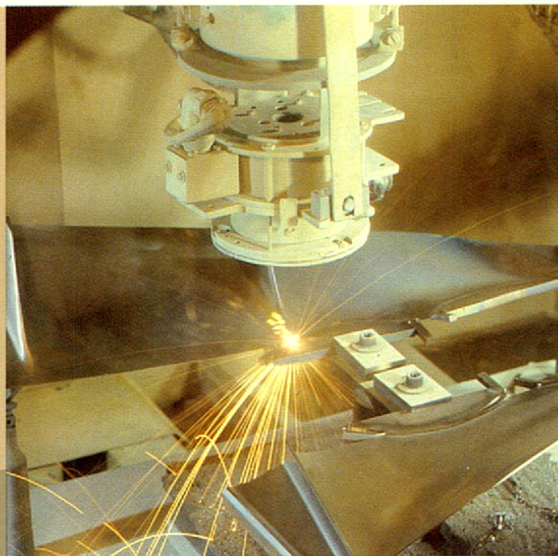
THE INTERLAKE CORPORATION
1988 ANNUAL REPORT



Updating Shareholder Accounts
To assure that dividend payments and other Interlake mailings arrive promptly, it is important that shareholders communicate address and other account changes to Interlake's stock transfer agent and registrar, The First National Bank of Chicago.

For your convenience, First National Investor Relations Research operates a toll-free telephone number, (800) 662-8998, weekdays from 8:00 A.M. to 4:30 P.M. Central Time. Please have your account number or Social Security number available when you call. Correspondence may be directed to:

The First National Bank of Chicago
Administrator—Interlake Shareholder Accounts
Suite 0123
Chicago, Illinois 60670

The Administrator also can assist in eliminating duplicate mailings where shares may be held in more than one form of the same name (i.e. Jane Smith, J. A. Smith).

Other Information About Interlake
Interim financial information appears in *InterViews*, The Interlake Magazine, which is sent to shareholders who hold stock in their own names. The magazine also is sent to those whose shares are held in "street name" by a brokerage firm and have advised the stockbroker that they have no objection to receiving mailings from Interlake directly. Others may receive the magazine by writing Investor Relations, The Interlake Corporation, 701 Harger Road, Oak Brook, Illinois 60521-1488.

Recent videotapes about Interlake's businesses are available on free loan. Please indicate whether the VHS or Beta tape format is preferred when writing Investor Relations.

Cover:

(Top) Electron beam welding at Chem-tronics aviation repair, one of many specialized technologies employed within Interlake's Engineered Materials business segment.

(Bottom) The businesses within the Handling/Packaging Systems segment manufacture a broad range of products uniquely tailored to customers' needs. This automated Dexion conveyor system transports an electronics manufacturer's materials past a computerized checkpoint.

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SHAREHOLDER INFORMATION

Annual Meeting
Shareholders are invited to attend the Corporation's Annual Meeting at 10:00 A.M. local time on Thursday, April 27, 1989. The location will be The Broadmoor, Lake Avenue and Lake Circle, Colorado Springs, Colorado. Proxy materials will be mailed in the latter part of March.

Common Stock Listing and Price Information
Interlake's common stock is listed on the New York and Midwest Stock Exchanges. Its ticker symbol is "IK" and it is listed as "Intlake" in the New York Stock Exchange Composite Transactions, which appear in the business pages of larger daily newspapers.

Form 10-K Available
A copy of The Interlake Corporation Annual report on Form 10-K, filed with the Securities and Exchange Commission, is available to shareholders upon request to the Corporate Secretary, The Interlake Corporation, 701 Harger Road, Oak Brook, Illinois 60521-1488.

Dividend Reinvestment Program
For shareholder accounts with 100 or more shares of Interlake stock, The First National Bank of Chicago provides a Shareholder Investment Service. The service is an economical way to have all or a portion of Interlake cash dividends reinvested automatically to purchase additional common stock, or to make voluntary cash investments. Dividends are earned on all full and fractional shares in participants' accounts. Interlake bears all administrative and brokerage commission costs on purchases. For enrollment information, please write:

The First National Bank of Chicago
Interlake Shareholder Investment Service
Suite 0128
Chicago, Illinois 60670

The Interlake Corporation is a technology driven international manufacturer, supplying engineered materials and handling/packaging systems. We create improved values for customers and shareholders.

FINANCIAL HIGHLIGHTS

	1988	1987	1986
For the year (in millions)			
Net Sales from continuing operations	**$892.2**	$823.1	$736.0
Income from continuing operations	**39.6**	54.4[a]	30.7
At year-end (in millions)			
Current ratio	**1.7 to 1**	1.8 to 1	1.8 to 1
Total debt	**$129.5**	$117.3	$135.8
Shareholders' equity	**270.0**	281.3	250.4[b]
Per Share Statistics[c]			
Income from continuing operations	**$ 3.75**	$ 4.69[a]	$ 2.69
Cash dividends declared or paid	**1.45**	1.35	1.30
Shareholders' equity at year-end	**26.66**	25.56	21.75[b]
Market price at year-end	**41.50**	41.50	39.25

a) Includes unusual items of income of $23.8 million, $2.06 per share and exceptional items of expense of $6.8 million or $.59 per share (see Business and Segment Analysis on Page 16.)

b) After spin-off of Acme Steel Company of $131.5 million, or $11.42 per share.

c) Restated for two-for-one stock split in 1986.

Record sales: $892.2 million

Sales from continuing operations increased for the sixth consecutive year in 1988

Record earnings: $3.75 per share

Earnings per share from continuing operations in 1988 rose 16% from 1987's $3.22 per share excluding unusual items of income and exceptional charges

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Record capital spending: $49.1 million

Capital spending in 1988 rose 92% from 1987 and included $27.5 million for expansion projects, versus $4.5 million in 1987

Record dividends: $1.45 per share in '88

Quarterly dividends were increased to $.375 per share in September, 1988 — the second increase in two years

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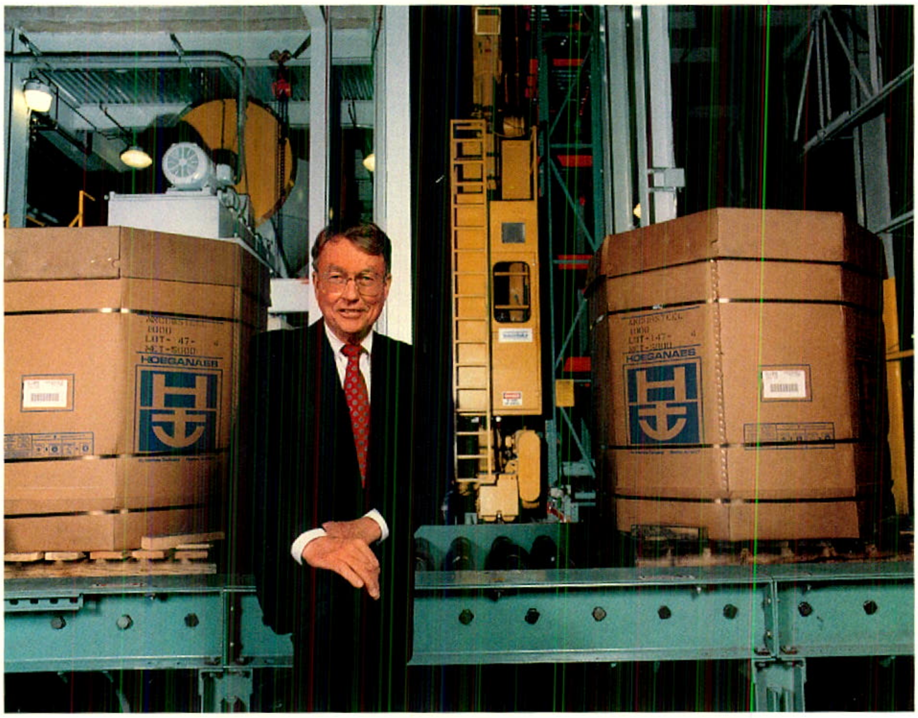
TO OUR SHAREHOLDERS AND EMPLOYEES:

The past year was another productive one for Interlake. Earnings in 1988 increased for the sixth straight year, to $3.75 per share, despite significant costs in starting up new and expanded facilities, higher R & D spending and a strike at the Canadian material handling business. Contributing to the per-share earnings increase were favorable changes in corporate expenses, net interest costs and income tax rates, and a decrease in the number of outstanding shares of Interlake common stock. In comparing per-share earnings with 1987, we have not included the effects of exceptional charges and unusual items recorded in 1987, which are discussed in greater detail in the Business and Segment Analysis beginning on page 16. Measuring Interlake's regular operations on a comparative basis excluding such effects, per-share earnings have climbed from $2.69 in 1986, to $3.22 in 1987, to $3.75 in 1988.

Recognizing the company's ongoing earnings strength, the Board of Directors voted to increase quarterly dividends for the second time in two years, to $.375 per share beginning with the September payment. The previous quarterly dividend of $.35 per share was paid since September, 1987, when it was increased from $.325 per share. In 1988 the Board of Directors also authorized the purchase of 500,000 outstanding shares of Interlake common stock, in addition to 1,415,000 shares which were authorized in 1987. A total of 1,648,000 shares were purchased in 1987 and 1988.



Frederick C. Langenberg, chairman and chief executive officer, at the new Hoeganaes powder bonding/blending plant, served by an Interlake integrated handling system.

Interlake's Shift in Strategic Focus

In 1983 Interlake management's most urgent task was to transform a company whose asset and business base was not yielding sufficient value for our shareholders. The first steps involved shedding commodity-type, low-return assets and beginning the task of acquiring specialty, technology-based businesses to complement and augment those the company already owned. We also undertook various financial actions to generate further value. In brief, here is what we did:

1984	Sale of French material handling business
1984	Acquisition of Chem-tronics
1984	Sale of silicon metal/ferroalloys business
1985-88	Acquisitions to broaden Interlake's range of material handling capabilities
1985	Sale of die casting business
1986	Spin-off of Acme Steel to shareholders
1987-88	Recovery of excess pension assets
1988	Sale of airfoils business
1987-present	Purchase of Interlake stock

These actions enabled us to realign Interlake's businesses into two technology driven segments: Engineered Materials and Handling/ Packaging Systems. The performance of the businesses has improved. Interlake's return on shareholders' equity has risen steadily during this transformation process, to a record 14.5% in 1988. Earnings exhibit greater stability than before Interlake's transformation began. But that is not enough.

Consistent with our primary task of building shareholder value, we also are emphasizing the internal growth of Interlake's assets and businesses. The balance of this report describes our activities. Even though our primary focus will be to grow/acquire technology driven businesses, we will also address shrink/sell decisions when they are appropriate. If one of our businesses cannot compete effectively, or if it becomes financially advantageous to divest it, our responsibility to you requires that we shrink, close or sell it.

Establishing Directions for "Focused Growth"

In 1988 each of the businesses within Interlake's two segments embarked on a multi-year course of *focused growth,* through internal expansion, through the introduction of technically innovative new products or by selective acquisitions. Capital expenditures increased by 92% from 1987 to a record $49.1 million, including a record $27.5 million for plant expansion. Spending for product and process research and development climbed by 42% in 1988, from $5.9 million to $8.4 million.

Interlake's businesses have a short list of common objectives: to generate greater total returns for shareholders; to furnish quality products that help customers compete better; to provide meaningful and rewarding opportunities for employees. The paths to achieve these common objectives, however, must be individual to each business unit.

Engineered Materials

The three business units within our **Engineered Materials** segment, for example, have growth strategies tailored to their individual needs.

Hoeganaes Corporation emphasizes its technical leadership in powder metallurgy by successfully commercializing new products from its own highly focused metallurgical research and development activities. In 1988 Hoeganaes built a new facility in Pennsylvania to make large quantities of new high performance powders, following extended research and pilot plant tests. While acquisitions have been a secondary focus, Hoeganaes purchased an alloy powder operation last year which broadened its product range.

Chem-tronics also stresses a strategy of new product development, through the combination of new aerospace materials and proprietary manufacturing technologies to produce parts for the next generation of aircraft. Process technology gains have also been applied to the internal growth and development of Chem-tronics' aviation repair and special fabrications businesses.

Arwood Corporation has made significant investments in internal growth by commissioning a large castings plant in 1986 and by augmenting the new plant with a titanium casting facility in 1988. Both facilities address growing aerospace markets. Larger, single-piece castings are taking the place of multiple smaller castings, particularly in new types of jet engines. Lightweight titanium castings offer improved strength-to-weight ratios.

Handling/Packaging Systems

Within **Handling/Packaging Systems,** Interlake's other business segment, the three individual business units also have focused strategies for growth.

Interlake Packaging concentrated on internal growth in 1988 when it expanded Canadian strapping systems production capability. Packaging's present focus is on the growth of nonmetallic strapping through selective acquisitions of products and technologies to open up new markets. Packaging is also developing new technology which significantly improves plastic strap sealing strength.

Interlake Material Handling expanded its core business, storage products, by building a state-of-the-art production plant in the Southeast U.S. to serve a growing market. Now in its start-up phase, the plant further strengthens Interlake's competitive position nationwide. Material Handling also refined its integrated systems business further in 1988 by acquiring ATI, an innovative integrated systems software design firm, and by seeking partners among automated guided vehicle producers to offer customers a broader product range at lower cost.

Our European storage and handling subsidiary, Dexion Group plc, saw five years of intensive handling systems development in England rewarded in 1988 by record results. An emphasis on selective acquisitions, including two in software and process controls, has helped to fortify Dexion as the United Kingdom's handling systems leader. Another objective has been to generate new sales growth amidst mature markets for storage products in England and Germany. To achieve this goal, Dexion has expanded its network of in-stock distribution outlets.

How Focused Growth Helps Interlake

The benefits of Interlake's focused approach toward growth extend beyond the business units:

- By divesting businesses that fail to meet our performance criteria and investing in those which offer new opportunities and can achieve significant market strength, Interlake strives for continuing improvement in shareholder value.

- We participate in the products and markets of our choosing, on the basis that we will be totally competitive, without reliance on governmental trade protection or other forces outside our control.
- Growth projects are generated primarily within the business units. This entrepreneurial experience and responsibility has helped to broaden the competitive skills of divisional managers.

Financial Position Continues Strong

Additional value for shareholders stems from Interlake's continued financial strength. Interlake's solid balance sheet and vigorous cash inflows provide a foundation for further growth and expansion.

Dexion Group's contemplated 1988 issue of new shares to investors in the United Kingdom, amounting to 25% U.K. public ownership, was delayed due to a worsened environment for U.K. public stock offerings following the October 1987 market downturn. A public issue may take place in the future, depending on improved market conditions. We continue to believe that listed status would improve public and customer perception of Dexion as a material handling leader, stimulate Dexion's growth and provide for additional management performance incentives.

Board of Directors Membership Changes

Following 22 years of service to Interlake, Keith S. Benson retired as a director in August. Mr. Benson, a director and retired executive vice president-administration and finance of Oglebay Norton Co., provided advice and guidance that is deeply appreciated by his fellow board members.

John E. Jones, 54, and James C. Cotting, 55, were elected directors effective November 1, 1988, and February 1, 1989, respectively. Mr. Jones is president and chief operating officer of CBI Industries, Inc., and Mr. Cotting is chairman, president and chief executive officer of Navistar International Corporation. Their business experience and leadership will greatly benefit Interlake.

Expectations for 1989

The longest period of economic growth since World War II has developed the momentum to carry through the rest of 1989. A moderate rise in inflation is not expected to affect the 1989 purchasing plans within industries that Interlake serves. Interlake's businesses continue to position themselves for future growth. Improvements in operating performance should enable Interlake to achieve a seventh year of increased earnings per share from regular operations in 1989.

Sincerely,

Frederick C. Langenberg

Frederick C. Langenberg
Chairman and Chief Executive Officer

March 13, 1989

THE INTERLAKE CORPORATION

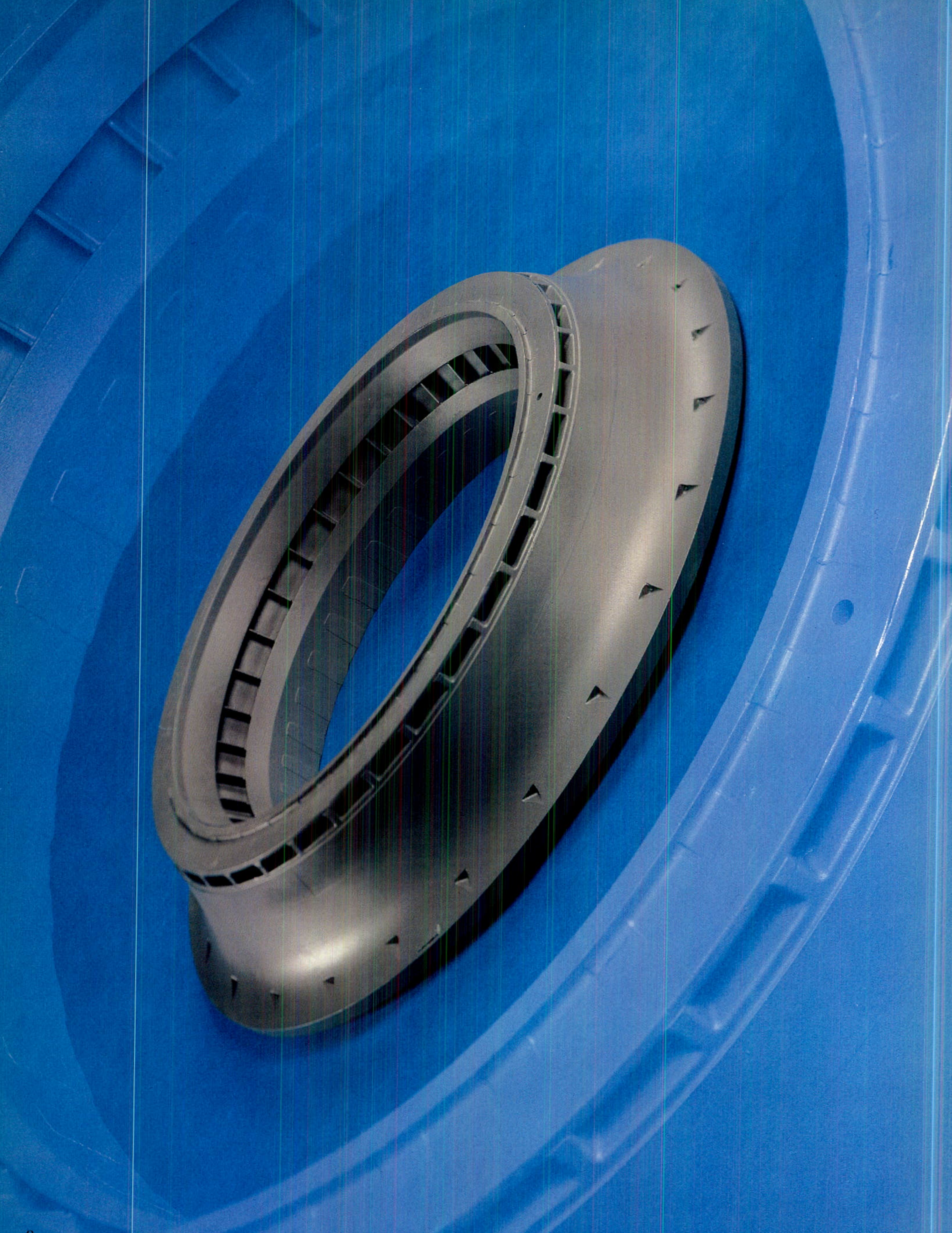
701 Harger Rd.
Oak Brook, IL 60521
(312) 572-6600

BUSINESSES AT A GLANCE

Interlake is a technology driven international manufacturer, with six businesses organized into two segments: Engineered Materials and Handling/Packaging Systems.

		NAME	PRODUCTS
ENGINEERED MATERIALS		**HOEGANAES CORPORATION** River Road & Taylors Lane Riverton, NJ 08077 (609) 829-2220	Iron and alloy powder
		**CHEM-TRONICS, INC.** 1150 W. Bradley Ave. P.O. Box 1604 El Cajon, CA 92022 (619) 448-2320	Lightweight structures Aviation repair Special fabrications
		**ARWOOD CORPORATION** Rockleigh Industrial Park Rockleigh, NJ 07647 (201) 767-0600	Precision investment castings
HANDLING/PACKAGING SYSTEMS		**INTERLAKE MATERIAL HANDLING** 550 Warrenville Rd. Lisle, IL 60532 (312) 852-8800	Integrated handling systems Conveyors and conveyor systems Rack
		**DEXION GROUP plc** Maylands Avenue Hemel Hempstead Herts. HP2 7EW England (0442) 42261	Integrated handling systems Rack/shelving
		**INTERLAKE PACKAGING CORPORATION** 4225 Frontage Rd. Oak Forest, IL 60452 (312) 535-3100	Plastic strapping machines & plastic strapping Metallic strapping machines & metallic strapping Wire stitchers

MARKET POSITION	CUSTOMERS	USES
World's largest	Metal powder parts suppliers Auto companies Heavy machinery producers	Automotive & truck engine & powertrain parts Lawn & garden equipment parts Appliance parts Construction machinery parts
Largest in this market segment	Leading jet engine manufacturers	Ducts & rings for jet engines
Significant share in this market segment	80 airlines, U.S. Air Force	High bypass jet engine fan blades
Unique in its array of fabrication technologies under one roof	Prime defense contractors	Advanced military engines & aircraft
A leader in the small castings segment; growing supplier of large castings	Leading jet engine & airframe manufacturers Prime aerospace contractors	Commercial & military jet engines; airframes; avionics containers; missile & ordnance parts
A leader in the U.S. Growing supplier in a fragmented field Largest in the U.S., Canada and Australia	Businesses in all size ranges in the U.S., Canada, Australia	Distribution facilities; flexible manufacturing facilities; receiving, shipping, in-process storage
Largest in the U.K., with the broadest product range Largest in the U.K., Belgium; a leader in Germany, Austria	Businesses in all size ranges in the U.K., European mainland, Africa, the Mideast, Asia	Distribution facilities; flexible manufacturing facilities; receiving, shipping, in-process storage
A leader in the U.S., Canada and U.K. Largest supplier in Canada; significant share in U.K.	Manufacturers Distributors Agriculture Textiles Lumber and forest products	Carton strapping; securing unit loads, i.e. pallets, textile products, lumber
Leader in the U.S.	Businesses which ship products in cartons Graphic arts	Boxboard sealing Book, magazine binding



ENGINEERED MATERIALS

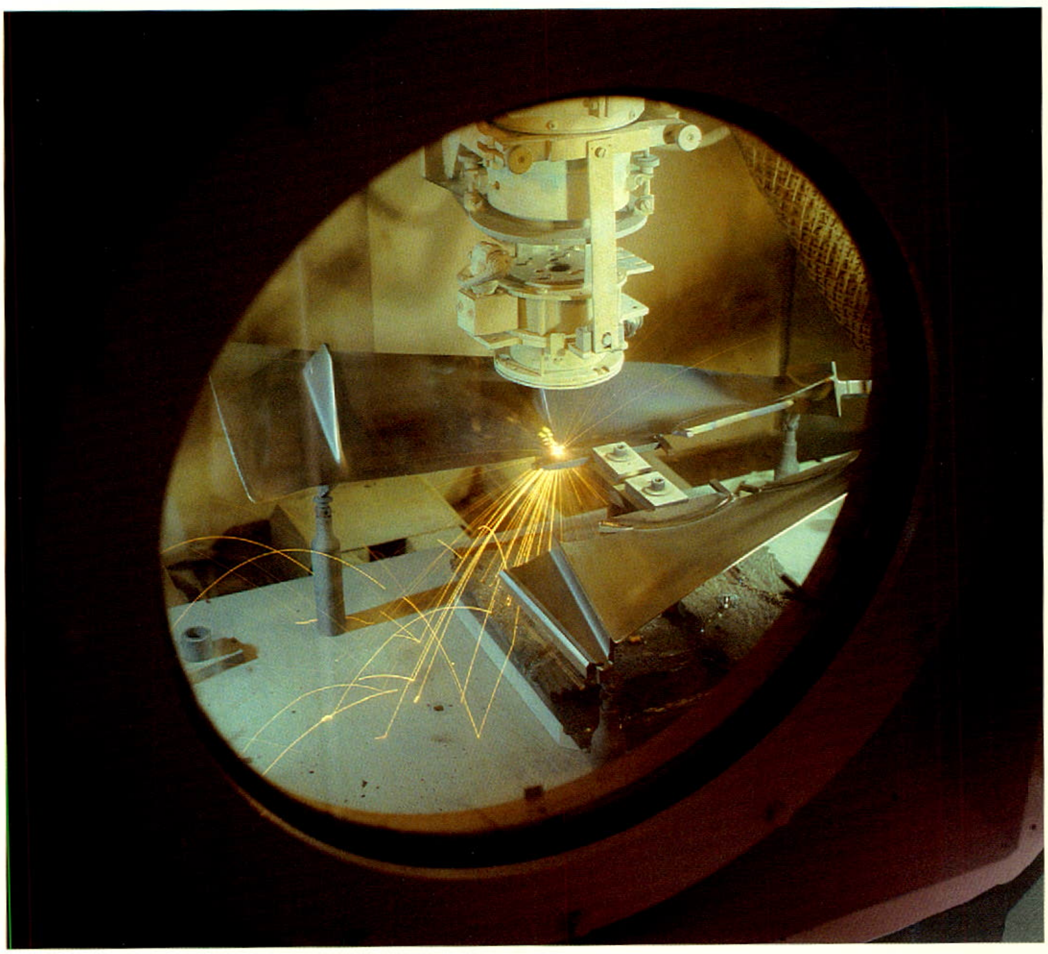
Gordon R. Walsh, group vice president in charge of Engineered Materials, at a new $1 million superplastic forming press installed at Chem-tronics, Inc.

Interlake's Engineered Materials are those which have unique physical and chemical properties, and are designed to meet specific customer performance requirements. We produce and sell engineered materials, we use them to manufacture near-to-net-shape components and we also use them to produce end-use items.

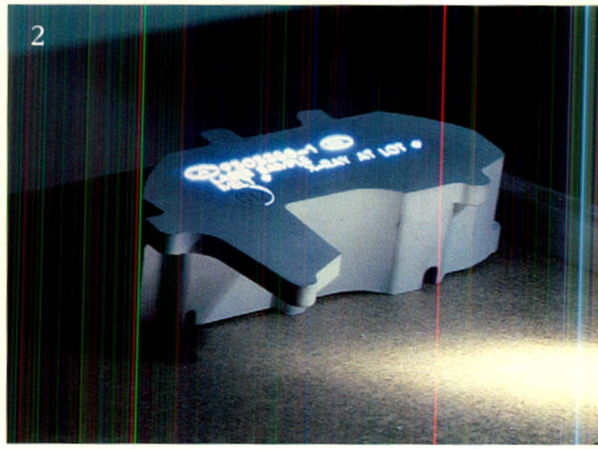
Within the Engineered Materials business segment two subsidiaries, Arwood and Chem-tronics, serve the aerospace industry. The third subsidiary, Hoeganaes, is the world's largest producer of ferrous powdered metal. Each subsidiary has a well-defined strategy focused toward future growth.

(Left) In 1988 Arwood's large castings plant began production of this highly complex casting for an advanced commercial jet engine.

Rapidly growing Chem-tronics aviation repair business restores jet engine fan blades and other components for more than 80 airlines and other aerospace customers.



1. Hoppers at the new Hoeganaes powder bonding/blending plant store large quantities of powdered metal and additives for immediate custom blending to customers' specifications.
2. A laser precisely inscribes computer generated part and quality data on an Arwood investment casting.
3. About 26 pounds of Hoeganaes powdered metal are used in these transfer case parts for four-wheel-drive vehicles, which continue to gain popularity with American motorists.
4. This complex jet engine turbine frame is one of a growing list of special products Chem-tronics fabricates using its expanding range of manufacturing technologies.
5. Arwood's extensive research into ceramic casting materials and processes established the parameters for construction of a titanium investment casting facility in 1988.



HOEGANAES CORPORATION

Hoeganaes is the market and technology leader in iron and alloy powder, used primarily to manufacture precision parts for automobiles, trucks, farm and garden equipment and appliances. Customers for Hoeganaes powder are producers of powdered metal (P/M) parts such as car and truck transmission gears and engine connecting rods. P/M parts typically require little or no finish machining and result in significant manufacturing savings when produced in large volumes.

By emphasizing the research and development of superior new powdered metal products and manufacturing processes, Hoeganaes has increased its technical leadership in the marketplace. Following several years of development in the laboratory and in a pilot plant, Hoeganaes built a major new powder bonding/blending facility in 1988. Located in central Pennsylvania, it is within an overnight drive of P/M parts producers who consume two-thirds of the powdered metal used in North America. Hoeganaes is the first company in its industry to offer rapid delivery of truckload quantities of powdered metal, custom blended with alloys and other ingredients to a customer's specifications. The Pennsylvania plant also is beginning to produce large quantities of advanced metal powders using the new and proprietary Ancor® Bond process, whereby precise amounts of alloys and other materials are bonded directly to the individual iron particles. A patent is pending on this major new Hoeganaes technology, which results in highly consistent strength properties throughout finished parts.

The ongoing increase in the number of new North American car and truck parts plants represents future growth for Hoeganaes. Hoeganaes is recognized by its customers for world-class product quality and service. The development of new P/M part applications is generating further growth, and the average weight of P/M parts used in North American vehicles continues to increase. Furthermore, American consumer buying patterns have shifted toward increasing numbers of light trucks and utility vehicles, including those equipped with four-wheel powertrains, which use a significant amount of P/M parts.

CHEM-TRONICS, INC.

Military and commercial aircraft which will fly in the next decade will incorporate components that use new and advanced engineered materials. Chem-tronics is developing skills and facilities to manufacture a new generation of heat resistant, high strength materials such as titanium aluminides and metal matrix composites. To supplement its expertise in chemical milling and precision fabricating of titanium and aluminum, Chem-tronics is adding new manufacturing technologies important

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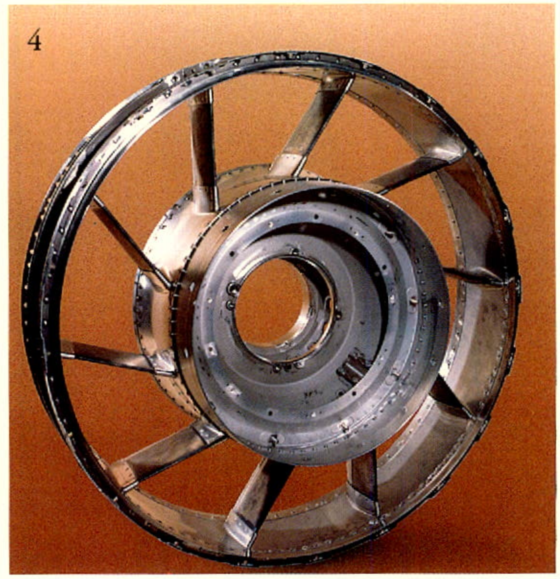

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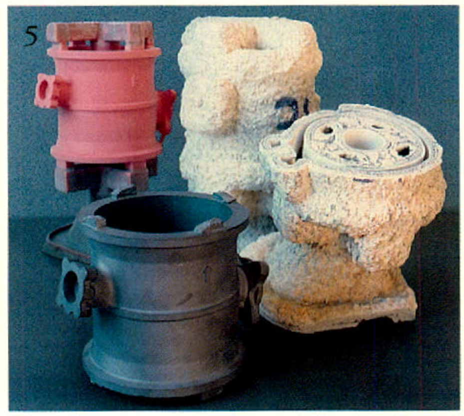

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to future aerospace requirements, including superplastic forming and diffusion bonding. Superplastic forming produces unique shapes at significantly lower costs by stretching metals under controlled temperature and pressure. Diffusion bonding is the process of forming high-integrity bonds between metallic materials.

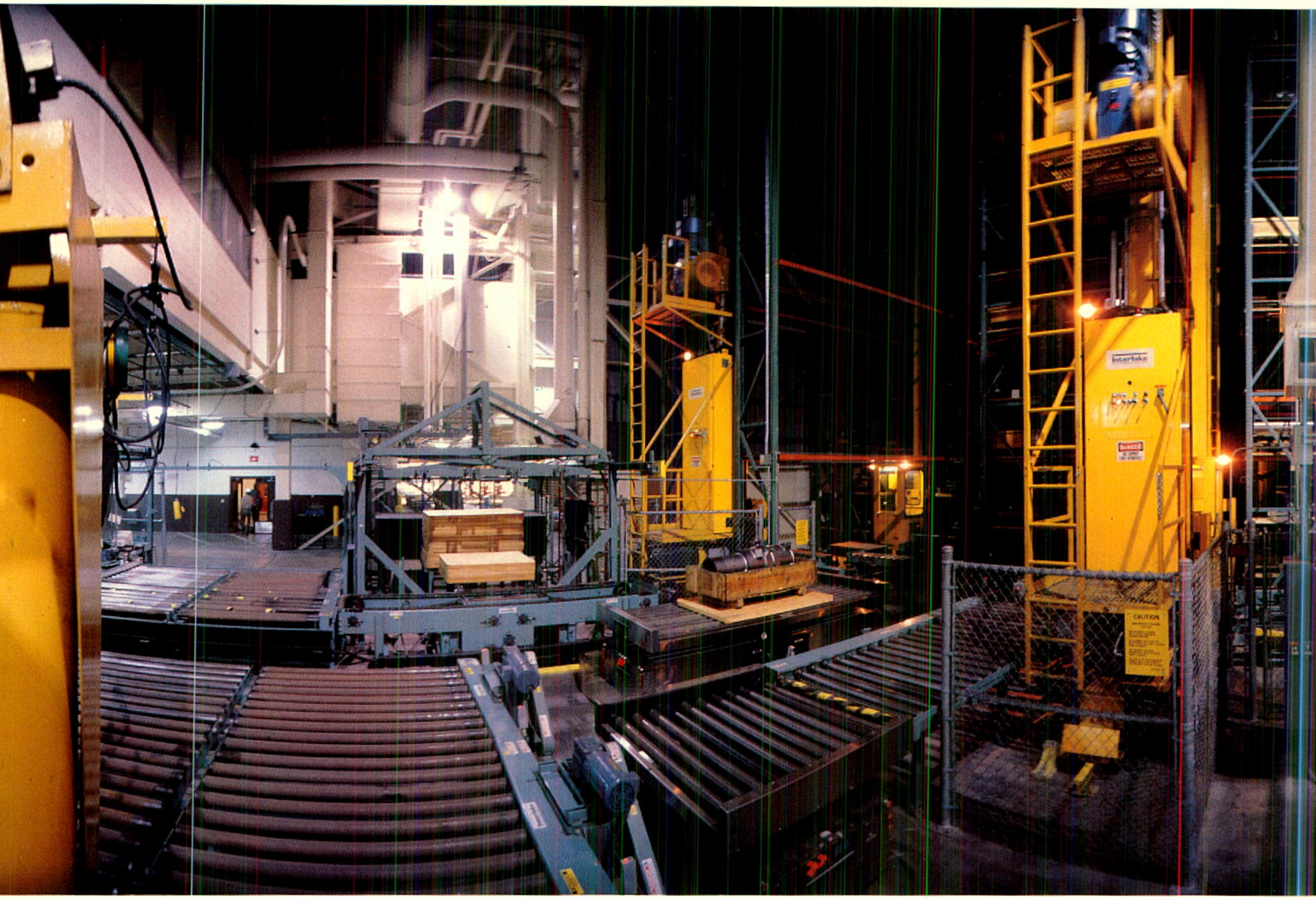
In 1988 Chem-tronics continued to diversify its product range and expand its customer base. Orders for new components were won for jet engines, airframes and missiles, and the company established new relationships with two major aerospace prime contractors. Also during the year, the subsidiary was awarded top quality supplier ratings by two major domestic jet engine producers, resulting in opportunities to bid on additional parts.

The aviation component repair business continues to grow rapidly. In 1988 three major new repair procedures were approved. Chem-tronics is now approved to repair selected components for more than 80 airlines and other customers. To improve customer satisfaction and increase market share, the aviation repair operation has substantially reduced turnaround time for parts being repaired. A major factor has been the rearrangement of personnel and repair facilities into just-in-time manufacturing "cells." This action has improved productivity and quality.

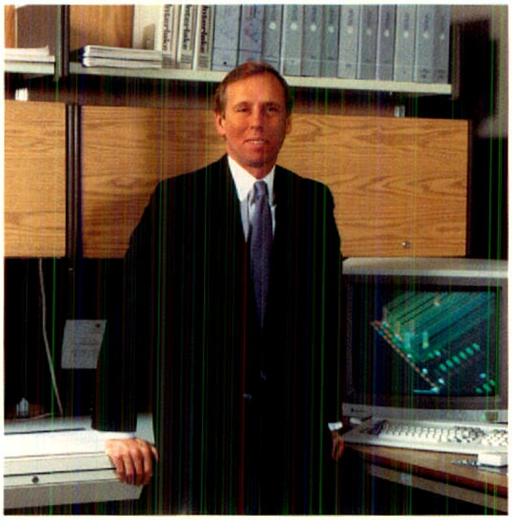
ARWOOD CORPORATION

Arwood Corporation, a leader in producing smaller castings for commercial and military aircraft, has concentrated in recent years on expanding into larger size ranges and on gaining titanium casting capability. A large castings plant, completed in 1986, has been active in obtaining process approval from customers on several dozen new complex castings up to 50 inches in diameter and weighing up to 450 pounds. Obtaining process approval for each part requires close teamwork with customers over a period of months. When approval is obtained, however, the path is clear for significant production orders in coming years. Arwood's expansion into large castings in the 1980s should grow to be an important part of the business in the 1990s.

Aircraft and engine manufacturers are also designing larger numbers of lightweight titanium castings into their new products. Following extensive research into titanium casting processes and with strong support from customers, Arwood constructed a full-scale titanium casting facility in 1988. The operation poured its first casting in November. In 1989 the titanium operation is actively developing part and process approvals with major aerospace manufacturers.

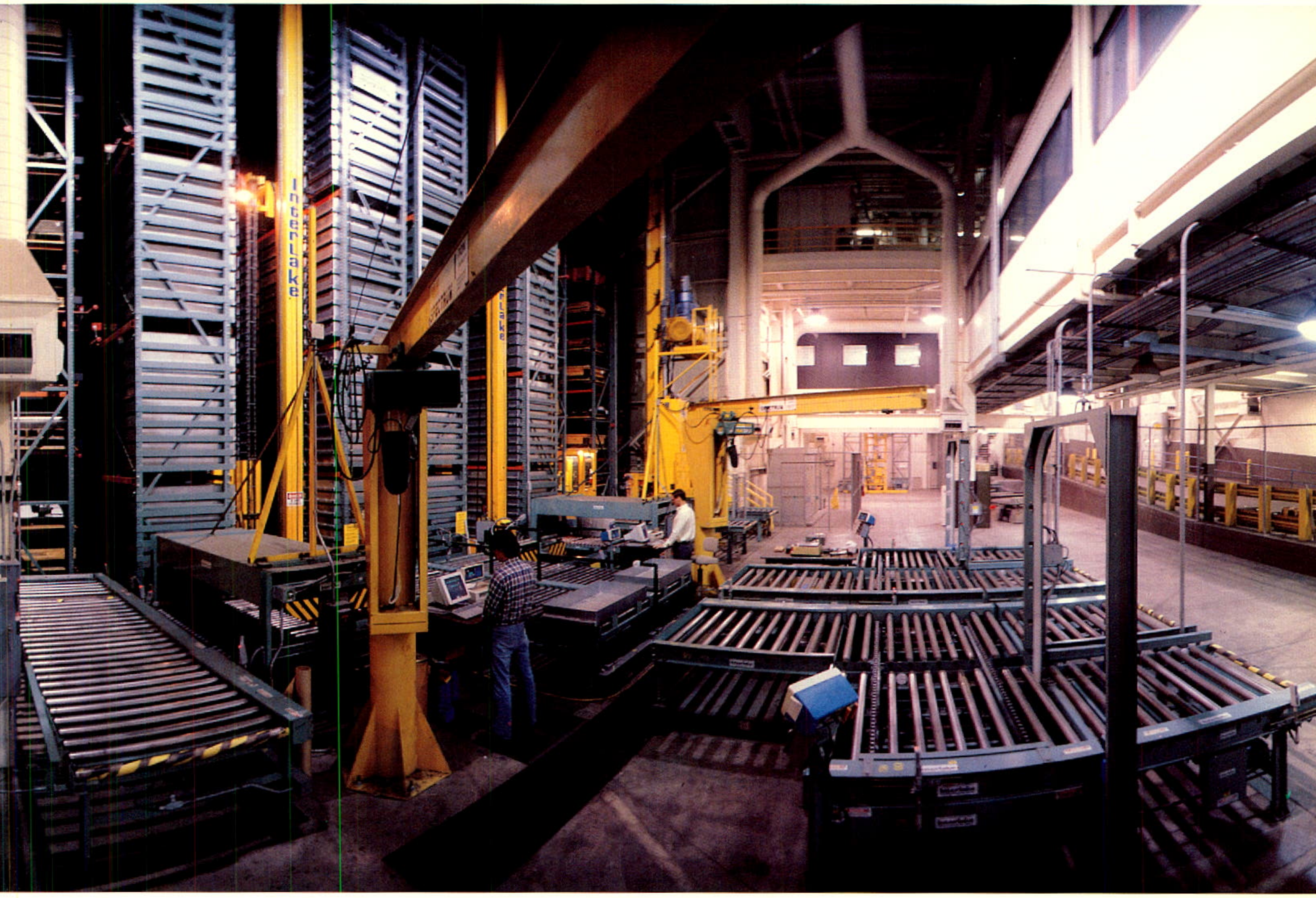


HANDLING/PACKAGING SYSTEMS



W. Robert Reum, executive vice president responsible for Handling/Packaging Systems, with a computer display used to simulate the actual operation of proposed handling systems.

Interlake's Handling/Packaging Systems business segment is a world leader in providing automated handling and packaging solutions that help businesses of many types and sizes to improve their competitiveness. Among handling and packaging producers, Interlake has the broadest product range, the most experience and significant market shares in the largest number of countries. Almost two-thirds of the segment's sales are derived from international operations, and products are sold in the same regions where they are manufactured. Operations in each country are headed



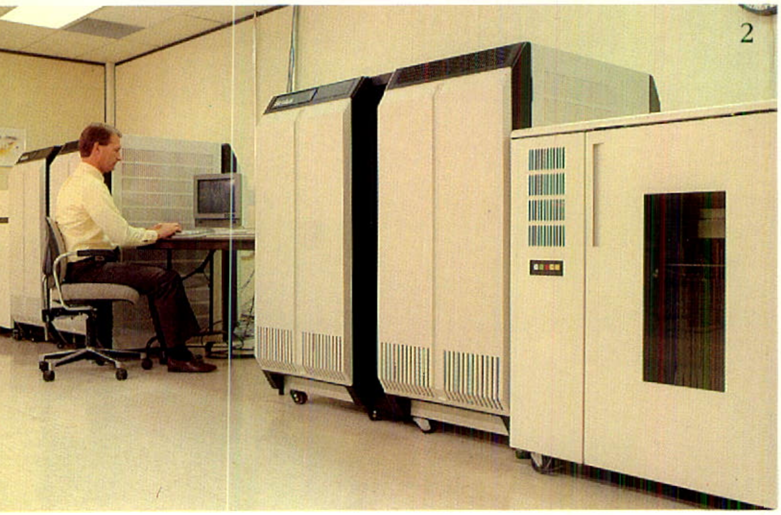
A 210-degree panorama at the U.S. Army's Rock Island Arsenal is filled with Interlake Material Handling products integrated into a system including conveyors, automated storage and retrieval, automated guided vehicles and rack.

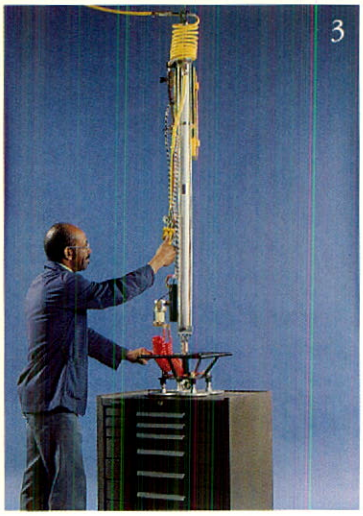
by local managers with extensive experience in and understanding of their markets and the requirements of their customers. Each marketplace presents different opportunities for strategies of focused growth.

INTERLAKE MATERIAL HANDLING

This division manufactures and markets handling and storage systems and components in the United States, Canada and Australia, and has several significant growth opportunities. To reinforce its position as the largest U.S. producer of storage rack, Material Handling built its third domestic plant, a state-of-the-art facility to minimize freight costs and increase market penetration in the Southeast. Shipments began in late 1988 and production is increasing to full rates in 1989. The division's sales of conveyors and conveyor systems continued to grow well in 1988. Steps to augment conveyor growth in 1989 include investments in additional manufacturing capacity, spending to develop high-speed sortation and pallet accumulation products, and expansion of the distributor network and sales force.

Interlake Material Handling is a U.S. leader in integrated systems, supplying automated handling and storage solutions for factories and warehouses using components that we manufacture and computer software designed by our own specialists. Material Handling's project partnership over several years with ATI, an innovative handling system software firm, led to its acquisition in





1. Interlake's third storage rack plant in the U.S. started up in South Carolina in the fall of 1988, targeted to serve a growing market.

2. At ATI in Salt Lake City, Interlake specialists test control software for a handling system on the same computers which will be incorporated into the project.

3. Industrial manipulators from Interlake Packaging aid workplace safety and productivity by providing a safe method to lift or reposition large, heavy objects.

1988. Late in the year, the division announced that it was seeking a partnership with other producers of automated guided vehicle systems in order to broaden its product line and gain greater volume.

The Australian operation is that country's leader in the storage products marketplace. The 1988 acquisition of a retail display equipment manufacturer extends the Australian business into a major new product area in which it also hopes to attain market leadership.

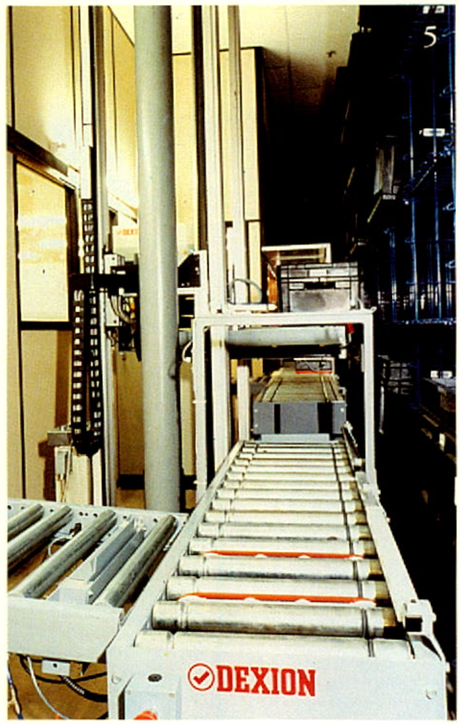
Canadian rack production was adversely affected in 1988 from a prolonged strike early in the year. By emphasizing improved customer service, delivery and a premium quality product, the Canadian operation is working to preserve its position as that nation's leading rack producer.

DEXION GROUP PLC

Interlake's European storage and handling business has manufacturing plants in England, West Germany and Belgium, primarily serving markets in Europe and also exporting to Africa. Dexion is expanding its distribution in France and Spain and is particularly well-positioned to compete effectively as the European Community strives to achieve a "single market" after 1992.

To improve its position as the leading supplier of rack and shelving in the United Kingdom, Dexion has established an extensive network of in-stock distribution centers, offering better service and faster delivery to customers. Dexion Storage Centers accounted for a meaningful portion of U.K. storage revenues in 1988 and further growth is expected. A network of distribution centers has also enabled Dexion's operation in Germany to improve its storage rack market share in that country.

Dexion's integrated systems business, which has traditionally concentrated on projects in the U.K., began major projects in West Germany, Belgium and France in 1988. Opportunities are growing for major integrated systems on the European mainland, and Dexion is strengthening its



4. Advanced process controls have aided sales growth of Interlake Packaging strapping systems.

5. Dexion Group plc continues to gain stature as the United Kingdom's handling systems leader, in addition to its No. 1 position in racking and shelving.

6. Dexion Australia broadened its product range in 1988 with an acquisition that created a new Retail and Display Division based near Brisbane.

reputation as a leading supplier of innovative handling technology.

A successful outgrowth of Dexion's handling systems effort has been broadened capabilities in manufacturing systems software and process control. Dexion Electronics and two acquisitions — PCIL and Nucleus Software — are growing suppliers of hardware and operating programs for automated manufacturing applications.

INTERLAKE PACKAGING CORPORATION

The third unit in the Handling/Packaging Systems segment manufactures strapping and strapping systems in the United States, Canada and England, as well as wire stitching equipment in the U.S.

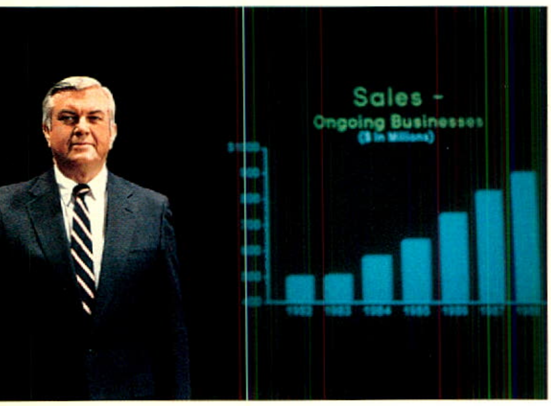
Following the 1986 spin-off of Interlake's iron and steel business and U.S. steel strapping production, Interlake Packaging placed its domestic emphasis on the growth of plastic strapping and engineered plastic strapping machine systems. Users of steel strapping in the textile and boxboard industries are increasingly converting to high strength polyester strapping and new, high productivity plastic strapping systems. Development continues on new systems to further improve plastic strapping sealing strength.

Outside the U.S., Interlake Packaging markets steel strapping and systems as well as plastic. The Canadian strapping operation is that nation's largest supplier, and the operation in England has a significant share of its market. Sales of Canadian-made strapping systems, lead by lumber machines, have tripled since 1986.

Interlake Packaging's wire stitchers, a reliable performer in boxboard sealing applications, are incorporated as a standard feature in printing and office equipment manufactured by more than a dozen graphic arts industry firms in the U.S., Europe and Japan. This profitable business is expected to continue to grow gradually.

BUSINESS AND SEGMENT ANALYSIS

(dollars in millions except per share data)



Richard I. Polanek, vice president–finance

In 1988, Interlake achieved record results and the sixth consecutive year of increased sales and income from continuing operations (excluding the unusual items and exceptional charges recognized in 1987). On this same basis, return on average shareholders' equity also reached a new high, 14.5%. This performance was accomplished while absorbing significant start-up costs for major expansion projects, higher development and research expenditures, and the effects of a lengthy strike at the Canadian Handling operation. In addition, Interlake's financial position remained strong, with record capital expenditures (including $27.5 for expansion projects), an increased dividend rate, and an expanded program for purchases of the Corporation's common stock.

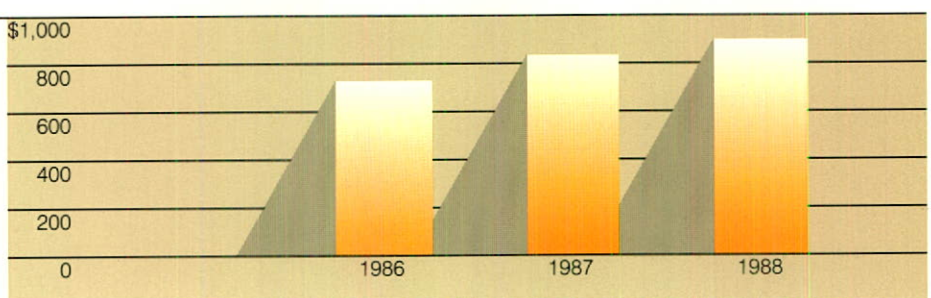
Results of Operations

1988's sales of $892.2 were up 8% from 1987's record of $823.1, which represented an advance of 12% over 1986's $736.0.

Net income in 1988 was $39.6, or $3.75 per share. 1987's reported net income equalled $54.4, or $4.69 per share, while regular operations of ongoing businesses (excluding unusual items and exceptional charges) reached after tax levels of $37.4, or $3.22 per share. Income from continuing operations in 1986 was $30.7 or $2.69 per share.

Return on average shareholders' equity in 1988 was 14.5%. In 1987, regular operations generated an adjusted return on average equity of 14.0%, which surpassed the previous record of 13.5% in 1981.

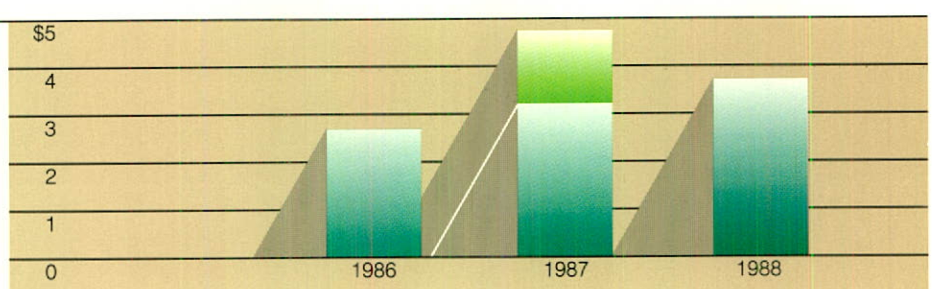
SALES FROM CONTINUING OPERATIONS
(in millions)



INCOME PER SHARE

From Continuing Operations

From Regular Operations*



*excluding the unusual items and exceptional charges recognized in 1987.

Sales and Operating Income by Business Segment

(The following business segment commentary excludes 1987 unusual items and exceptional charges of $28.8 and $14.9 against Engineered Materials and Handling/Packaging Systems, respectively.)

Engineered Materials

Engineered Materials includes special materials (metal powders for forming intricate shapes), and aerospace components (investment castings, and precision milled structures and complex fabrications).

Sales of the Engineered Materials segment in 1988 matched 1987 overall:

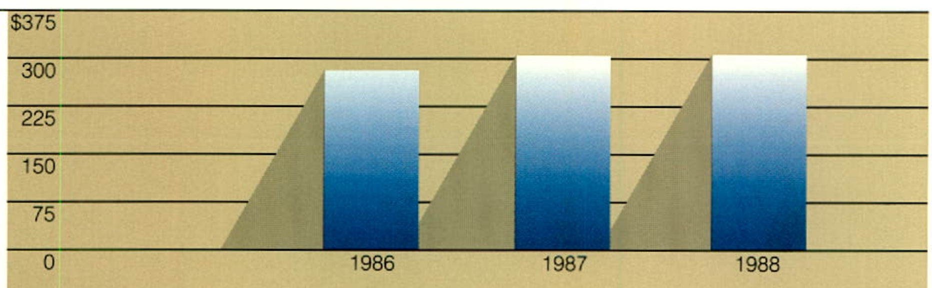
- Metal powders' sales were 21% higher than in 1987 due to sustained U.S. automotive production, supplemented by continued growth in average usage per domestically produced vehicle. Farm and construction industry demand was also good. Tonnage volume advanced 11% over 1987. Surcharges were used extensively in 1988 to recover higher raw material costs.
- Aerospace components' sales were down by 12% from 1987. Approximately a third of this decline was due to the divestiture of the airfoils business in the second quarter of 1988 and the remainder was attributable to the completion of the B1-B bomber program in 1987 and slowdowns in other defense programs.

Operating profit for the Engineered Materials segment advanced 1% in 1988. The nature of the businesses in this segment requires production to meet the unique specifications of a given customer. In addition to plant and equipment, new products require investment in research and development, and manufacturing, processing and quality controls necessary for the specific customer product. Consequently, initial product costs are high, but continuing refinements improve future productivity and profitability. The mix of production in 1988 tended toward newer products, including bonded powders, titanium castings, large ferrous castings and fabricated aerospace components, which narrowed operating income. In addition, the segment encountered higher raw material costs in 1988, which were largely offset in metal powders by surcharges, but were not recovered on castings backlogs existing at the beginning of the year. In 1987, production on several longer term contracts, particularly for B1-B bomber parts, was concluding, with the final units benefiting from the lowest costs of the programs.

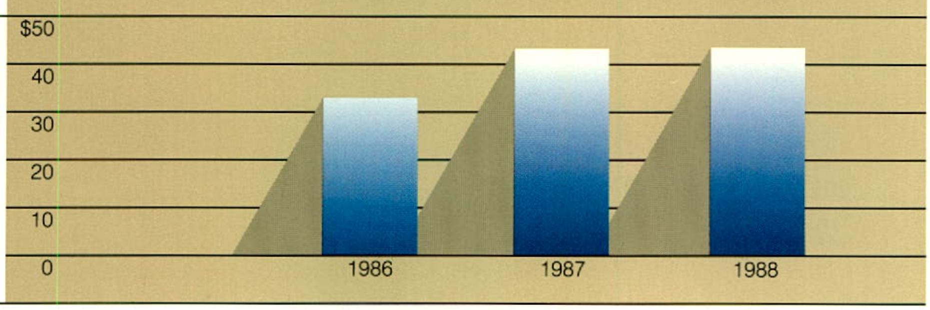
Segment sales for 1987 increased 7% from 1986 with the improvement split evenly between metal powders and aerospace components. Operating profit of the Engineered Materials segment advanced 31% on higher volume and a favorable product mix.

The Engineered Materials segment ended 1988 with an order backlog of $200, up from $183 at the end of 1987. Most of the advance came from metal powders, while increases in aerospace components offset the divestiture of the airfoils business which had a backlog of $8.4 in 1987.

SALES
(in millions)



OPERATING PROFIT*
(in millions)



**excluding the unusual items and exceptional charges recognized in 1987.*

Handling/Packaging Systems

Handling/Packaging Systems includes automated systems, hardware, and supplies used to convey, store, retrieve, sort, and package.

Sales of Handling/Packaging Systems advanced 13% in 1988, with the strengthening of foreign currencies providing roughly a third of this gain. Automated systems' sales were up 4% with weakness in the North American market for Automated Guided Vehicle (AGV) systems more than offset by automated systems' strength in European markets. Other products advanced 15%.

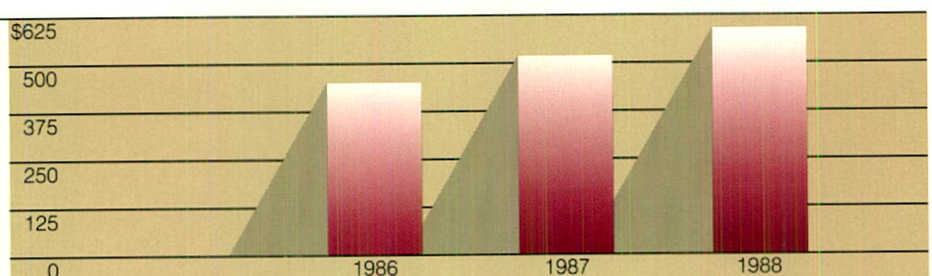
- Sales in the United States were up 2%. Automated systems were down 18% largely due to the absence of significant AGV systems business. Storage rack and conveyors were at record levels which exceeded 1987 by 16% and 36%, respectively. Strapping and stitching products' sales advanced 13%.
- Foreign sales (adjusted to comparable exchange rates) rose 12% despite a 24% decline at the strike burdened Canadian handling plant. European sales were up 16%, while Australian handling and Canadian packaging advanced 25% and 8%, respectively.

The segment's operating profit in 1988, although assisted by favorable foreign currency movements, fell 5%. Benefits from LIFO inventory liquidations were reduced in 1988 ($2.3 in 1988 and $3.7 in 1987). In addition, the Canadian Handling business experienced a dramatic earnings decline related to a seven week, first quarter strike. Record earnings at the two established domestic rack plants were partially offset by start-up costs at the new plant in Sumter, South Carolina.

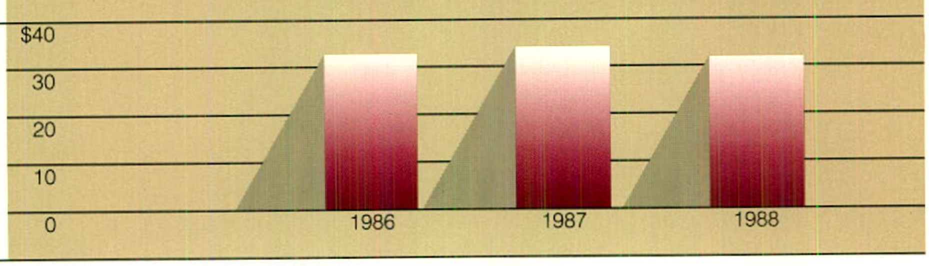
In 1987 Handling/Packaging Systems' sales increased 15% over 1986, with nearly half of the gain coming from favorable foreign currency movements. Operating profit for this segment in 1987 increased 3%, but fell 5% at comparable foreign currency rates. The constant dollar decline was due to losses at one of the U.S. Handling operations, higher raw material costs, and lower LIFO inventory liquidation benefits ($3.7 in 1987 and $4.3 in 1986).

Handling/Packaging Systems' backlog at the end of 1988 decreased slightly to $138 versus the previous year end level of $142 at comparable exchange rates.

SALES
(in millions)



OPERATING PROFIT*
(in millions)



**excluding the unusual items and exceptional charges recognized in 1987.*

Unusual Items and Exceptional Charges of 1987

Interlake's comparative income for the last three years was significantly influenced by the unusual items and exceptional charges which were unique to 1987:

	Analysis of 1987 Income				
		Unusual Items			
	Regular Operations	FAS 87/ FAS 88	Restructuring Adjustments	Exceptional Charges	Total
Pretax Income	$73.6	$98.0	$(31.2)	$(12.5)	$127.9
Net Income	37.4	44.5	(20.7)	(6.8)	54.4
Per Share Income	3.22	3.84	(1.78)	(.59)	4.69

Unusual Items

Steps were initiated in late 1986 to recapture excess assets from certain overfunded pension plans. In 1987 actions were taken to terminate these plans and to recognize those overfunded positions as a settlement under FAS 88 accounting, adding $98.0 to operating income for the year. Of this amount, $10.5 was added to the first three quarters of the year with the adoption of FAS 87 accounting for pensions. In the fourth quarter, when settlement actions were completed, $87.5 was added to operating income. Actual recapture of the excess fund assets occurred in 1988.

Also, in 1987 operating income was reduced by $31.2 as a result of restructuring adjustments related to an extensive strategic review of the Corporation's ongoing production facilities and product lines. The review affected both business segments and anticipated the consolidation and/or curtailment of certain facilities and product lines.

Exceptional Charges

In 1987 operating income was reduced by $12.5 for exceptional charges resulting from a reevaluation of each business unit of the Corporation. Both business segments were affected by these charges, which included the write-off of excess assets and provisions for other costs.

Interest Expense and Interest Income

Interest expense increased by 23% in 1988 due largely to higher average short-term debt levels. Average funds available for short-term investment were higher than in 1987 as a result of the excess pension fund asset reversion. Accordingly, interest income increased by 47%.

In 1987, interest expense was down 26% from 1986 and interest income declined 20%. Reduction of average debt outstanding generated the decline in expense, while the consequent lower average funds available for investment caused the decrease in income.

Preferred Stock Dividend

Dividend income of $1.4, $1.7, and $1.8 reported in 1988, 1987 and 1986, respectively, was received on the redeemable preferred stock received as part of the proceeds from the sale of the Globe Metallurgical Division in 1984. The declining income pattern is the result of redemptions.

Provision for Income Taxes

Income taxes were provided at effective rates of 39.4%, 54.7%, and 45.0% in 1988, 1987, and 1986, respectively.

1987's high effective tax rate was essentially related to the unusual items recorded in that year:

- taxes on income recorded under FAS 87/FAS 88 for excess pension fund assets to be reverted included a 10% Federal excise tax.
- non-deductible write-offs of $5.3 were included in restructuring adjustments.

Excluding the unusual items and exceptional charges recognized in 1987, effective income tax rates would have been 39.4%, 44.2%, and 45.0% in 1988, 1987, and 1986, respectively. The decline in tax rates between 1988 and 1987 came, principally, from lower U.S. federal statutory income tax rates (34% versus 40%). Similar U.S. federal statutory reductions in 1987 (40% versus 46%) were offset by higher state and foreign income taxes.

Discontinued Operations

The 1986 operating results of Acme Steel Company through the Spin-Off were $3.3, net of income taxes. This included a benefit of $4.1, net of income taxes, arising from the liquidation of LIFO inventory quantities carried at lower costs than prevailed in prior years.

The results of discontinued operations included the operating results of Acme Steel Company, allocations of interest income and Corporate expenses, and certain costs associated with the Reorganization and Spin-Off.

Liquidity and Capital Resources

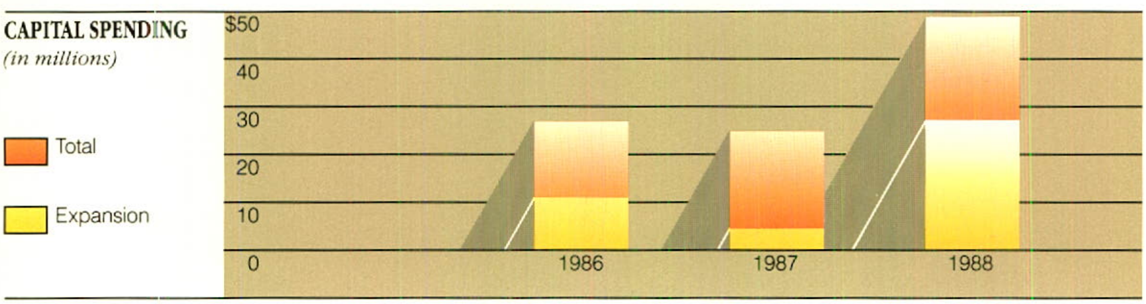
Over the last three years, Interlake's cash flow from operating activities (excluding the excess pension asset reversion) has been adequate to fund non-expansion capital expenditures, retirement of long-term debt, and dividends. Also during this time period three other major factors have affected Interlake's cash position.

First, $98.0 of excess pension fund assets was received in 1988. This was offset by $43.0 in related income tax payments to furnish a net cash inflow of $55.0 in 1988.

Second, the stock purchase program which was approved by the Board of Directors in 1987 was subsequently increased to a total of 1,915,000 shares of common stock. As of the end of 1988, 1,648,000 shares had been purchased under this program with total expenditures of $67.0 ($38.9 in 1988 and $28.1 in 1987).

Third, emphasis continued on investment for growth through expansion capital expenditures and acquisitions —$27.5 and $8.5, respectively, in 1988. (This was partially offset by the sale of the airfoils business in 1988.)

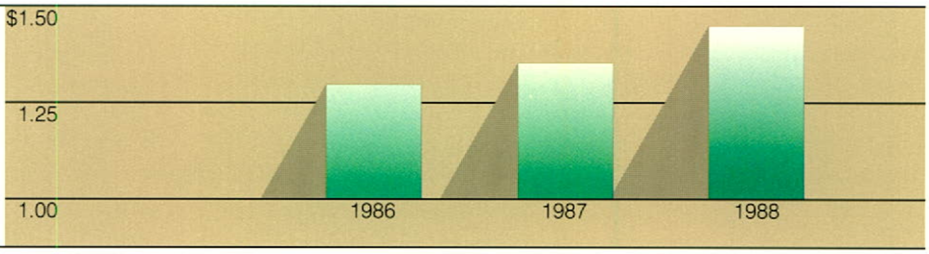
CAPITAL SPENDING
(in millions)



Capital expenditures totaled a record $49.1 in 1988 compared with $25.6 in 1987. Spending for plant expansions was also a record $27.5 in 1988 compared with $4.5 in 1987. Major expansion projects included the addition of a storage rack plant, a metal powders bonding and blending plant, an annealing furnace, and a titanium foundry. The unexpended balance of authorized expenditures at the end of 1988 was $15.2.

Acquisitions of $8.5 included a metal powders business specializing in high alloy applications, two software businesses, and an Australian retail and display business.

DIVIDENDS PER SHARE DECLARED OR PAID



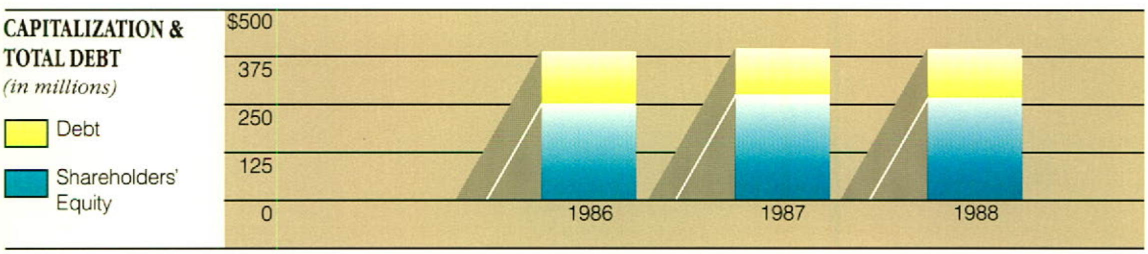
The quarterly dividend rate has been increased in each of the last two years. The present rate of $.375 per share (equivalent to $1.50 per share annually) was established in September, 1988. A year earlier, the rate had been raised to $.35 per share from $.325 per share.

At the end of 1988, the Corporation had available unused credit facilities of $147.

The Corporation's total debt to total capitalization ratio was 32% at the end of 1988 compared to 29% and 35% at the end of 1987 and 1986, respectively. The temporary decline in 1987 was due to increased shareholders' equity related to the unusual items and exceptional charges recognized in that year.

The Corporation's working capital ratio of 1.7 to 1 at the end of 1988 compares closely to the 1.8 to 1 reported at the end of 1987 and 1986.

CAPITALIZATION & TOTAL DEBT
(in millions)



Prospective Developments

FAS 96 requires the provision of deferred and future taxes on timing differences between reported book and tax return calculations at the enacted rates which would apply during the period when taxes become payable. The required adoption of this standard has been delayed one year to 1990 because of the implementation problems associated with its requirements. The Corporation expects that the lower tax rates provided by the Tax Reform Act of 1986 will reduce its liability for future taxes, but does not, at present, anticipate a significant impact for this future accounting change.

The Financial Accounting Standards Board has issued a discussion draft of a proposed standard pertaining to post-employment benefits other than pensions. Interlake has been accruing for liabilities of this type since 1979. While there is no way to predict the exact nature of the future standard, the Corporation should be able to conform to that standard with far less impact than most other companies which offer comparable benefit programs.

In 1989 the Corporation expects to complete its program for the purchase of its common shares as approved by the Board of Directors. This would involve approximately an additional 267,000 shares and a significant cash outflow.

Effects of Inflation

The impact of inflation on the Corporation in recent years has not been material, and it is not expected to have a significant effect in the foreseeable future.

THE INTERLAKE CORPORATION
REPORT OF MANAGEMENT

The consolidated financial statements of The Interlake Corporation, presented on pages 24 through 38 of this annual report, have been prepared by management, which is responsible for their accuracy and integrity. They have been prepared in conformity with generally accepted accounting principles, consistently applied, and include informed judgments and estimates, as required. Other financial information in this annual report is consistent with the financial statements.

Interlake's system of internal controls is designed to provide reasonable assurance, at a justifiable cost, as to the reliability of financial records and reporting and the protection of assets. This system includes organizational arrangements with clearly defined lines of responsibility. Internal controls are monitored through recurring internal audit programs.

Price Waterhouse, independent accountants, have examined Interlake's financial statements and their opinion appears below.

The Audit Review Committee of the Board of Directors, composed solely of outside directors, determines that management is fulfilling its financial responsibilities by meeting periodically with Price Waterhouse, the internal auditors and management to review accounting, auditing, and financial reporting matters. The internal auditors and independent accountants have free and complete access to the Audit Review Committee.

Interlake has adopted formal corporate policies demanding high standards of ethical and financial integrity and has disseminated these policies to appropriate employees. Internal audit procedures have been developed to provide reasonable assurance that violations of these policies, if any, are detected.

Richard I. Polanek
Richard I. Polanek
Vice President—Finance

Frederick C. Langenberg
Frederick C. Langenberg
Chairman Of the Board and
Chief Executive Officer

REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse

To the Board of Directors and Shareholders of The Interlake Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of The Interlake Corporation and its subsidiaries at December 25, 1988 and December 27, 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 25, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of The Interlake Corporation'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.

As discussed in Note 6 to the consolidated financial statements, the Corporation changed its method of accounting for pension costs in 1987.

Price Waterhouse

Chicago, Illinois
January 27, 1989

CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 25, 1988, December 27, 1987 and December 28, 1986

	1988	1987	1986
	(in thousands except per share data)		
Net Sales of Continuing Operations	**$892,218**	$823,058	$736,009
Cost of products sold	**673,172**	624,313	549,727
Selling and administrative expense	**145,613**	135,419	122,727
Unusual items of (income) and expense	**–**	(66,775)	–
Operating Income	**73,433**	130,101	63,555
Interest expense	**10,778**	8,767	11,881
Interest income	**(8,499)**	(5,765)	(7,208)
Dividend income	**(1,425)**	(1,650)	(1,838)
Nonoperating (income) expense	**(23)**	888	(20)
Income From Continuing Operations Before Taxes on Income and Minority Interest	**72,602**	127,861	60,740
Provision for Income Taxes	**28,569**	69,980	27,343
	44,033	57,881	33,397
Minority Interest in Net Income of Subsidiaries	**4,479**	3,509	2,677
Income From Continuing Operations	**39,554**	54,372	30,720
Income From Discontinued Operations, Net of Income Taxes	**–**	–	1,835
Net Income	**$ 39,554**	$ 54,372	$ 32,555
Income Per Share of Common Stock:			
Continuing Operations	**$ 3.75**	$ 4.69	$ 2.69
Discontinued Operations	**–**	–	.16
Net Income	**$ 3.75**	$ 4.69	$ 2.85
Average number of shares outstanding	**10,549**	11,588	11,422

(See notes to consolidated financial statements)

CONSOLIDATED BALANCE SHEET

December 25, 1988 and December 27, 1987

	1988	1987
Assets	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 50,454**	$ 56,551
Receivables, less allowances of $3,999,000 in 1988 and $3,353,000 in 1987	**179,862**	156,714
Inventories	**126,044**	110,901
Prepaid pension cost	**—**	98,000
Other current assets	**26,577**	20,103
Total current assets	**382,937**	442,269
Goodwill and Other Assets:		
Goodwill, less accumulated amortization of $6,984,000 in 1988 and $5,832,000 in 1987	**25,229**	23,652
Other assets	**51,316**	52,448
	76,545	76,100
Property, Plant and Equipment, net	**200,991**	175,431
Total Assets	**$660,473**	$693,800
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	**$ 81,927**	$ 81,815
Accrued liabilities	**53,223**	60,416
Accrued salaries and wages	**17,777**	19,965
Income taxes payable	**23,946**	53,671
Debt due within one year	**52,894**	35,105
Total current liabilities	**229,767**	250,972
Long-Term Debt	**76,651**	82,212
Post-retirement Benefits	**28,998**	28,031
Future Income Taxes	**41,277**	39,123
Commitments and Contingencies	**—**	—
Minority Interest	**13,830**	12,150
Shareholders' Equity:		
Common stock, par value $1 per share, authorized 100,000,000 shares, issued 11,740,695 in 1988 and 1987	**94,505**	93,538
Cost of common stock held in treasury, (1,614,479 shares in 1988 and 735,608 shares in 1987)	**(65,825)**	(28,195)
Retained earnings	**249,466**	225,127
Accumulated foreign currency translation adjustments	**(8,196)**	(9,158)
	269,950	281,312
Total Liabilities and Shareholders' Equity	**$660,473**	$693,800

(See notes to consolidated financial statements)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 25, 1988, December 27, 1987 and December 28, 1986

	1988	1987	1986
		(in thousands)	
Cash flows from (for) operating activities:			
Net income	**$ 39,554**	$ 54,372	$ 32,555
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**26,100**	24,590	21,865
Unusual items	**—**	(23,811)	—
Other operating adjustments	**6,239**	12,725	4,485
(Increase) decrease working capital:			
Accounts receivable	**(21,475)**	(11,995)	(17,763)
Inventories	**(15,588)**	(4,519)	(3,768)
Prepaid pension asset	**98,000**	—	—
Other current assets	**(6,338)**	(99)	(895)
Accounts payable	**163**	16,525	3,246
Other accrued liabilities	**(10,528)**	10,319	1,311
Income taxes payable	**(29,878)**	(16,816)	7,213
Total Working Capital Change	**14,356**	(6,585)	(10,656)
Net cash provided by operating activities	**86,249**	61,291	48,249
Cash flows from (for) investing activities:			
Capital expenditures	**(49,091)**	(25,615)	(27,311)
Proceeds from disposal of PP&E	**1,043**	805	913
Acquisitions	**(8,534)**	(785)	(2,389)
Divestitures	**5,990**	—	—
Discontinued operations	**—**	(4,980)	(18,750)
Loan to discontinued operation	**—**	—	(10,000)
Partial redemptions of preferred stock received from 1984 business disposition	**4,000**	—	5,000
Other investment flows	**(3,475)**	7,993	(6,019)
Net cash used by investing activities	**(50,067)**	(22,582)	(58,556)
Cash flows from (for) financing activities:			
Proceeds from issuance of short-term debt	**39,176**	6,546	28,254
Retirements of short-term debt	**(21,108)**	(22,792)	(2,168)
Retirements of long-term debt	**(6,155)**	(6,425)	(16,737)
Dividends	**(15,275)**	(15,475)	(14,738)
Purchase of treasury stock	**(38,916)**	(28,100)	—
Other financing flows	**934**	623	5,707
Net cash provided (used) by financing activities	**(41,344)**	(65,623)	318
Effect of exchange rate changes	**(935)**	10,603	(405)
Increase(Decrease) in cash and cash equivalents	**$ (6,097)**	$(16,311)	$(10,394)

(See notes to consolidated financial statements)

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the Years Ended December 25, 1988, December 27, 1987 and December 28, 1986

	Common Stock and Paid-in Capital		Common Stock Held in Treasury		Retained Earnings	Foreign Currency Translation	Total
	Shares	Amount	Shares	Amount			
				(in thousands)			
Balance December 29, 1985	14,317	$126,229	(3,121)	$(46,148)	$305,133	$(33,461)	$351,753
Net Income					32,555		32,555
Cash Dividends					(14,873)		(14,873)
Dividend Reinvestment		879	62	926			1,805
Stock Incentive Plans	78	4,486	176	1,830			6,316
Translation Gain						4,283	4,283
Cancel Treasury Stock	(2,883)	(43,392)	2,883	43,392			—
Acme Steel Company Spin-Off					(131,477)		(131,477)
Balance December 28, 1986	11,512	88,202	—	—	191,338	(29,178)	250,362
Net Income					54,372		54,372
Cash Dividends					(15,603)		(15,603)
Stock Incentive Plans	229	5,336	(2)	(95)			5,241
Translation Gain						20,020	20,020
Treasury Stock			(734)	(28,100)			(28,100)
Adjustment of Acme Steel Company Spin-Off					(4,980)		(4,980)
Balance December 27, 1987	**11,741**	**93,538**	**(736)**	**(28,195)**	**225,127**	**(9,158)**	**281,312**
Net Income					**39,554**		**39,554**
Cash Dividends					**(15,215)**		**(15,215)**
Stock Incentive Plans		**967**	**36**	**1,286**			**2,253**
Translation Gain						**962**	**962**
Treasury Stock			**(914)**	**(38,916)**			**(38,916)**
Balance December 25, 1988	**11,741**	**$ 94,505**	**(1,614)**	**$(65,825)**	**$249,466**	**$ (8,196)**	**$269,950**

(See notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 25, 1988, December 27, 1987 and December 28, 1986

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of all majority-owned domestic and foreign subsidiaries.

Cash Flow—Effective December 25, 1988, the Corporation complied with the Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows". Prior years' statements have been restated accordingly.

Cash Equivalents—The Corporation considers all highly liquid financial instruments with maturities of three months or less to be cash equivalents and reports the earnings from these instruments as interest income.

Revenue Recognition—Revenue from sales is generally recognized when product is shipped, except on long-term contracts in the Handling/Packaging Systems segment, where revenue is accounted for principally by the percentage-of-completion method.

Inventories—Inventories are stated at the lower of cost or market value. Cost is determined mainly by the last-in, first-out (LIFO) method. Gross inventories valued on the LIFO method represent approximately 67% and 73% of gross inventories at December 25, 1988 and December 27, 1987, respectively. The current cost of these inventories exceeds their valuation determined on a LIFO basis by $38,939,000 at December 25, 1988 and by $36,022,000 at December 27, 1987.

During 1988 and 1987, inventory quantities valued on the LIFO method were reduced, resulting in the liquidation of LIFO inventory quantities carried at lower costs that prevailed in prior years as compared with the costs of production for 1988 and 1987. As a result, income from continuing operations before taxes in 1988 and 1987 was increased by $2,385,000 and $3,684,000, equivalent to $.15 and $.19 per share, respectively, after applicable income taxes.

December 25, 1988 and December 27, 1987 inventory amounts by category were:

	1988	1987
	(in thousands)	
Raw materials	**$ 24,157**	$ 26,486
Semi-finished and finished products	**90,413**	79,103
Supplies	**14,080**	12,676
	128,650	118,265
Less-restructuring adjustments	**(2,606)**	(7,364)
	$126,044	$110,901

Property, Plant and Equipment and Depreciation—For financial reporting purposes, plant and equipment are depreciated principally on a straight-line method over the estimated useful lives of the assets. Depreciation claimed for income tax purposes is computed by use of accelerated methods.

Upon sale or disposal of property, plant and equipment, the asset cost and related accumulated depreciation are removed from the accounts, and any gain or loss on the disposal is credited or charged to nonoperating income.

Expenditures for renewals and betterments which extend the originally estimated useful life of an asset or materially increase its productivity are capitalized. Expenditures for maintenance and repairs and for minor renewals and betterments are charged to expense as incurred.

Goodwill—Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies and is being amortized on a straight-line method over periods not exceeding thirty years. During 1987, goodwill was reduced $7,565,000 due to the realization of net operating losses carried forward by the acquired companies and $5,290,000 for restructuring provisions.

Retirement Benefits—The Corporation has various defined benefit and defined contribution pension plans which cover substantially all employees. In 1987, the Corporation adopted statements of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions" and No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" (FAS 87 and FAS 88) for these plans. The provision for defined benefit pension costs includes current costs, interest costs, actual return on plan assets, amortization of the unrecognized net asset existing at the date of transition and net unrealized gains and losses.

The Corporation also has post-retirement health care and death benefit plans covering certain domestic employees. The provision for post-retirement benefit costs includes current costs, amortization of prior service costs over periods not exceeding twenty-five years, and interest on the accrued liability. The post-retirement benefits are not funded.

NOTE 2—UNUSUAL ITEMS AND EXCEPTIONAL CHARGES

At the beginning of 1987, the Corporation adopted Financial Accounting Standards Nos. 87 and 88. The former specifies how an employer must calculate pension expense or income for an ongoing pension plan and the latter specifies how an employer must calculate gain or loss for the settlement of a pension plan. During the fourth quarter of 1987 certain pension plans were settled and pretax gains of $87,480,000 were recognized according to FAS 88. The pretax pension income recognized for these plans according to FAS 87 during the period prior to settlement was $10,520,000. The benefit of these gains was equivalent to $3.84 per share after applicable income taxes.

In the fourth quarter of 1987, a pretax provision of $31,225,000 was recorded for the estimated costs to restructure certain of the Corporation's operations. These costs included allowances for obsolete and excess assets ($14,065,000), adjustments of goodwill ($5,290,000), and anticipation of related personnel and other costs ($11,870,000). The provision reduced net income by the equivalent of $1.78 per share.

In the fourth quarter of 1987, operating income was reduced by $12,474,576 for exceptional charges resulting from a reevaluation of each business unit of the Corporation. These costs included the write-off of excess assets ($7,312,048) and provisions for other costs ($5,162,528). The charges reduced net income by the equivalent of $.59 per share.

As of the end of 1988, portions of the provisions for restructuring costs and exceptional charges detailed above remained unresolved. The remaining balance of $16,928,883 consisted of anticipated current liabilities ($9,903,708) and allowances for obsolete and excess assets ($7,025,175) and reflects management's best estimate.

NOTE 3—DISCONTINUED OPERATIONS

On June 23, 1986 The Interlake Corporation made a tax-free distribution (the Spin-Off) of shares in the Acme Steel Company, a wholly-owned subsidiary. Shareholders received one share in Acme Steel Company for each share of The Interlake Corporation common stock owned of record on June 9, 1986. No gain or loss was recorded arising from the Spin-Off. Retained earnings were charged $131,477,000 for the book value of assets distributed, which comprised working capital of $36,406,000, investments in associated companies and other long-term assets of $26,940,000, property, plant and equipment of $91,379,000 less long-term liabilities of $23,248,000. On September 10, 1987 a final adjustment of $4,980,000 was made to the Spin-Off amounts, which increased the charge to retained earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The results of discontinued operations through the date of Spin-Off include Corporate expenses, interest income and interest expense attributable to discontinued operations. Net sales, income tax provision and income of $117,207,000, $2,574,000 and $1,835,000, respectively, have been excluded from continuing operations in the accompanying financial statements. Interest income of $660,000 in 1986 has been allocated on the basis of cash retained by Acme Steel Company.

During 1986, inventories of discontinued operations were reduced, resulting in the liquidation of LIFO inventory quantities carried at lower costs that prevailed in prior years as compared with the costs of production for 1986. The benefit of the decrement increased income from discontinued operations net of income taxes by $4,104,000, equivalent to $.36 per share in 1986.

NOTE 4—BUSINESS SEGMENT INFORMATION

The Corporation operates in two segments each of which is composed of products which have a similar strategic emphasis. The two business segments are:

Engineered Materials—included are special materials (metal powders for forming intricate shapes), and aerospace components (investment castings, and precision milled structures and complex fabrications).

Handling/Packaging Systems—included are automated systems, hardware, and supplies used to convey, store, retrieve, sort and package.

The accompanying tables present financial information by business segment for the years 1988, 1987 and 1986. Operating profit consists of net sales of the segment less all costs and expenses related to the segment. 'Corporate Items' includes net interest expense, pension income of $98.0 million (see Note 2) and other items which are not related to either of the two business segments. Total assets by business segment consist of those assets used directly in the operations of each segment. Corporate assets consist principally of cash, cash equivalents, prepaid pension cost and redeemable preferred stock.

The operating results of specific segments were increased (decreased) by the following significant items:

	Engineered Materials	Handling/ Packaging Systems
	(in millions)	
1988		
Liquidation of LIFO inventory quantities	**$ .1**	**$ 2.3**
1987		
Restructuring adjustments*	$(22.7)	$(8.5)
Exceptional charges*	(6.1)	(6.4)
Liquidation of LIFO inventory quantities	—	3.7
1986		
Liquidation of LIFO inventory quantities	$ (.2)	$ 4.3

*See Note 2

INFORMATION ABOUT THE CORPORATION'S BUSINESS SEGMENTS

	Year	Net Sales (a)	Operating Profit	Assets at Year-End	Depreciation and Amortization	Capital Expenditures
				(in millions)		
Engineered Materials	**1988**	**$301.8**	**$43.7**	**$253.4**	**$13.9**	**$22.5**
	1987	301.5	14.4	233.3	14.2	9.8
	1986	281.2	32.9	243.3	12.9	18.3
Handling/Packaging Systems	**1988**	**590.4**	**31.3**	**312.7**	**11.3**	**25.9**
	1987	521.6	18.2	266.4	9.5	15.7
	1986	454.8	32.2	220.8	8.2	8.9
Corporate Items/ Eliminations	**1988**	**—**	**(2.4)**	**94.4**	**.9**	**.7**
	1987	—	95.3	194.1	.9	.1
	1986	—	(4.4)	133.0	.8	.1
Consolidated	**1988**	**892.2**	**72.6**	**660.5**	**26.1**	**49.1**
	1987	823.1	127.9	693.8	24.6	25.6
	1986	736.0	60.7	597.1	21.9	27.3

(a) includes sales in		1988	1987	1986
—Engineered Materials:	Special Materials	**$131.9**	$109.3	$102.1
	Aerospace Components	**169.9**	192.2	179.1
—Handling/Packaging Systems:	Handling	**446.8**	397.1	353.8
	Packaging	**143.6**	124.5	101.0

In 1988 and 1987, sales to the Corporation's largest individual customer accounted for 7 and 11 percent of consolidated sales, respectively. Sales to domestic and foreign government agencies are not material. Transfers between geographic areas, which are all in the Handling/Packaging Systems segment, are made at prices which approximate the prices of similar items sold to distributors. Operating profit by geographic area is the difference between net sales attributable to the area and all costs and expenses related to the geographic area. Total assets consist of those assets used directly in the operations in the geographic areas shown. Export sales to unaffiliated customers included in the United States' sales are not material.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

INFORMATION ABOUT THE CORPORATION'S OPERATIONS BY GEOGRAPHIC AREA

	Year	Net Sales: Customers	Net Sales: Inter-geographic	Operating Profit	Assets at Year-End
			(in millions)		
United States	**1988**	**$504.5**	**$ 3.5**	**$ 50.3**	**$344.6**
	1987	499.5	3.0	8.0	307.9
	1986	474.1	2.9	41.4	319.7
Western Europe	**1988**	**265.6**	**.7**	**17.9**	**152.8**
	1987	215.6	.5	14.0	136.4
	1986	172.2	.5	12.7	97.8
Canada and Australia	**1988**	**122.1**	**.3**	**6.8**	**68.7**
	1987	108.0	.9	10.6	55.4
	1986	89.7	.9	11.0	46.6
Corporate Items/ Eliminations	**1988**	**—**	**(4.5)**	**(2.4)**	**94.4**
	1987	—	(4.4)	95.3	194.1
	1986	—	(4.3)	(4.4)	133.0
Consolidated	**1988**	**892.2**	**—**	**72.6**	**660.5**
	1987	823.1	—	127.9	693.8
	1986	736.0	—	60.7	597.1

NOTE 5—INCOME TAXES

The provisions for taxes on income from continuing operations consist of:

	1988	1987	1986
		(in thousands)	
Current:			
U.S. Federal	**$52,431**	$ 6,980	$ (923)
State	**3,295**	9,837	2,077
Foreign	**10,472**	15,242	14,528
Total	**66,198**	32,059	15,682
Deferred:			
U.S. Federal	**(37,451)**	37,626	12,006
State	**—**	—	—
Foreign	**(178)**	295	(345)
Total	**(37,629)**	37,921	11,661
Tax Provision	**$28,569**	$69,980	$27,343

Deferred taxes are provided for items which are recognized in different years for financial reporting and income tax purposes. The principle item is usually depreciation expense, but the pension fund settlements and restructuring provisions were significant items in 1987 and 1988. In 1986, deferred taxes also were provided for income from former joint ventures.

The effective income tax rates for continuing operations for 1988, 1987, and 1986 are reconciled to the federal statutory tax rate in the following table:

	1988	1987	1986
Statutory federal income tax rate	**34.0%**	40.0%	46.0%
Increase (reduction) in taxes resulting from:			
Taxes on foreign income	**3.4**	1.4	(1.5)
State income taxes	**3.0**	4.6	1.8
Excise tax	**.4**	7.7	—
Nondeductible acquisition costs	**.1**	1.9	.4
Effect of dividends from foreign subsidiaries	**(1.8)**	(1.3)	(.2)
All other	**.3**	.4	(1.5)
	39.4%	54.7%	45.0%

Actual cash disbursements for income taxes were $60,272,000, $34,012,000, and $22,217,000 in 1988, 1987 and 1986, respectively.

Income from foreign operations included in consolidated income from continuing operations before taxes on income was $22,952,000, $34,408,000, and $32,845,000 for 1988, 1987 and 1986, respectively.

As of December 25, 1988, U. S. Federal income tax returns for the years 1982 through 1984 were in the process of examination. All prior years have been examined, and all assessments have been paid, including any applicable interest. The Corporation believes that adequate provision has been made for possible assessments of additional taxes.

No provision has been made for U. S. income taxes on approximately $68,240,000 of undistributed earnings of foreign subsidiaries. The Corporation anticipates that no material tax cost will be incurred upon distribution of these earnings.

NOTE 6—RETIREMENT BENEFITS

The Interlake Corporation has several defined benefit and defined contribution plans which cover substantially all employees. In 1987, the Corporation adopted Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions". The effect of adopting FAS 87 as compared to the superseded Accounting Principles Board Opinion No. 8 (APB 8) was to reduce 1987 pension costs by $11,760,000 of which $1,240,000 related to ongoing pension plans. Benefits are computed based mainly on years of service and compensation during the latter years of employment. Corporation contributions are determined according to the funding requirements set forth by ERISA.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The following table sets forth the funded status of the ongoing, domestic defined benefit plans and the amounts included in the year-end balance sheet. The Corporation's plans were generally overfunded. The underfunded plans which existed were not significant.

	1988	1987
Plan assets at fair value	**$40,489,817**	$37,312,488
Actuarial present value of accumulated benefit obligation:		
• Vested benefits	**21,249,888**	19,233,351
• Non-vested benefits	**1,802,647**	1,630,680
	23,052,535	20,864,031
Effect of assumed future compensation increases	**5,020,917**	5,038,974
Projected benefit obligation for service to date	**28,073,452**	25,903,005
Plan assets in excess of projected benefit obligation	**12,416,365**	11,409,483
Items not yet recognized in earnings:		
• Unrecognized net asset at December 28, 1986 (being recognized over 15 years)	**10,214,200**	10,999,908
• Unrecognized net actuarial gain	**1,824,621**	1,265,989
• Unrecognized prior service cost	**(180,121)**	—
	11,858,700	12,265,897
Prepaid (Accrued) pension liability	**$ 557,665**	$ (856,414)
Net pension income for these plans consists of the following components:		
Service cost	**$ 1,380,362**	$ 1,452,738
Interest cost	**2,188,113**	2,082,019
Actual return on plan assets	**(3,871,661)**	(2,406,282)
Net amortization and deferred items	**(36,416)**	(1,239,318)
Net pension cost (income)	**$ (339,602)**	$ (110,843)
Assumptions used in the computations:		
Assumed discount rate	**8.5%**	8.5%
Expected long-term rate of return on plan assets	**8%**	8%
Rate of increase in future compensation levels	**5%**	5%

The actuarial present value of accumulated plan benefits calculated under APB 8 for 1986 was $85,249,000 and the related plan net assets were $211,559,000. The decreases between 1987 and 1986 were attributable to the adoption of FAS 87/FAS 88 and the settlement of certain overfunded plans.

U. S. pension plan assets are primarily invested in short and intermediate term cash investments, corporate bonds and common and preferred stock.

The Corporation elected early adoption of FAS 87 for its major foreign pension plans. Pension expense for these plans in 1988 was $421,000, while in 1987, pension income was $236,000.

Pension expense for defined benefit plans calculated under APB 8 and included in income from continuing operations totaled $2,221,000 in 1986.

The expense for the Corporation's defined contribution pension plans which was included in income from continuing operations was $3,140,000, $2,812,000 and $2,559,000 in 1988, 1987 and 1986, respectively. Annual contributions to defined contribution plans are equal to the amounts accrued during the year.

The Corporation also provides health care and death benefits for certain retired employees. The provision for such plans included in operating costs of continuing operations was $3,029,000, $2,575,000, and $2,166,000 in 1988, 1987 and 1986, respectively.

NOTE 7—SHAREHOLDERS' EQUITY

Interlake's authorized capital stock includes 2,000,000 shares of serial preferred stock at $1 par value per share, none of which has been issued.

On October 7, 1986 the shareholders of Interlake approved an increase in the authorized common stock from 20,000,000 shares, par value $1 per share to 40,000,000 shares, par value $1 per share. On October 23, 1986 the Board of Directors declared a two-for-one common stock split effected on November 24, 1986 by a 100% stock dividend on all common shares outstanding. Common stock, stock option and per share data have been restated to reflect the stock split. On April 28, 1988 the shareholders of Interlake approved an increase in the authorized common stock from 40,000,000 shares, par value $1 per share, to 100,000,000 shares, par value $1 per share. The most recent quarterly dividend for common stock was $.375 per share, equivalent to an annual rate of $1.50 per share.

At the time of the reorganization of 1986 all treasury stock held was cancelled. On August 27, 1987 and November 24, 1987 the Board of Directors authorized Interlake to purchase up to 1,415,000 of its shares (approximately 12% of the 11.7 million shares then outstanding) in the open market and in privately negotiated transactions. Shares purchased are being held in treasury. On August 25, 1988 the Board of Directors authorized Interlake to purchase up to 500,000 additional shares (approximately 4.7% of the 10.7 million shares then outstanding) in the open market and in privately negotiated transactions.

On January 26, 1989 the Board of Directors declared a dividend distribution of one right for every share of common stock outstanding on February 6, 1989, in accordance with a new Rights Agreement. These new rights replace rights distributed in 1986 which were redeemed by the payment of five cents per share to shareholders of record on February 6, 1989. The purpose of the new rights is to better protect the Corporation against certain unfair and abusive takeover tactics. In certain circumstances, shareholders, other than the holder of 15% or more of Interlake's stock, have the right to purchase Interlake stock from the Corporation for less than its market price. The new Rights Agreement also provides that, in certain circumstances, Interlake shareholders can purchase, for less than their market value, shares of a company which acquires The Interlake Corporation.

Interlake's 1979 Dividend Reinvestment and Voluntary Stock Purchase Plan formerly provided for shareholders to purchase shares of Interlake's common stock directly from Interlake, at 95% of market for dividend reinvestments and at market for voluntary cash payments, subject to certain limitations. After the second quarter of 1986 the Plan was amended and shares for dividend reinvestment are now purchased on the open market by Interlake's transfer agent. All transaction costs are borne by Interlake, and the discount is no longer available.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

NOTE 8—STOCK INCENTIVE PLANS

Under Interlake's Stock Incentive Program, the Board of Directors may grant to officers and key employees options to purchase shares at prices not less than market price at the date of grant. The period during which options may be exercised cannot exceed ten years from the date of grant. The Board may authorize the surrender of the right to exercise an option or portion thereof in exchange for a stock appreciation right (S.A.R.), which is the right to receive an amount of stock and/or cash equal to the excess of the market price at the time of exercise over the aggregate option price of such shares. The Board may also grant stock awards, which consist of shares of common stock awarded to certain officers and key employees. Such shares are generally delivered to recipients 20% on the date of the award and 20% on each of the succeeding anniversary dates, subject to certain restrictions. A total of 1,080,000 shares may be issued under the Program, of which not more than 300,000 may be issued as stock awards. A summary of activity under the 1986 Stock Incentive Program and its predecessors follows:

	1988		1987	
	Shares	**Average Price**	Shares	Average Price
Stock Options:				
Outstanding-beginning of year	**299,007**	**$33.93**	483,610	$25.82
Granted	**102,650**	**41.69**	76,475	45.50
Exercised	**(38,655)**	**26.16**	(69,237)	20.10
Surrendered for exercised S.A.R.'s	**(69,611)**	**33.22**	(189,441)	22.91
Canceled or expired	**(19,625)**	**42.31**	(2,400)	38.68
Outstanding-end of year	**273,766**	**37.50**	299,007	33.93
Exercisable-end of year	**133,799**	**31.96**	223,582	30.03
Available for grant	**398,368**		482,775	

The number of shares available for grant as stock options at December 25, 1988 assumes that the number of shares issued as stock awards will be the maximum permitted by the Program.

NOTE 9—LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt of the Corporation consists of the following:

	December 25, 1988	December 27, 1987
	(in thousands)	
8.8% Debentures, due annually $2,500,000 in 1989 to 1995, and $5,000,000 in 1996	**$21,139**	$22,439
8.5% Senior Notes, due annually $3,000,000 1989 through 1998	**30,000**	33,000
Obligations under long-term lease agreements	**13,000**	13,100
Pollution control and industrial development loan agreements	**15,650**	17,350
Other	**1,160**	1,215
	80,949	87,104
Less-current maturities	**4,298**	4,892
	$76,651	$82,212

At December 25, 1988, 8.8% debentures with a face value of $1,361,000 were held in the treasury by the Corporation. These are expected to be used in meeting the 1989 sinking fund requirement and have been applied as a reduction of debt due within one year.

The long-term lease obligations relate principally to capitalized pollution control facilities. The interest rates on these obligations vary from 6.13% to 7.88%. Principal repayments are due in varying annual amounts through 2002.

The Corporation has borrowed funds under several loan agreements with state and county pollution control and industrial development authorities to finance certain environmental control and facility expansion and improvement projects. Interest rates on these obligations vary from 6.00% to 7.13%. Principal repayments are to be made of $3,500,000 in 1993 and various amounts from 1998 to 2009.

The combined aggregate maturities and sinking fund requirements for long-term debt for the five years following 1988, after giving effect to debentures held by the Corporation and available for sinking fund requirements, are as follows:

1989	1990	1991	1992	1993
$4,298,000	$6,078,000	$6,123,000	$6,173,000	$10,611,000

The Corporation maintains formal and informal, domestic and foreign, intermediate and short-term bank credit facilities of $196,000,000 against which $49,000,000 was borrowed at December 25, 1988. Domestic borrowing facilities bear interest at either the prime rate or, at the Corporation's option, at a rate based on either the certificate of deposit rate or the interbank offering rate. Foreign borrowings bear interest at varying rates which are generally the overseas equivalent of the prime rate. Terms on certain of the domestic credit facilities include commitment fees on the unused portion of such facilities.

Actual cash disbursements for interest, net of amounts capitalized, were $10,977,000, $9,094,000, and $13,362,000 in 1988, 1987 and 1986, respectively.

Under the most restrictive terms of the Corporation's various loan agreements, the Corporation can pay cash dividends and/or purchase Interlake's capital stock in amounts up to $115,000,000 as of December 25, 1988.

NOTE 10—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment of the Corporation consists of the following:

	December 25, 1988	December 27, 1987
	(in thousands)	
At cost:		
Land	**$ 6,769**	$ 6,858
Buildings	**82,490**	82,836
Equipment	**267,392**	242,832
Construction in progress	**28,629**	11,589
	385,280	344,115
Less-Depreciation and amortization	**(179,881)**	(164,101)
-Restructuring adjustments	**(4,408)**	(4,583)
	$200,991	$175,431

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

NOTE 11—COMMITMENTS AND CONTINGENCIES

From time to time, the Corporation is involved in administrative and judicial proceedings relating to certain of the Corporation's current and prior operations. In the opinion of the Corporation, such matters presently known to the Corporation are not likely to result in the expenditure of material amounts.

NOTE 12—QUARTERLY RESULTS (UNAUDITED)

Quarterly results of operations for 1988 and 1987 were as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in millions except per share data)			
1988				
Net sales	**$212.4**	**$220.1**	**$214.5**	**$245.2**
Operating income	**15.1**	**18.6**	**15.9**	**23.8**
Net income	**8.2**	**10.5**	**8.3**	**12.6**
Net income per common share	**.76**	**.98**	**.79**	**1.22**
1987				
Net sales	$193.4	$205.8	$201.6	$222.3
Operating income	21.1	24.3	18.8	65.9
Net income	9.8	11.9	9.2	23.5
Net income per common share	.84	1.02	.79	2.04

The Interlake Corporation adopted Financial Accounting Standard No. 87 "Employers' Accounting for Pensions" in 1987 for its domestic and foreign defined benefit plans. The pension income calculated under this methodology for certain plans which were settled during the year increased net income by $2.0, $2.0, $2.0 and $.2 million for the four quarters of 1987. In the fourth quarter of 1987, a gain of $38.5 million after taxes resulted from the settlement of certain pension plans. (See Note 2.)

In the fourth quarter of 1987, restructuring provisions were made totaling $20.7 million after taxes. In the same period, exceptional charges of $6.8 million after taxes were also made.

The movement in the Corporation's stock price can have a large effect on the cost of the Stock Incentive Programs. In 1988, the cost of these programs reduced net income in the four quarters by $.5, $.2, $.2 and $.1 million, respectively. Net income in the first three quarters of 1987 was reduced by $1.3, $.4 and $2.0 million, respectively, and was increased in the fourth quarter by $.5 million.

In the second, third and fourth quarters of 1988, LIFO inventories were reduced which created benefits to net income by $.3, $.1 and $1.2 million, respectively. In the third and fourth quarters of 1987, LIFO inventories were also reduced, creating benefits to net income by $.7 and $1.5 million, respectively.

SELECTED FINANCIAL DATA

	1988	1987	1986	1985	1984
	(dollars in thousands except per share data)				
For the Year					
Net sales of continuing operations	**$892,218**	$823,058	$736,009	$635,327	$574,091
Income from continuing operations	**$ 39,554**	$ 54,372*	$ 30,720	$ 28,779	$ 25,421
Income from continuing operations per common share**	**$ 3.75**	$ 4.69*	$ 2.69	$ 2.59	$ 2.32
Cash dividends per common share**	**1.45**	1.35	1.30	1.30	1.30
At Year End					
Working capital					
—amount	**$153,170**	$191,297	$145,984	$179,838	$164,336
—current ratio	**1.7 to 1**	1.8 to 1	1.8 to 1	1.9 to 1	2.0 to 1
Total assets	**$660,473**	$693,800	$597,059	$729,397	$682,574
Long-term debt, less current maturities	**76,651**	82,212	89,644	104,282	112,898
Common shareholders' equity					
—amount	**269,950**	281,312	250,362***	351,753	323,264
—per common share**	**26.66**	25.56	21.75***	31.42	29.56

**includes income from unusual items and exceptional charges of $17 million, equivalent to $1.47 per common share*

***restated for two-for-one stock split in 1986*

****after the Spin-Off of Acme Steel Company of $131.5 million or $11.42 per share*

1984 was a 53-week year while all other periods were 52-week years.

MARKET FOR INTERLAKE'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The principal market for Interlake's common stock is the New York Stock Exchange (ticker symbol IK). Such common stock is also listed on the Midwest Stock Exchange and is admitted to unlisted trading on the Pacific Coast Exchange and the Boston Exchange.

On December 25, 1988 there were approximately 10,100 holders of record of Interlake's common stock.

High and low stock prices of and dividends on Interlake's common stock for the last two years:

	1988			1987		
	Price		**Per Share Cash Dividends**	Price		Per Share Cash Dividends
	High	**Low**	**Paid**	High	Low	Paid
Calendar Quarter Ended						
March 31	**$45⅝**	**$40**	**$.35**	$44¾	$38¼	$.325
June 30	**46¾**	**41½**	**.35**	45½	40⅝	.325
September 30	**45⅞**	**38⅝**	**.375**	54½	41¼	.35
December 31	**44⅜**	**39½**	**.375**	55	34	.35

Interlake expects to continue its policy of paying regular cash dividends, although there is no assurance as to future dividends because they are dependent on future earnings, capital requirements and financial condition. In addition, the payment of dividends is subject to the restrictions described in Note 9 of Notes to Consolidated Financial Statements.

DIRECTORS

James C. Cotting,
Chairman, President and Chief Executive Officer, Navistar International Corporation (manufacturer of medium and heavy duty trucks) [1989]

Arthur G. Hansen,
Adjunct Senior Research Fellow, Hudson Institute (private not-for-profit public policy research organization) [1984]

Howard D. Hosbach,
Retired Executive Vice President-Operations, Business and Financial Information Companies of McGraw-Hill, Inc. and Chairman and Chief Executive Officer of Standard and Poor's Corporation, a subsidiary of McGraw-Hill, Inc. (multi-media information services) [1986]

John E. Jones,
President and Chief Operating Officer, CBI Industries, Inc. (industrial gases, construction services and investments) [1988]

Frederick C. Langenberg,
Chairman of the Board and Chief Executive Officer, The Interlake Corporation [1979]

Edward A. Loeser,
Retired Senior Vice President-Operations, Rockwell International Corporation (manufacturer of products for the automotive, electronic, aerospace and general industries businesses) [1985]

Quentin C. McKenna,
Chairman, President and Chief Executive Officer, Kennametal, Inc. (manufacturer of metal cutting tools made from cemented carbides and ceramics, machining systems, and materials for applications requiring wear resistance) [1986]

William G. Mitchell,
Retired Vice Chairman, Centel Corporation (communications and electric services) [1984]

Louis Putze,
Consultant, Director and Trustee [1962]

W. Robert Reum,
Executive Vice President, The Interlake Corporation [1987]

Erwin E. Schulze,
Chairman of the Board, President and Chief Executive Officer, The Ceco Corporation (manufacturer of building products and provider of concrete forming services for the construction industry) [1981]

Edward J. Williams,
Consultant and Director [1964]

[ ] *Brackets indicate the year when an individual became a director.*
Directors serve on one or more of the following committees: Audit Review, Compensation, Executive, Finance and Nominating.

OFFICERS

Frederick C. Langenberg,
Chairman of the Board and Chief Executive Officer

W. Robert Reum,
Executive Vice President

Gordon R. Walsh,
Group Vice President

Raymond T. Anderson,
Treasurer

David R. Downs,
Vice President-Human Resources

H. Harry Henderson,
Vice President-Marketing and Public Affairs

Grant L. Johnson,
Senior Vice President and General Counsel

Ian R. MacLeod,
Secretary

Richard I. Polanek,
Vice President-Finance

OPERATING EXECUTIVES

Stephen Hinchliff,
Chairman of the Board, Dexion Group plc

James H. Legler,
President, Chem-tronics, Inc.

Robert A. Pedersen,
President, Interlake Packaging Corporation

Edward A. Steigerwald,
President, Arwood Corporation

Ian A. White,
President, Hoeganaes Corporation

The Interlake Corporation
701 Harger Road
Oak Brook, Illinois 60521-1488
(312) 572-6600

Interlake