dividends on common stock								
($.32 per share)				(45)				(45)
Issuances of common stock:								
For the dividend reinvestment								
and stock purchase plan	107		1					1
For employee savings and								
incentive plans	2,280		59			(2,284)	52	111
Purchases of common stock						1,999	(45)	(45)
Translation adjustments					(2)			(2)
Balance, December 31, 1995	140,624	$1	$ 748	$ 474	$(101)	89	$ (1)	$1,121
Net income				282				282
Dividends on common stock								
($.38 per share)				(58)				(58)
Issuances of common stock:								
Public offering	12,650	1	461					462
For the dividend reinvestment								
and stock purchase plan	83		2					2
For employee savings and								
incentive plans	4,144		139			(264)	8	147
Purchases of common stock						187	(7)	(7)
Translation adjustments					(25)			(25)
Balance, December 31, 1996	157,501	$2	$1,350	$ 698	$(126)	12	$ –	$1,924
Net income				405				405
Dividends on common stock								
($.44 per share)				(69)				(69)
Issuances of common stock:								
For the dividend reinvestment								
and stock purchase plan	74		2					2
For employee savings and								
incentive plans	2,395		119			(157)	8	127
Purchases of common stock						2,742	(137)	(137)
Translation adjustments					(130)			(130)
Balance, December 31, 1997	159,970	$2	$1,471	$1,034	$(256)	2,597	$(129)	$2,122

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

(Millions of dollars, shares in thousands)

NOTE 1
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations – Praxair, Inc.(Praxair or Company) was founded in 1907 and became an independent publicly traded company on June 30, 1992. Praxair is the largest industrial gases company in North and South America, and one of the largest worldwide. The Company is also the world's largest supplier of carbon dioxide. Praxair produces, sells and distributes atmospheric, process and specialty gases, and high-performance surface coatings to a diverse group of industries including metal fabrication, primary metals, chemicals, healthcare, electronics, oil and gas, aerospace, food processing, glass, and pulp and paper.

Principles of Consolidation – The consolidated financial statements include the accounts of all significant subsidiaries where control exists. Equity investments generally consist of 20-50% owned operations. Operations less than 20% owned are generally carried at cost. Pre-tax income from equity investments which are partnerships is included in other income (expenses) – net with related taxes included in income taxes. Partnership net assets are reported as equity investments in the balance sheet. Praxair does not allocate corporate costs to its equity investments. Significant intercompany transactions are eliminated.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While actual results could differ, management believes such estimates to be reasonable.

Cash and Cash Equivalents – Cash equivalents are considered to be highly liquid securities with original maturities of three months or less.

Inventories – Inventories are stated at the lower of cost or market. Cost is determined generally using the last-in, first-out (LIFO) method for certain U.S. operations and the average cost method for most other operations.

Property, Plant and Equipment – net – Property, plant and equipment are carried at cost, net of accumulated depreciation. Depreciation is calculated on the straight-line method based on the estimated useful lives of the assets which range from 3 to 40 years. Praxair generally uses accelerated depreciation methods for tax purposes where appropriate. The Company periodically reviews the recoverability of long-lived assets based upon anticipated cash flows generated from such assets.

Foreign Currency Translation – For international subsidiaries where the local currency is the functional currency, translation gains and losses are accumulated as a separate component of shareholders' equity. For international subsidiaries operating in hyperinflationary economies, the U.S. dollar is the functional currency and translation gains and losses are included in income.

Financial Instruments – Praxair enters into various derivative financial instruments to manage its exposure to fluctuating interest and currency exchange rates. Such instruments include interest rate swap, forward rate, cap and option agreements, and currency swap, forward and option contracts. These instruments are not entered into for trading purposes and are generally held to maturity. Praxair only uses commonly traded and non-leveraged instruments.

Interest rate swap and forward rate agreements involve the exchange of fixed and floating interest payments without the exchange of the underlying principal amounts. The differential to be paid or received is recognized as an adjustment to interest expense. Interest rate cap and option agreements are used to reduce the impact of interest rate changes on floating rate debt. The premiums paid are amortized to interest expense over the terms of the agreements. The notional amounts of interest rate swap, forward rate and cap agreements do not exceed the underlying debt principal amounts. If an interest rate swap or forward rate agreement is terminated before its maturity, any gain or loss is deferred and amortized as interest expense over the remaining life of the underlying debt or the remaining life of the swap, if shorter.

Currency swap, forward and option contracts are generally entered into to hedge recorded balance sheet amounts related to international operations and firm commitments that create currency exposures. Gains and losses on hedges of assets and liabilities are recorded in other income (expenses) – net as offsets to the gains and losses from the underlying hedged amounts; gains and losses on hedges of net investments are reported on the balance sheet as part of the cumulative translation adjustment within shareholders' equity; and gains and losses on hedges of firm commitments are recorded on the balance sheet and included in the basis of the underlying transaction. Forward exchange contracts that cover exposures which do not qualify as hedges are recorded in other income (expenses) – net on a mark-to-market basis.

Praxair uses the following methods and assumptions to estimate the fair value of each class of financial instrument. Due to their nature, the carrying value of cash, short-term investments and short-term debt, receivables and payables approximates fair value. The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues. The fair value of interest rate swaps and currency exchange contracts are estimated based on market prices obtained from dealer quotes. Such quotes represent the estimated amount Praxair would receive or pay to terminate the agreements taking into consideration current rates and the credit worthiness of the counterparties. (See Note 6).

Patents, Trademarks And Goodwill – Amounts paid for patents and the excess of the purchase price over the fair value of the net assets of acquired operations (goodwill) are recorded as other long-term assets. Patents are amortized over their remaining useful lives, while trademarks and goodwill are amortized over the estimated period of benefit, up to forty years. Praxair periodically evaluates the recoverability of patents, trademarks and goodwill by assessing whether the unamortized balance can be recovered over its remaining life through cash flows generated by underlying tangible assets.

Research And Development – Research and development costs are charged to expense as incurred.

Income Taxes – Deferred income taxes are recorded for the temporary differences between the financial statement and tax bases of assets and liabilities using current tax rates.

Retirement Programs – Most Praxair employees worldwide are covered by various pension plans. The cost of pension benefits under these plans is determined using the "projected unit credit" actuarial cost method.Funding of pension plans varies and is in accordance with local laws and practices.

Praxair accrues the cost of retiree life and health insurance benefits during the employees'service period when such benefits are earned.

Postemployment Benefits – Praxair recognizes the estimated cost of future benefits provided to former and inactive employees after employment but before retirement on the accrual basis.

Stock-Based Compensation – Effective in 1996, Praxair adopted Statement of Financial Accounting Standards (SFAS) No.123, Accounting for Stock-Based Compensation, and continues to account for incentive plans and stock options using the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Pro forma information required by SFAS No.123 is included in Note 10.

Earnings Per Share – Effective with the fourth quarter of 1997, Praxair implemented SFAS No. 128 which establishes new standards for computing and presenting earnings per share and requires the disclosure of basic and diluted amounts. Earnings per share amounts for all prior periods have been restated. Basic earnings per share is computed by dividing net income for the period by the weighted average number of Praxair common shares outstanding. Diluted earnings per share, which is consistent with Praxair's previously disclosed amounts, is computed by dividing net income for the period by the weighted average number of Praxair common shares outstanding and dilutive common stock equivalents.

Weighted average shares used to compute basic earnings per share were 158,094,511, 152,653,827, and 138,817,512 shares in 1997, 1996, and 1995, respectively. Weighted average shares and common stock equivalents used to compute diluted earnings per share amounts were 164,053,485, 159,037,716, and 144,147,469 shares in 1997, 1996, and 1995, respectively. The difference between the number of shares used in the basic earnings per share calculation compared to the diluted earnings per share calculation is due to the dilutive effect of outstanding stock options.

Accounting Change – In accordance with Emerging Issues Task Force (EITF) Consensus No. 97-13, Praxair recorded an after-tax charge of $11 million in the fourth quarter of 1997 as the cumulative effect of an accounting change related to previously capitalized business process reengineering and information technology transformation costs.

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

NOTE 2
1996 ACQUISITION OF CBI INDUSTRIES, INC. (CBI)

Acquisition:

On January 12, 1996, Praxair acquired approximately 94% of the outstanding shares of CBI common stock and on March 13, 1996 Praxair acquired the remaining common stock outstanding. The total purchase price for CBI's common stock was $2.2 billion including assumed debt of $735 million.

The purchase price for the common stock of CBI has been allocated to the assets and liabilities of Liquid Carbonic based on appraisals, valuations and other studies;and to assets held for sale based on estimated net realizable values, as adjusted.The goodwill associated with the CBI acquisition, representing the costs in excess of the fair value of net assets acquired (shown on the balance sheet in other long-term assets), is being amortized on a straight line basis over forty years. The results of Liquid Carbonic's operations have been included in the consolidated financial statements effective January 1, 1996.

Pro forma information:

The following table provides the unaudited pro forma consolidated results of operations for the year ended December 31, 1995, reflecting the acquisition as though it had occurred at January 1, 1995. The 1995 pro forma amounts are based upon the historical consolidated financial statements of Praxair and CBI combined and adjusted to give effect to the acquisition using the purchase method of accounting and to eliminate the operations and interest carrying costs related to acquired businesses to be sold.

This unaudited pro forma financial information is not necessarily indicative of the results of the combined company that would have occurred had the acquisition occurred at the beginning of 1995 nor are they necessarily indicative of future operating results.

1995 Pro Forma results (unaudited)*	
Sales	$4,109
Operating profit	$ 576
Net income	$ 190
Basic earnings per share	$ 1.37
Diluted earnings per share	$ 1.32

(Millions of dollars, except per share data)

*Pro forma results include an operating profit charge of $54 million ($33 million after tax or $0.23 diluted earnings per share and $0.24 basic earnings per share) principally relating to legal, environmental and other matters of CBI's Liquid Carbonic business.

Assets Held for Sale:

At the acquisition date, Praxair determined that the Contracting and Investments segments of CBI were not strategic to the combined company and has now completed the sale of substantially all of these businesses. The operations related to these assets held for sale have been eliminated from Praxair's consolidated financial statements in 1997 and 1996 and the remaining assets and liabilities to be sold are included in the consolidated balance sheet within the prepaid and other current assets line at amounts equal to estimated net realizable values adjusted for anticipated earnings, interest and other carrying costs until sale. The following table provides summary data for activity during 1997 and 1996 related to these businesses:

Assets Held for Sale	1997	1996
Balance, January 1	$287	$ –
Acquisition of CBI	–	476
Add:interest carrying costs	4	17
Less:net income of operations held for sale	(3)	(15)
After-tax proceeds from sale of businesses*	(273)	(191)
Balance, December 31	$ 15	$287

(Millions of dollars)

*During 1997, Praxair sold 96% of Chicago Bridge & Iron Company N.V. in an initial public offering transaction, and five other small businesses. During 1996, Praxair sold four of Liquid Carbonic's air separation plants (based on an agreement with the U.S. Federal Trade Commission), Statia Terminals, Inc. and a small business that was part of CBI's Investments segment.

NOTE 3
SPECIAL CHARGES

In the fourth quarter of 1997, Praxair recorded a charge of $10 million ($6 million after tax) related primarily to profit improvement initiatives in its North American packaged gases business.

In the first quarter of 1996, Praxair recorded a charge of $85 million pretax ($53 million after tax benefits of $30 million and minority interests of $2 million) for severance-related and other exit costs, primarily lease termination costs, associated with the integration of the Liquid Carbonic business of CBI and Praxair. The severance-related costs are for payments for the termination of Praxair and CBI employees due to synergies related to integrating the operations of the two companies, primarily manufacturing and product distribution, sales and marketing, and administrative functions. The employee terminations have been completed as of December 31, 1997. The other exit costs are primarily related to estimated net costs associated with lease commitments for surplus office and production space.

The following table summarizes 1997 and 1996 accrual activity:

Accrual – Special Charges	Severance	Other Exit Costs	Total Accrual
Balance, January 1, 1996	$ –	$ –	$ –
CBI integration	50	35	85
1996 activity	(29)	(10)	(39)
Balance, December 31, 1996	$21	$25	$46
Packaged gases	–	10	10
1997 activity	(21)	(9)	(30)
Balance, December 31, 1997	$ –	$26	$26

(Millions of dollars)

NOTE 4
SEGMENT DATA

Praxair operates principally in the industrial gases business. The following is a summary of sales, operating profit and total assets by geographic segment. Transfers between geographic segments were not significant.

Year Ended December 31,	1997	1996	1995
Sales:			
United States	$2,411	$2,157	$1,569
South America	996	990	667
Europe	603	613	494
Canada, Mexico, Asia and Other	725	689	416
Total sales	$4,735	$4,449	$3,146
Operating profit:[a]			
United States	$ 465	$ 322	$ 285
South America	197	190	137
Europe	110	113	90
Canada, Mexico, Asia and Other	89	52	53
Corporate	(23)	(30)	(17)
Total operating profit	$ 838	$ 647	$ 548
Total assets:			
United States	$3,369	$3,102	$1,869
South America	2,508	2,177	993
Europe	897	955	741
Canada, Mexico, Asia and Other[b]	1,036	1,304	531
Total assets	$7,810	$7,538	$4,134

(Millions of dollars)

[a] During 1997, Praxair recorded an operating profit charge of $10 million related primarily to profit improvement initiatives in the North American packaged gases business. During 1996, Praxair recorded an operating profit charge of $85 million related to CBI integration costs. The following are the operating profit impacts, by geographic segment for these special charges.

	1997	1996
United States	$ 9	$37
South America	–	13
Europe	–	4
Canada, Mexico, Asia and Other	1	28
Corporate	–	3
Total operating profit	$10	$85

(Millions of dollars)

[b] Includes $15 million in 1997 and $287 million in 1996 related to assets held for sale – net.

NOTE 5
INCOME TAXES

Pre-tax income applicable to U.S. and foreign operations is as follows:

Year Ended December 31,	1997	1996	1995
United States	$290	$154	$188
Foreign	332	298	244
Total income before income taxes	$622	$452	$432

(Millions of dollars)

The following is an analysis of the provision for income taxes:

Year Ended December 31,	1997	1996	1995
Current tax expense			
U.S. Federal	$ 23	$ 15	$ 48
State and local	12	5	9
Foreign	49	42	23
Total current	84	62	80
Deferred tax expense			
U.S. Federal	65	39	14
Foreign	2	9	28
Total deferred	67	48	42
Total income taxes	$151	$110	$122

(Millions of dollars)

Net deferred tax liabilities are comprised of the following:

December 31,	1997	1996
Deferred tax liabilities		
Fixed assets	$453	$405
State and local	9	9
Other	148	156
Total deferred tax liabilities	610	570
Deferred tax assets		
Benefit plans and related	174	160
Inventory	17	15
Alternative minimum tax	16	18
Loss carryforwards – gross	72	40
Other	107	138
	386	371
Less: Valuation allowances	30	11
Total deferred tax assets	356	360
Net deferred tax liabilities	$254	$210

(Millions of dollars)

An analysis of the difference between the provision for income taxes and the amount computed by applying the U.S. statutoryincome tax rate to pre-tax income follows (amounts are in millions of dollars and percentages are of pre-tax income):

Year Ended December 31,	1997		1996		1995	
	$	%	$	%	$	%
U.S. statutory income tax rate	218	35.0	158	35.0	151	35.0
State and local taxes	8	1.3	3	0.7	5	1.2
U.S. tax credits	(1)	(0.1)	(1)	(0.2)	(1)	(0.2)
Foreign taxes	(65)	(10.5)	(51)	(11.4)	(30)	(6.9)
Other – net	(9)	(1.4)	1	0.2	(3)	(0.9)
Provision for income tax	151	24.3	110	24.3	122	28.2

The valuation allowances increased $19 million in 1997, and $1 million in 1996 and 1995, all relating to foreign net operating loss carryforwards activity. At December 31, 1997, Praxair has approximately $81 million of foreign net operating loss carryforwards that expire principally through 2002, for which the deferred tax asset has been fully reserved by valuation allowances.

During 1997, Italy and the United Kingdom decreased and France increased their top marginal tax rate. During 1996, Brazil increased its top marginal tax rate. The effects of these tax rate changes were immaterial. In 1995, income taxes included a $6 million charge related to the decrease in Brazil's top marginal income tax rate from 43% to 30.6%.

Provision has not been made for additional Federal or foreign taxes at December 31, 1997 on $1,212 million of undistributed earnings of foreign subsidiaries that are planned to be reinvested indefinitely. These earnings could become subject to additional tax if they were remitted as dividends, loaned to Praxair, or upon sale of the subsidiary's stock.It is not practicable to estimate the amount or timing of the additional tax, if any, that might eventually be payable on the foreign earnings.

NOTE 6
DEBT AND FINANCIAL INSTRUMENTS

Debt – The following is a summary of Praxair's outstanding debt at December 31, 1997 and 1996:

Debt	1997	1996
Short-Term		
Commercial paper and U.S. bank borrowings	$ –	$1,181
Other U.S. bank borrowings	1	17
Canadian borrowings	84	167
South American borrowings	268	106
Other International borrowings	38	49
Total short-term debt	391	1,520
Long-Term		
U.S.:		
Commercial paper and U.S. bank borrowings	860	–
6.25% Notes due 2000	75	75
6.70% Notes due 2001	250	250
6.625% Notes due 2003	75	75
6.75% Notes due 2003	300	300
6.85% Notes due 2005	150	150
6.90% Notes due 2006	250	250
6.625% Notes due 2007	250	–
8.70% Debentures due 2022 (Redeemable after 2002)	300	300
Other borrowings	55	65
Canadian subsidiary borrowings	160	90
South American subsidiary borrowings	130	109
Other International borrowings	17	36
Obligations under capital leases	42	45
	2,914	1,745
Less: current portion of long-term debt	40	42
Total long-term debt	2,874	1,703
Total debt	$3,305	$3,265

(Millions of dollars)

Praxair has available a $1.5 billion credit agreement which expires in December 2000 and is used to support commercial paper and other short-term U.S. bank borrowings. No borrowings were outstanding under this credit agreement at December 31, 1997 and 1996.At December 31, 1997, $860 million of short-term borrowings have been classified as long-term debt 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 the credit agreement.The weighted-average interest rate on commercial paper and U.S bank borrowings was 6.1% at December 31, 1997 and 5.7% at December 31, 1996.

Praxair's major bank credit and long-term debt agreements contain various covenants which may, among other things, restrict the ability of Praxair to merge with another entity, incur or guarantee debt, sell or transfer certain assets, create liens against assets, enter into sale and leaseback agreements, or pay dividends and make other distributions beyond certain limits. These agreements also require Praxair to meet leverage, net worth and interest coverage ratios. At December 31, 1997, Praxair was in compliance with all such covenants.

Excluding commercial paper and U.S. bank borrowings, payments due on long-term debt in the five years following 1997 are: 1998, $40 million; 1999, $92 million; 2000, $108 million; 2001, $342 million and 2002, $93 million. At December 31, 1997, $40 million of Praxair's assets (principally international fixed assets) were pledged as security for long-term debt including the current portion of long-term debt.

At December 31, 1997, the estimated fair value of Praxair's long-term debt portfolio was $2,971 million versus a carrying value of $2,914 million. (At December 31, 1996 the estimated fair value of long-term debt was $1,760 million versus a carrying value of $1,745 million). These differences are attributable to interest rates changes subsequent to when the debt was issued.

Financial Instruments – Praxair has entered into various interest rate swap and cap agreements that are used to manage exposure to interest rate changes. Fixed rate swaps are used to convert floating rate debt into fixed rate debt. Forward starting fixed rate swaps are generally used to extend coverage of existing swaps and increase the period for which floating rate debt is converted to fixed rate debt. Floating rate swaps are used to convert fixed rate debt into floating rate debt. Interest rate caps are used to limit the impact of rising interest rates on short-term floating rate debt. The fair market value of these swaps and caps approximated their carrying amounts at December 31, 1997 and 1996. The following table is a summary of the notional amount of interest rate swap and cap agreements at December 31, 1997 and 1996:

December 31,	1997[a]	1996
Maturing within one year:		
Fixed Rate Swaps	$220	$950
Floating Rate Swaps	$150	$ 15
Caps	–	$200
Maturing between 1-2 years:		
Fixed Rate Swaps	$550[b]	$ 20
Forward Starting Fixed Rate Swaps	$150	-
Floating Rate Swaps	–	$150
Maturing 2001:		
Fixed Rate Swaps	$ 80	$ 80

(Millions of dollars)

[a] Additionally, at December 31, 1997 there are $300 million notional value of forward starting fixed rate swaps that have been effectively offset through June 1998 using $300 million notional value of forward starting floating rate swaps.

[b] At December 31, 1997, the expiration dates for $300 million ($600 million in 1996) of these swaps have effectively been extended to these dates through the use of forward starting fixed rate swaps.

Praxair is also a party to currency exchange forward contracts to manage its exposure to changing currency exchange rates. At December 31, 1997 and 1996, respectively, Praxair had $324 million and $262 million of currency exchange forward contracts outstanding: $216 million to hedge recorded balance sheet exposures ($239 million in 1996), $38 million to hedge firm commitments generally for the purchase of equipment related to construction projects ($23 million in 1996) and in 1997 only, $70 million to hedge other operating exposures that are accountedfor on a mark-to-market basis. Additionally, at December 31, 1997 there are $100 million notional value of currency exchange forward contracts that effectively offset. These contracts all mature within one year. At December 31, 1997 and 1996, the fair market value of currency exchange contracts approximated their carrying amounts and the deferred gains and losses on these contracts were not material.

Counterparties to interest rate derivative contracts and currency exchange forward contracts are major financial institutions with credit ratings of investment grade or better and no collateral is required. There are no significant risk concentrations. Management believes the risk of incurring losses related to credit risk is remote and any losses would be immaterial.

NOTE 7
SHAREHOLDERS' EQUITY

At December 31, 1997 there were 500,000,000 shares of common stock authorized (par value $.01 per share) of which 159,969,641 shares were issued and 157,373,224 were outstanding. During 1997, Praxair reclassified $19 million to additional paid-in capital from other long-term liabilities for deferred compensation that will be paid in common stock. Additional paid-in capital includes unearned performance stock of $(4) million at December 31, 1995 and $(5) million at December 31, 1994.

The Board of Directors of Praxair declared a dividend distribution of one common stock purchase right (a "Right") for each share of Praxair's common stock outstanding at the close of business on June 30, 1992. The holders of any additional shares of Praxair's common stock issued after June 30, 1992 and before the redemption or expiration of the Rights are also entitled to one Right for each such additional share. Each Right entitles the registered holders, under certain circumstances, to purchase from Praxair one share of Praxair's common stock at $47.33 (subject to adjustment). At no time will the Rights have any voting power.

The Rights may not be exercised until 10 days after a person or group acquires 15 percent or more of Praxair's common stock, or announces a tender offer that, if consummated, would result in 15 percent or more ownership of Praxair's common stock. Separate Rights certificates will not be issued and the Rights will not be traded separately from the stock until then.

Should an acquirer become the beneficial owner of 15 percent or more of Praxair's common stock (other than as approved by Praxair's Board of Directors) and under certain additional circumstances, Praxair Rightholders (other than the acquirer) would have the right to buy common stock in Praxair, or in the surviving enterprise if Praxair is acquired, having a value of two times the exercise price then in effect.Also, Praxair's Board of Directors may exchange the Rights (other than the acquirer's Rights which will have become void), in whole or in part, at an exchange ratio of one share of Praxair common stock (and/or other securities, cash or other assets having equal value) per Right (subject to adjustment).

The Rights will expire on June 30, 2002, unless exchanged or redeemed prior to that date. The redemption price is $.001 per Right.Praxair's Board of Directors may redeem the Rights by a majority vote at any time prior to the 20th day following public announcement that a person or group has acquired 15 percent of Praxair's common stock. Under certain circumstances, the decision to redeem requires the concurrence of a majority of the independent directors.

NOTE 8
PREFERRED STOCK

At December 31, 1997 and 1996, there were 25,000,000 shares of preferred stock (par value $.01 per share) authorized, of which, 750,000 shares were issued and outstanding. The outstanding preferred shares were issued in December 1996 when CBI was merged into Praxair. At that time, each outstanding share of CBI preferred stock was exchanged for a share of Praxair preferred stock having the same terms. Each series of preferred stock ranks on parity with the other, and no dividends may be paid on Praxair common stock unless preferred stock dividends have been paid.The preferred stock has limited voting rights. Dividends are included in minority interests on the consolidated statement of income. Following is a summary of each series of preferred stock outstanding.

Series A Preferred Stock – There are 550,000 outstanding shares of Praxair 7.48% Cumulative Preferred Stock, Series A which are entitled to receive cumulative annual dividends of $7.48 per share, payable quarterly. The Series A Preferred Stock is mandatorily redeemable on, but not prior to, April 1, 2000 at a price of $100 per share and has a liquidation preference of $100 per share.

Series B Preferred Stock – There are 200,000 outstanding shares of Praxair 6.75% Cumulative Preferred Stock, Series B which are entitled to receive cumulative annual dividends of $6.75 per share, payable quarterly. The Series B Preferred Stock is mandatorily redeemable on, but not prior to, September 5, 2002 at a price of $100 per share and has a liquidation preference of $100 per share.

NOTE 9
SUPPLEMENTARY INCOME STATEMENT INFORMATION

Year Ended December 31,	1997	1996	1995
Selling, general and administrative			
Selling	$333	$331	$236
General and administrative	329	357	260
	$662	$688	$496
Other income (expenses) – net			
Investment income	$ 13	$ 6	$ 4
Currency	4	3	(4)
Partnership income	12	8	10
Other	33[a]	10	5[b]
	$ 62	$ 27	$ 15
Interest expense			
Interest incurred on debt	$248	$220	$125
Interest capitalized	(32)	(25)	(9)
	$216	$195	$116
Minority Interests			
Minority interests	$ (58)	$ (62)	$ (50)
Preferred stock dividends	(8)	(6)	–
	$ (66)	$ (68)	$ (50)

(Millions of dollars)

(a) Includes $11 million from a favorable judgment related to a dispute with State public hospitals in Brazil.

(b) Includes employee severance costs in Brazil and expenses for future lease payments on excess office space in the U.S.;partly offset by income from the sale of the name and trademark Linde and a favorable settlement of a social contribution tax issue in Brazil.

NOTE 10
INCENTIVE PLANS AND STOCK OPTIONS

The 1992 Praxair Long-Term Incentive Plan (the “1992 Plan”) provides for granting nonqualified or incentive stock options, stock grants, performance awards, and other stock-related incentives for key employees. Awards may be made under the 1992 Plan through the year 2001.

Under the 1992 Plan, the total number of shares available for options or stock grants shall not exceed one percent of the number of shares outstanding on the first day of each year, plus any shares that were available but not used in a prior year up to two percent of the total number of shares outstanding on the first day of the year of the grant. Option prices are equal to the closing price of Praxair’s common stock on the date of the grant. The options issued under the 1992 Plan become exercisable only after one or more years, and the option term can be no more than ten years.

In 1996, the Board of Directors approved the 1996 Praxair, Inc. Performance Incentive Plan (the “1996 Plan”) that provides for granting nonqualified or incentive stock options, stock grants, performance awards and other stock-related incentives for Praxair employees other than officers and directors, employees subject to Section 16 of the Securities Exchange Act of 1934 and employees subject to Section 162(m) of the Internal Revenue Code. Under the 1996 Plan, the number of shares of stock available for options or grants in each calendar year is limited to two percent of the total number of shares of common stock outstanding as of the first day of the year plus any carryover shares from prior years that were not granted up to a maximum of four percent of the shares of common stock that were outstanding on the first day of the year. Options granted under the 1996 Plan have terms and conditions identical to those that may be granted under the 1992 Plan.

In 1992, Praxair issued performance stock to corporate officers and other key employees which became fully vested on February 1, 1997 since the cumulative 15 percent per year net income growth target for the five-year period was achieved. During 1994 the performance stock plan was modified to provide incentive for management to achieve net income growth beyond the original 15% per year target. Under the modification, participants earned additional cash payments equal to 87% of the value of the original performance stock grant. The pre-tax compensation expense related to this performance stock plan was $23 million in 1996 and $19 million in 1995.

Effective January 1, 1997, Praxair initiated a new three-year executive compensation plan by granting performance share equivalents (payable in Praxair common stock) and stock options to corporate officers and other key employees. The performance share equivalents will fully vest on January 1, 2000, provided that Praxair meets its three-year cumulative 15 percent per year earnings per share growth target for the period. The number of actual performance share equivalents that vest is governed by a sliding scale starting at 6.5 percent growth based on cumulative earnings per share achieved over the three-year period with no maximum. The performance share equivalents will be included in earnings per share calculations as minimum performance targets are achieved. The stock options become exercisable on January 1, 2000. For 1997, Praxair’s earnings per share growth for purposes of this calculation was 16.6% and the pre-tax compensation expense related to this plan was $15 million.

The following table summarizes the changes in outstanding shares under option, performance stock grants and performance stock equivalents for 1997, 1996 and 1995 (Shares in thousands):

Activity	Stock Options: Options	Stock Options: Average Exercise Price	Performance Stock and Equivalents[a]
Outstanding at December 31, 1994	12,285	$ 14.45	631
Granted	1,422	21.14	9
Exercised	(2,224)	13.94	–
Cancelled or expired	(54)	18.68	(4)
Outstanding at December 31, 1995	11,429	15.36	636
Granted	2,615	40.52	6
Exercised	(2,478)	14.99	–
Cancelled or expired	(89)	33.19	(3)
Outstanding at December 31, 1996	11,477	21.03	639
Granted	1,232	50.63	992
Exercised	(1,737)	15.11	–
Vested	–	–	(639)
Cancelled or expired	(73)	40.19	(24)
Outstanding at December 31, 1997[b]	10,899	25.20	968
Options exercisable at:			
December 31, 1995	8,671	13.99	
December 31, 1996	7,275	14.20	
December 31, 1997[b]	7,167	15.51	

[a] The weighted-average price per share on the date performance stock equivalents were granted was $46.25 and for performance stock grants was $41.83 in 1996 and $25.18 in 1995.

[b] The following table summarizes information about options outstanding and exercisable at December 31, 1997 (shares in thousands, life in years):

Year of Grant	Outstanding: Average Remaining Life	Outstanding: Options	Outstanding: Range of Exercise Prices	Outstanding: Average Exercise Price	Exercisable: Options	Exercisable: Average Exercise Price
To 6/92*	2.9	3,651	$ 9.80-16.63	$12.86	3,651	$12.86
7/92-12/93	4.8	1,703	$15.50-17.13	$15.84	1,703	$15.84
1994	6.4	584	$17.88-23.63	$19.38	574	$19.31
1995	7.1	1,244	$20.25-29.88	$21.14	1,234	$21.07
1996	8.5	2,502	$34.13-47.75	$40.59	5	$34.13
1997	9.4	1,215	$43.88-56.13	$50.65	–	–
	5.9	10,899	$ 9.80-56.13	$25.20	7,167	$15.51

*Options issued at June 30, 1992, the day Praxair became a public company.

Pro forma information:

SFAS No. 123 requires Praxair to disclose pro forma net income and pro forma earnings per share amounts as if compensation expense was recognized for options granted after 1994. Using this approach, pro forma net income and the related basic and diluted earnings per share amounts would be as follows:

Year Ended December 31,	1997	1996	1995
Net income:			
As reported	$405	$282	$262
Pro forma	$391	$274	$259
Basic earnings per share:			
As reported	$2.56	$1.85	$1.89
Pro forma	$2.47	$1.80	$1.87
Diluted earnings per share:			
As reported	$2.46	$1.77	$1.82
Pro forma	$2.37	$1.72	$1.80

The weighted average fair value of options granted during 1997 was $16.54 ($13.52 in 1996 and $7.26 in 1995). These values, which were used as a basis for the pro forma disclosures, were estimated using the Black-Scholes Options-Pricing Model with the following assumptions used for grants in 1997, 1996, and 1995:

Year Ended December 31,	1997	1996	1995
Dividend yield	1.0%	1.0%	1.3%
Volatility	27.0%	30.0%	30.0%
Risk-free interest rate	6.1%	6.1%	7.7%
Expected term – years	5.0	5.0	5.0

These pro forma disclosures may not be representative of the effects for future years since options vest over several years and options granted prior to 1995 are not considered in these disclosures. Also, additional awards generally are made each year.

NOTE 11
SUPPLEMENTARY BALANCE SHEET INFORMATION

December 31,	1997	1996
Accounts receivable		
Trade	$ 884	$ 835
Other	112	110
	996	945
Less: allowance for doubtful accounts[a]	25	31
	$ 971	$ 914
Inventories[b]		
Raw materials and supplies	$ 120	$ 118
Work in process	48	40
Finished goods	161	154
	$ 329	$ 312
Property, plant and equipment – net		
Land and improvements	$ 206	$ 183
Buildings	489	477
Machinery and equipment	6,629	6,126
Construction in progress and other	850	722
	8,174	7,508
Less: accumulated depreciation	3,567	3,239
	$4,607	$4,269
Other long-term assets		
Patents, trademarks and goodwill[c]	$1,213	$1,173
Deposits[d]	47	40
Investments at cost	5	4
Other	231	191
	$1,496	$1,408
Other current liabilities		
Accrued accounts payable	$ 199	$ 160
Payrolls	108	125
Employee benefits and related	41	72
Special charges	12	24
Accrued interest payable	39	41
Other	102	89
	$ 501	$ 511

(continued)

December 31,	1997	1996
Other long-term liabilities		
Employee benefits and related	$ 443	$ 463
Special charges	14	22
Other[d]	71	50
	$ 528	$ 535
Deferred credits		
Income taxes[e]	$ 296	$ 213
Other	28	45
	$ 324	$ 258
Cumulative translation adjustment		
Europe	$ (78)	$ (10)
Canada, Mexico, Asia and Other	(178)	(116)
	$ (256)	$ (126)

(Millions of dollars)

[a] Provisions to the allowance for doubtful accounts were $11 million, $6 million and $5 million in 1997, 1996 and 1995, respectively.

[b] Approximately 30% and 31% of total inventories were valued using the LIFO method at December 31, 1997 and 1996, respectively. If inventories had been valued at current costs, they would have been approximately $22 million and $23 million higher than reported at December 31, 1997 and 1996, respectively.

[c] Net of accumulated amortization of $100 million in 1997 and $73 million in 1996.

[d] $65 million and $79 million of other long-term assets and other long-term liabilities in Brazil have been offset in 1997 and 1996, respectively.

[e] Deferred income taxes related to current items are included in prepaid and other current assets in the amount of $42 million in 1997 and $3 million in 1996.

NOTE 12
RETIREMENT PROGRAMS

Pensions – Praxair has two main U.S. retirement programs which are non-contributory defined benefit plans, the Praxair Retirement Program and the CBI Retirement Program (see Note 2). Pension benefits for both are based predominantly on years of service, age and compensation levels prior to retirement. Pension coverage for employees of Praxair's international subsidiaries generally is provided by those companies through separate plans. Obligations under such plans are typically provided for by depositing funds with trustees, under insurance policies, or by book reserves.

The components of net pension cost for 1997, 1996 and 1995 and the funded status as of December 31, 1997 and 1996 for Praxair's domestic retirement programs and significant international plans are shown below.

Year Ended December 31,	1997	1996	1995
Net Pension Cost			
Service cost – benefits earned during the period	$33	$36	$26
Interest on projected benefit obligation	56	53	43
Actual return on plan assets	(79)	(80)	(134)
Net amortization and deferral	18	25	92
	$28	$34	$27

(Millions of dollars)

	U.S. Plans			International Plans			
	Overfunded		Underfunded	Overfunded		Underfunded	
December 31,	1997	1996	1996*	1997	1996	1997	1996
Funded Status							
Accumulated benefit obligation:							
Vested benefits	$(463)	$(301)	$ (90)	$(138)	$(123)	$ (67)	$ (59)
Non-vested benefits	(50)	(37)	(6)	(1)	(3)	(50)	(39)
	$(513)	$(338)	$ (96)	$(139)	$(126)	$(117)	$ (98)
Projected benefit obligation	$(617)	$(431)	$(108)	$(159)	$(145)	$(149)	$(147)
Plan assets at fair value, primarily common stocks and fixed income securities	589	415	93	202	194	75	64
Projected benefit obligation (in excess of) less than plan assets	(28)	(16)	(15)	43	49	(74)	(83)
Unamortized net (asset) obligation at transition	(4)	(5)	–	(8)	(11)	9	10
Unamortized prior service cost	7	9	–	2	3	10	10
Unrecognized (gains) losses – net	(53)	(28)	(12)	(19)	(26)	(13)	–
Prepaid (accrued) pension obligation	$ (78)	$ (40)	$ (27)	$ 18	$ 15	$ (68)	$ (63)

*Related to the CBI Retirement Program.

(Millions of dollars)

The significant actuarial assumptions used were as follows:

	U.S. Plans			International Plans		
Year Ended December 31,	1997	1996	1995	1997	1996	199
Discount rate for determining the projected benefit obligation	7.0%	7.5%	7.0%	4-9%	4-9%	4-8.5%
Rate of increase in compensation levels	4.25%	4.75%	4.25%	2-7%	3-7%	3-6.5%
Expected long-term rate of return on plan assets	9.5%	9.5%	9.5%	4.5-9.0%	5.5-9.5%	5.5-9.5%

Effective in 1996, Praxair's North American packaged gases business has two defined contribution plans. Company contributions to these plans are calculated as a percentage of salary based on age plus service. U.S. employees may supplement the company contributions up to the maximum allowable by IRS regulations. The cost for these plans was $3 million in 1997 and $1 million in 1996.

Postretirement Benefits Other Than Pensions – Praxair provides health care and life insurance benefits to certain eligible retired employees. These benefits are provided through various insurance companies and health care providers. Praxair is obligated to make payments for a portion of postretirement benefits related to retirees of Praxair's former parent. As part of the CBI acquisition (see Note 2), Praxair assumed responsibility for health care and life insurance benefit obligations for CBI's retired employees. Praxair does not currently fund its postretirement benefits obligations. The retiree plans may be changed or terminated by Praxair at any time for any reason with no liability to current or future retirees.

The components of net periodic postretirement benefit cost for 1997, 1996 and 1995 and the funded status as of December 31, 1997 and 1996 were as follows:

Year Ended December 31,	1997	1996	1995
Net periodic postretirement benefit cost			
Service cost – benefits earned during the year	$ 5	$ 7	$ 5
Interest on accumulated postretirement benefit obligation	15	14	14
Actual return on plan assets	(1)	(1)	(2)
Net amortization and deferral	(8)	(9)	(7)
	$11	$11	$10

(Millions of dollars)

December 31,	1997	1996
Funded Status		
Accumulated postretirement benefit obligation attributed to:		
Retirees	$(180)	$(185)
Fully eligible active plan participants	(28)	(30)
Other active plan participants	(21)	(15)
	(229)	(230)
Plan assets at fair value, primarily common stocks and fixed income securities	10	9
Unrecognized prior service cost	(11)	(19)
Unrecognized gains – net	(18)	(3)
Accrued postretirement benefit obligation	$(248)	$(243)

(Millions of dollars)

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1997, gradually reducing to 4.5% in 2004 and thereafter. For 1996 and 1995 measurement purposes, the annual rate of increase was gradually reducing to 5.0% and 4.5%, respectively. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate the effect, increasing the assumed health care cost trend rates by one percentage point would increase the accumulated postretirement benefit obligation by $12 million as of December 31, 1997 ($11 million as of December 31, 1996 and 1995), and the aggregate of the service and interest cost components of net periodic postretirement benefit cost by $1 million in 1997, 1996, and 1995. Under the CBI plan, retiree health care benefits are provided under an established formula which limits costs based on prior years of service of retired employees. Other significant actuarial assumptions used to calculate the accumulated postretirement benefit obligation were the same as those used for the U.S. pension plan (see above).

NOTE 13
LEASES

For operating leases, primarily involving manufacturing and distribution equipment and office space, noncancelable commitments extending for more than one year will require the following future minimum payments at December 31, 1997 (millions of dollars):

Lease Payments			
1998	$64	2001	$ 42
1999	$54	2002	$ 38
2000	$46	after 2002	$206

Included in these totals are $67 million of lease commitments to Praxair's former parent company, principally for office space. Praxair is also contingently required to pay certain Canadian lease obligations of the former parent company in the event of a default totaling approximately $18 million ($25 million Canadian). If such payment is required, Praxair has a legal right to set off any such amounts paid against other amounts it owes to the former parent company for lease commitments.

Total lease and rental expenses under operating leases were $70 million in 1997 and 1996 and $37 million in 1995. The present value of the future lease payments under operating leases is approximately $312 million at December 31, 1997.

NOTE 14
COMMITMENTS AND CONTINGENCIES

In the normal course of business, Praxair is involved in legal proceedings and claims with both private and governmental parties. These cover a variety of items, including product liability and environmental matters. In some of these cases, the remedies that may be sought or damages claimed are substantial. While it is impossible at this time to determine with certainty the ultimate outcome of any of these cases, in the opinion of management, they will not have a material adverse effect on the consolidated financial position of Praxair or on the consolidated results of operations or cash flows in a given year. Should any losses be sustained in connection with any of these cases in excess of provisions therefore, they will be charged to income in the future.

In September 1996, Praxair was named as a defendant in a four count lawsuit filed by Airgas, Inc., a competitor, in the Philadelphia Court of Common Pleas alleging essentially that Praxair breached an oral contract with Airgas by acquiring CBI Industries, Inc. without allowing Airgas to participate in the acquisition. The complaint also contains allegations of conversion, fraud and quantum meruit. Praxair believes that the complaint is totally without merit and intends to defend itself vigorously.

Praxair's 60%-owned Italian subsidiary has entered into two unconditional long-term purchase agreements, signed in 1989 and 1992, for oxygen and nitrogen to be used to supply existing merchant liquid customers. Obligations in connection with financing under these agreements total $24 million ($19 million on a present value basis), with annual obligations of $4 million over the next two years and $2 million over the succeeding three years. Total purchases of product in 1997, 1996 and 1995, including other amounts purchased under these agreements, were $8 million, $9 million and $9 million, respectively.

At December 31, 1997, the estimated cost of completing authorized construction projects in the normal course of business is approximately $480 million.

NOTE 15
QUARTERLY DATA (UNAUDITED)

1997	1Q	2Q	3Q	4Q	Year
Sales	$1,158	1,178	1,190	1,209	$4,735
Cost of sales	$ 665	681	699	719	$2,764
Depreciation and amortization	$ 110	110	111	113	$ 444
Operating profit[(a)]	$ 207	213	211	207	$ 838
Income before cumulative effect of an accounting change[(a)]	$ 102	107	107	100	$ 416
Cumulative effect of an accounting change[(b)]	–	–	–	(11)	(11)
Net income[(a)]	$ 102	107	107	89	$ 405
Basic Per Share Data:[(a)]					
Income before cumulative effect of an accounting change	$ .65	$.68	$.68	$ .63	$ 2.63
Cumulative effect of an accounting change[(b)]	–	–	–	(.07)	(.07)
Net income	$ .65	$.68	$.68	$ .56	$ 2.56
Weighted average shares (000's)	158,128	158,276	158,196	157,828	158,095
Diluted Per Share Data:[(a)]					
Income before cumulative effect of an accounting change	$ .62	$.65	$.65	$ .61	$ 2.53
Cumulative effect of an accounting change[(b)]	–	–	–	(.07)	(.07)
Net income	$ .62	$.65	$.65	$ .54	$ 2.46
Weighted average shares (000's)	164,332	164,542	164,384	162,926	164,053

(Millions of dollars, except per share data)

1996	1Q	2Q	3Q	4Q	Year
Sales	$1,090	1,093	1,115	1,151	$4,449
Cost of sales	$ 629	631	637	667	$2,564
Depreciation and amortization	$ 101	105	107	107	$ 420
Operating profit[(c)]	$ 82	177	190	198	$ 647
Net income[(c)]	$ 17	81	88	96	$ 282
Basic Per Share Data:					
Net income	$ .12	$.52	$.56	$ .61	$ 1.85
Weighted average shares (000's)	142,161	155,307	156,084	157,063	152,654
Diluted Per Share Data:					
Net income	$ .11	$.50	$.54	$ .59	$ 1.77
Weighted average shares (000's)	148,438	161,680	162,316	163,473	159,038

(Millions of dollars, except per share data)

(a) Operating profit and net income for the 1997 fourth quarter and year include a charge of $10 million and $6 million, respectively, related primarily to profit improvement initiatives in Praxair's North American packaged gases business (see Note 3) and a favorable judgment of $11 million and $6 million, respectively, related to a dispute with State public hospitals in Brazil (see Note 9).

(b) Related to a required accounting change for capitalized business process reengineering costs associated with information technology transformation (see Note 1).

(c) Operating profit and net income for the first quarter and year of 1996 include a charge of $85 million and $53 million, respectively, for severance-related, lease termination and other exit costs associated with the integration of the industrial gases businesses of CBI and Praxair (see Note 3).

Management's Statement of Responsibility for Financial Statements

Praxair's financial statements are prepared by management, which is responsible for their fairness, integrity and objectivity. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis except for accounting changes as disclosed and include amounts that are estimates and judgments. All historical financial information in this annual report is consistent with the accompanying financial statements.

Praxair maintains accounting systems, including internal accounting controls monitored by a staff of internal auditors, that are designed to provide reasonable assurance of the reliability of financial records and the protection of assets. The concept of reasonable assurance is based on recognition that the cost of a system should not exceed the related benefits. The effectiveness of those systems depends primarily upon the careful selection of financial and other managers, clear delegation of authority and assignment of accountability, inculcation of high business ethics and conflict-of-interest standards, policies and procedures for coordinating the management of corporate resources and the leadership and commitment of top management.

Praxair's financial statements are audited by Price Waterhouse LLP, independent accountants, in accordance with generally accepted auditing standards. These standards provide for a review of Praxair's internal accounting controls to the extent they deem appropriate in order to issue their opinion on the financial statements.

The Audit Committee of the Board of Directors, which consists solely of non-employee directors, is responsible for overseeing the functioning of the accounting system and related controls and the preparation of annual financial statements. The Audit Committee periodically meets with management, internal auditors and the independent accountants to review and evaluate their accounting, auditing and financial reporting activities and responsibilities. The independent accountants and internal auditors have full and free access to the Audit Committee and meet with the Committee, with and without management present.

H.William Lichtenberger
Chairman and Chief Executive Officer

John A.Clerico
Executive Vice President and Chief Financial Officer

J. Robert Vipond
Vice President and Controller

Danbury, Connecticut
February 6, 1998

Report of Independent Accountants

Price Waterhouse LLP

To the Board of Directors and Shareholders of Praxair, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of cash flows and of shareholders equity present fairly, in all material respects, the financial position of Praxair, Inc. and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Stamford, Connecticut

February 6, 1998

Information for Investors

Common Stock Information

Praxair lists its common stock for trading on the New York Stock Exchange under the stock symbol, "PX." Unlisted trading privileges also have been granted by the Pacific, Cincinnati and Midwest Stock Exchanges. There were 36,294 shareholders of record as of December 31, 1997.

Shareholder Returns

Closing high and low stock prices and dividends are presented below:

Stock Prices and Dividends	High	Low	Dividends
1997			
Fourth quarter	$49.313	$40.875	$0.11
Third quarter	$57.563	$50.313	$0.11
Second quarter	$57.125	$43.500	$0.11
First quarter	$51.875	$44.250	$0.11
1996			
Fourth quarter	$49.375	$43.125	$0.095
Third quarter	$43.375	$36.500	$0.095
Second quarter	$42.250	$37.125	$0.095
First quarter	$39.875	$31.750	$0.095
1995			
Fourth quarter	$33.875	$24.375	$0.08
Third quarter	$28.750	$24.875	$0.08
Second quarter	$25.250	$22.250	$0.08
First quarter	$23.250	$19.875	$0.08

Dividend Policy

Dividends on Praxair's common stock are declared by the Board of Directors and, when declared, usually will be paid in March, June, September and December. It is the company's objective to pay dividends consistent with the reinvestment of earnings necessary for long-term growth.

Dividend Reinvestment and Stock Purchase Plan

Shareholders holding shares registered in their name may increase their investment in Praxair shares through the Dividend Reinvestment and Stock Purchase Plan without payment of any brokerage commission. Full details concerning this plan may be obtained from The Bank of New York.

Diluted earnings per share*	
1997	$2.57‡
1996	$2.11‡
1995	$1.82
1994	$1.45
1993	$1.06

*Before cumulative effect of accounting changes

‡Before special charges

Shareholder Information

The annual report is the principal means of communicating Praxair's business strategies and financial performance to its shareholders. Additional information on corporate governance matters is provided in the proxy statement prepared in conjunction with Praxair's annual meeting. Also, Praxair's 1997 Annual Report on Form 10-K, which incorporates parts of this annual report by reference and is filed with the U.S. Securities and Exchange Commission, provides certain additional information.

Praxair Investor Relations is responsible for shareholder communications and welcomes shareholder inquiries about Praxair, either by telephone or in writing.

The Bank of New York is Praxair's stock transfer agent and registrar, and maintains shareholder records. Shareholders needing information about account records, stock certificates, change of address and dividend payments should contact:

The Bank of New York
800-432-0140 or, outside the U.S., (212) 815-5800
e-mail address: Shareowner-svcs@bankofny.com
website address:http://stock.bankofny.com

Address shareholder inquiries to:
Shareholder Relations, Department 11E
P.O. Box 11258
Church Street Station
New York, NY 10286-1258

Send certificates for transfer and address changes to:
Receive and Deliver Department – 11W
P.O. Box 11002
Church Street Station
New York, New York 10286

The annual report, proxy statement and filings with the U.S. Securities and Exchange Commission can be obtained upon request to The Bank of New York or:

Investor Relations, Praxair, Inc., 39 Old Ridgebury Road, Danbury, CT 06810-5113 (203) 837-2210

Annual Meeting of Shareholders

The 1998 annual meeting of shareholders of Praxair, Inc. will be held at 9:30 a.m. on Tuesday, April 28, 1998 at Hilton Inn and Towers, 18 Old Ridgebury Road, Danbury, Connecticut.

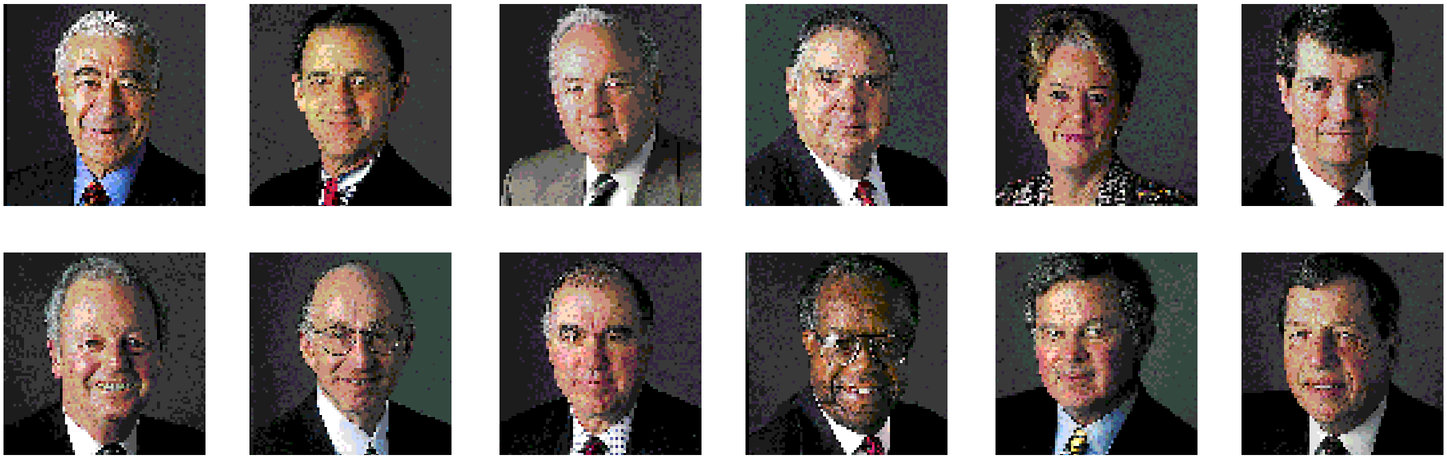
General Corporate Information

For general information about Praxair, its products and services, write or call:

Corporate Communications, Praxair, Inc., 39 Old Ridgebury Road, Danbury, CT 06810-5113 800-PRAXAIR or, outside the U.S., (716) 879-4077

Visit Praxair Online on the World Wide Web:
http://www.praxair.com

Board of Directors



From Left: Alejandro Achaval, John A. Clerico, C.Fred Fetterolf, Dale F.Frey, Claire W.Gargalli, Edgar G.Hotard, Ronald L.Kuehn, Jr., Raymond W. LeBoeuf, H.William Lichtenberger, Benjamin F.Payton, G. Jackson Ratcliffe, Jr., H.Mitchell Watson, Jr.

Alejandro Achaval
Director, Argentine National Institute of Technology; former Vice Chairman & Chief Executive Officer, IPAKO Industrias Petroquimicas Argentinas S.A.
Audit;Finance & Pension Committees

John A.Clerico
Executive Vice President & Chief Financial Officer, Praxair, Inc.
Finance & Pension Committee

C.Fred Fetterolf
Director of various corporations; former President & Chief Operating Officer, Aluminum Company of America
Audit (Chairman);Public Policy & Nominating Committees

Dale F. Frey
Director of various corporations; former Vice President, General Electric Company; former Chairman & President, General Electric Investment Corporation
Finance & Pension (Chairman); Public Policy & Nominating Committees

Claire W. Gargalli
Vice Chairman, Diversified Search Companies
Finance & Pension; Compensation & Management Development Committees

Edgar G.Hotard
President & Chief Operating Officer, Praxair, Inc.
Finance & Pension Committee

Ronald L. Kuehn, Jr.
Chairman, President & Chief Executive Officer, Sonat Inc.
Audit; Compensation & Management Development (Chairman) Committees

Raymond W. LeBoeuf
Chairman & Chief Executive Officer, PPG Industries, Inc.
Finance & Pension, Compensation & Management Development Committees

H.William Lichtenberger
Chairman & Chief Executive Officer, Praxair, Inc.
Public Policy & Nominating Committee

Benjamin F.Payton
President, Tuskegee University
Audit;Public Policy & Nominating Committees

G. Jackson Ratcliffe, Jr.
Chairman, President & Chief Executive Officer, Hubbell Incorporated
Compensation & Management Development; Public Policy & Nominating (Chairman) Committees

H.Mitchell Watson, Jr.
President, Sigma Group of America
Audit;Compensation & Management Development Committees

Officers, Regional Management and Advisory Council

OFFICERS

Leonard M.Baker
Vice President, Technology

Paul J. Bilek
President, North American Industrial Gases and President, Praxair Canada

David H.Chaifetz
Vice President, General Counsel & Secretary

John A.Clerico
Executive Vice President & Chief Financial Officer

Michael E.DeDomenico
President, Praxair Europe

Theodore W. Dougher
Vice President, Safety & Production Excellence

Ivan Ferreira Garcia
Chief Executive Officer, S.A.White Martins

Jesus E.Gonzalez
Vice President, Chemicals & Refining Business and Steel Market

Barbara R.Harris
Vice President, Human Resources

John F. Hill
Chief Information Officer

Bradley J. Holcomb
Vice President, Global Procurement & Materials Management

Edgar G.Hotard
President & Chief Operating Officer

Thomas W.von Krannichfeldt
President, Praxair Surface Technologies, Inc.

H.William Lichtenberger
Chairman & Chief Executive Officer

Sunil Mattoo
Vice President, Marketing

Murilo Barros de Melo
Vice President, Food Market

Nigel D. Muir
Vice President, Communications & Public Relations

John S. Pirretti
Vice President, General Industry Markets

Jose R.Rivero
President, Praxair Distribution, Inc.(North American Packaged Gases)

Sally A.Savoia
Vice President, Healthcare Market

James S. Sawyer
Vice President & Treasurer

Donald W.Terry
Vice President, Carbon Dioxide Product and Services

William M.Therrien
Vice President, Engineering and Supply Systems

Theodore F.Trumpp
Vice President, Electronics Business

J. Robert Vipond
Vice President & Controller

REGIONAL MANAGEMENT

NORTH AMERICA

Michael J. Douglas
Managing Director, Praxair Canada

Cesar Guajardo
Managing Director, Praxair Mexico

Robert P. Sheehan
President, Praxair Puerto Rico

Alan J.Westendorf
Senior Vice President, Sales

SOUTH AMERICA

Domingos Bulus
Assistant Director, Andean Treaty Countries

Albino Carneiro
Assistant Director, South Cone Countries

Ricardo Malfitano
Industrial Gases Officer, Brazil

EUROPE

Olivier Lambotte
Business Director, Specialty Gases

Robert Matthé
General Manager, Poland

Franco Mazzali
Managing Director, Italy and Middle East

Jean-Michel Tiard
Managing Director, Western Europe

Gabriel Toledo
Managing Director, Spain and Turkey

ASIA

James J. Fuchs
Vice President, Asia

V.Thad Evans
Managing Director, Praxair Japan, and President, Praxair Iwatani Electronics Gases

Brian Evison
Managing Director, Praxair Indonesia and Praxair Australia

K.H.Lee
President, Praxair Korea

Brent Lok
President, Praxair Greater China

Indrajit Mookerjee
Managing Director, Praxair India

Kitti Prapasuchart
Managing Director, Praxair Thailand

SOUTH AMERICAN ADVISORY COUNCIL

H.William Lichtenberger
Chairman

Ivan Ferreira Garcia
Deputy Chairman

Ricardo Cillioniz
President, Aceros Arequipa, Peru

Enzo Debernardi
Senior Consultant, Paraguay

Isaac Gilinski
President, Bancol SA, Colombia

Agostino Rocca
President for Latin America, Organización Techint, Argentina

Paolo Rocca
President, Organizacion Techint, Argentina

Benjamin Steinbruch
Chairman, Companhia Siderúgica Nacional, Brazil

Praxair Locations Worldwide

WORLD HEADQUARTERS

Praxair, Inc.
39 Old Ridgebury Road
Danbury, CT 06810-5113
USA
1-800-PRAXAIR
(716) 879-4077 (from outside the U.S.)

Praxair Surface Technologies, Inc.
Indianapolis, IN, USA
(317) 240-2500
(affiliates in Brazil, Denmark, France, Germany, Italy, Japan, Singapore, Spain, Switzerland, United Kingdom)

NORTH AMERICA

Praxair, Inc.
Danbury, CT, USA
1-800-PRAXAIR
(716) 879-4077

Praxair Mexico S.A.de C.V.
Mexico City, Mexico
52 (5) 627-9500

Praxair Canada Inc.
Mississauga, Ontario, Canada
(905) 803-1600

SOUTH AMERICA

S.A.White Martins
Rio de Janeiro, Brazil
55 (21) 588.6622
Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela

CENTRAL AMERICA/CARIBBEAN

Praxair Puerto Rico
Gurabo, PR
(787)258-7200
Belize, Costa Rica

EUROPE

Praxair N.V.
Zaventem (Brussels), Belgium
32 (2) 716.0580
Austria, Croatia, Czech Republic, France, Germany, Israel, Italy, The Netherlands, Poland, Portugal, Slovenia, Spain, Turkey

ASIA

Praxair Asia, Inc.
Singapore
(65)736-3800
Australia, India, Indonesia, Japan, People's Republic of China, South Korea, Thailand

The forward-looking statements contained in this document concerning, among other things, projected capital spending, continuation of acquisition activities in the packaged gases and surface technologies businesses, tax planning initiatives and effective tax rates, impacts in Brazil related to economic conditions and a prospective change in hyperinflationary accounting, impacts from currency and economic developments in Asia, the timing, proceeds and other terms of the disposition of assets held for sale, and market risks and sensitivity analyses disclosures related to financial instruments involve risks and uncertainties, and are subject to change based on various factors, including the impact of changes in worldwide and national economies, pricing fluctuations in foreign currencies, changes in interest rates, the continued timely development and acceptance of new products and processes, the impact of competitive products and pricing, the ability to continue to develop potential acquisition opportunities, and the impact of tax and other legislation and regulation in the jurisdiction in which the company operates.

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