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 LIQUID AIR CORPORATION

1987

LIQUID AIR CORPORATION
ABOUT THE COMPANY

On February 26, 1988, the Company and its parent, American Air Liquide, Inc. (AAL) announced that the Board of directors of the Company, acting through a special committee of independent directors had approved the acquisition of all of the outstanding shares of Common Stock of the Company, other than those held by the L'Air Liquide Group (L'Air Liquide) and Carba Holding A.G. (Carba), at a price of \$37 per share in cash. As a result of the transaction, which was effected by a merger on April 20, 1988 between the Company and a corporation formed by L'Air Liquide and Carba, LAC is owned 94% by L'Air Liquide and 6% by Carba. AAL is a wholly-owned subsidiary of L'Air Liquide S.A.

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LIQUID AIR CORPORATION
FINANCIAL HIGHLIGHTS*

(Millions of dollars except per share amounts)

Years ended December 31	1987	1986	1985	1984	1983
Net sales	\$562.2	\$539.5	\$509.5	\$471.4	\$430.7
Earnings from continuing operations	36.8	32.9	30.9	25.7	24.4
Earnings from discontinued operations	(.2)	1.8	.9	1.6	(.5)
Net earnings	36.6	34.7	31.8	27.3	23.9
Per share ⁽¹⁾					
Earnings from continuing operations	2.59	2.28	2.35	1.94	1.84
Earnings from discontinued operations	(.02)	.14	.07	.13	(.04)
Net earnings	2.57	2.42	2.42	2.07	1.80
Dividends paid	1.60	1.60	1.60	1.60	1.60
Total assets	751.6	717.5	633.6	584.8	535.6
Shareholders' equity ⁽²⁾	358.0	338.7	324.1	281.6	279.8

*See Note A of notes to consolidated financial statements.

⁽¹⁾Per common share and common equivalent share.

⁽²⁾Includes \$63.1 million of redeemable preferred shares in 1987 and 1986, \$62.9 million in 1985 and \$24.0 million in 1984 and prior.

Liquid Air provides the semiconductor industry with the high purity gases and systems required to control contaminant defects in the manufacturing of high density devices. ¶ Whether generated "on-site" or delivered in bulk or cylinders, Liquid Air supplies carrier and chemical gases with purity levels as high as



Continuous Quality Control

"six-nines" (99.9999%). Realizing future circuit designs will require even greater purities, we're developing purity levels of "seven-nines" (99.99999%) in our quest of contaminant-free gases. ¶ To produce such purities, we have made significant advances in gas manufacturing,

purification, filtration, gas analysis, plus non-contaminating, leak-free processing equipment and delivery systems. ¶ To further



Sub-Micron Filtration



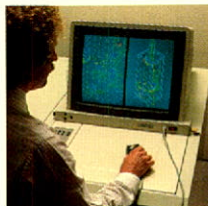
Orbital Fusion Weld Analysis

assure "point-of-use" purity, Liquid Air's Fine Engineering Group designs, engineers and installs High Purity Gas Systems that assure gas purity and flow integrity. ¶ These total turnkey systems typically feature electropolished stainless steel, proprietary cleaning and purging processes, and automatic orbital fusion welding in an inert argon atmosphere. ¶ They also include sophisticated instrumentation such as our Con-

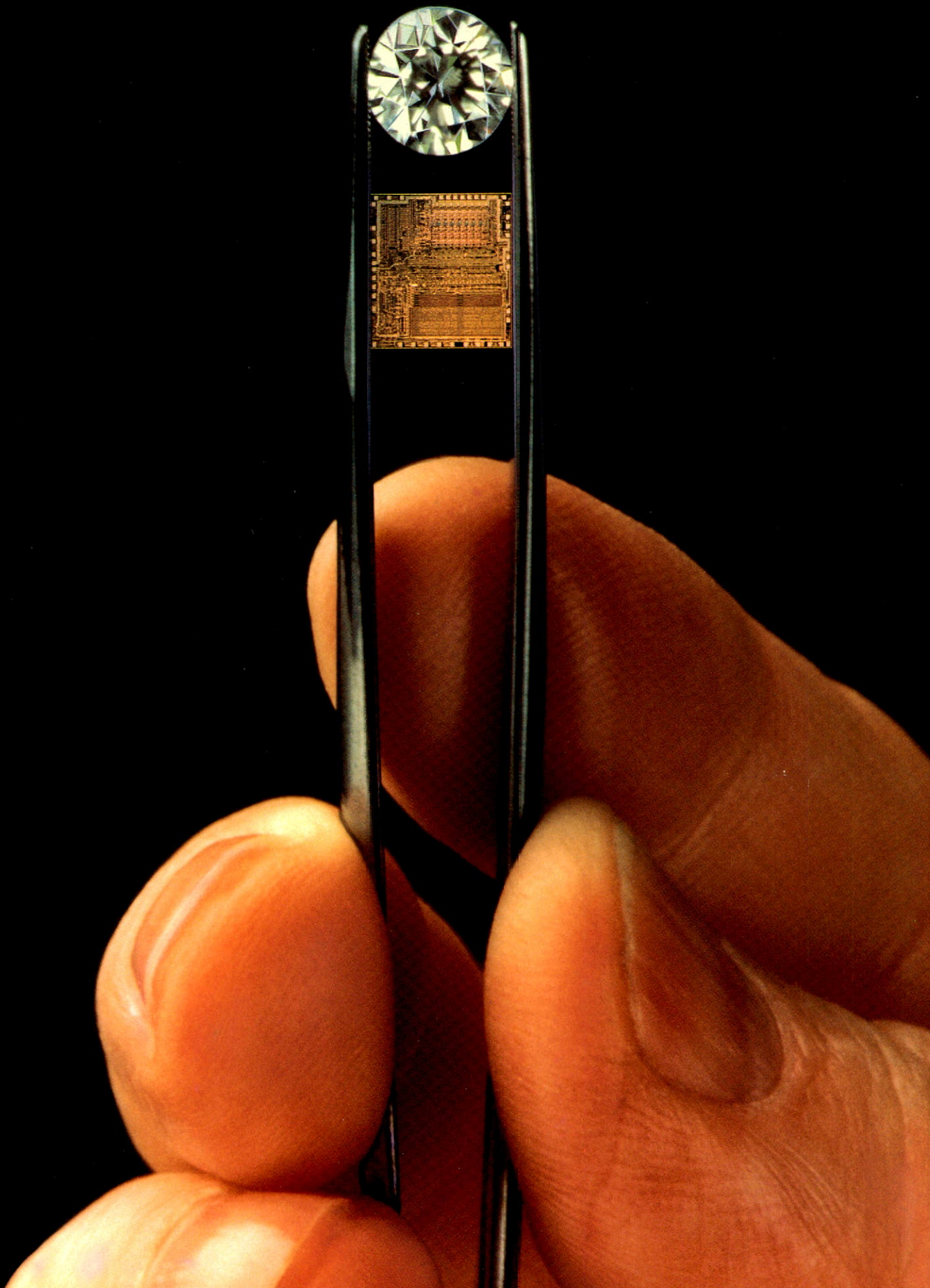
tinuous Quality Control Gas Analyzer (CQC), plus advanced purification and filtration equipment and subsystems. ¶ Industrial gases and delivery systems are tools for improving efficiency, productivity and quality. At Liquid Air, we constantly strive to create new applications and the technologies for them. ¶ In addition to our own research efforts, we are continually engaged in close working relationships with our customers to produce better quality products more efficiently.



Ultra High Purity Piping



System Design and Development





Liquid Air puts ultra cold temperatures to work in a surprising variety of applications. Using primarily liquid nitrogen with a temperature of -196°C , Liquid Air fulfills the freezing, cooling and temperature control requirements of the food processing, pharmaceutical, laboratory, chemical, plastic, construction, mechanical and metallurgy industries. ¶ In food processing, for example, Liquid Air's Flash Freeze[®] cryogrinding system freezes oily foods such as cheese, nuts, chocolates and spices and grinds them to exact particle sizes without clogging machinery. The intense cold also prevents friction's heat from breaking down the food's molecular integrity. ¶ Liquid Air cryogenic systems have many other applications as well: deflashing micro-miniature or large, molded rubber and plastic parts more quickly, safely, and economically; cryogrinding pigments and resins

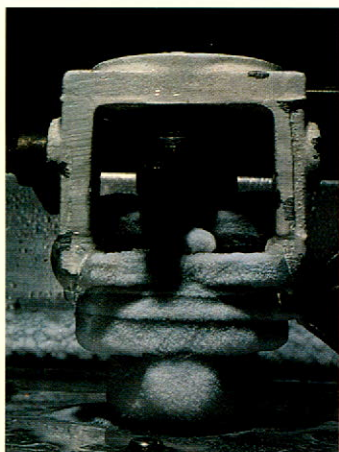
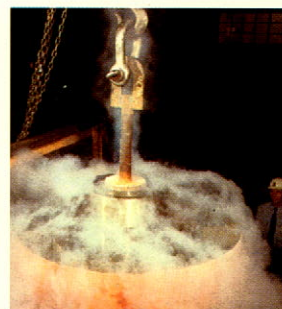


Rubber Deflashing

for greater dispersion and flow; super quick cooling of plastic molds to speed manufacturing; vacuum metallizing that puts metal on plastic film, paper or plastic; cooling cement in large structures for even curing and greater strength; freezing swampy ground to permit construction; shrink fitting of fabricated metal parts; thermal shock testing of critical components. ¶ One special cryogenic application uses Liquid Air's liquid helium (at -271°C) to induce superconductivity in metals at temperatures just above absolute zero. ¶ New advances in metal/ceramic composites, however, promise to raise the threshold temperature of super-

conductivity to within liquid nitrogen's cryogenic range. These developments will permit exciting applications of superconductivity which could make nuclear fusion possible as well as a host of other futuristic technologies to benefit mankind. ¶ Liquid Air's reactive and inert gases bring more control to the science of controlled chemical reactions. Instantaneous positive BTUs, for example, are obtained from an intense hydrogen flame. Or, instant negative BTUs—from the intense cold of liquid nitrogen. ¶ In the petrochemical industry, hydrogen helps fractionate heavy crude oil into smaller hydrocarbon chains for further processing. ¶ Oxygen is the key oxidizing agent in making surfactants and other stabilizing agents used in component mixtures ranging from hair shampoos to paint strippers. ¶ In biotechnology, oxygen increases cell generation, increasing productivity. The pharmaceutical industry uses custom atmospheres to accelerate bacterial production of hormones and enzymes. ¶ Nuclear power plants require a variety of Liquid Air gases: Nitrogen for inerting boilers and for purging piping and containment buildings; Helium to blanket heavy water in research reactors and storage tanks; Hydrogen for stator cooling, and to reduce the free oxygen in cooling water that causes stress corrosion cracking.

Shrink Fitting



Thermal Shock Testing with Liquid Nitrogen

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Ground Freezing

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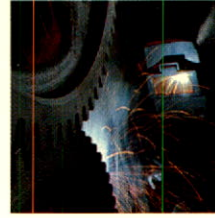
Vacuum Metallizing

Liquid Air has helped metallurgy industries become safer, more efficient and more productive in ways that enable greater competitiveness. ¶ **Heat treating.** Our plant-proven systems cut the guesswork out of heat treating and provide precise control for a wide variety of processes including carburizing, carbonitriding, annealing, brazing, sintering,

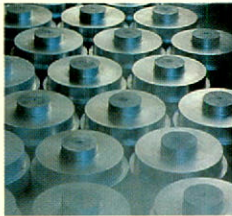


Oxygen Enrichment

neutral hardening, stress relieving and cold stabilizing. ¶ These systems improve parts quality and processing efficiency. Atmospheres are mixed precisely in the furnace to obtain consistently uniform case depths, specified surface characteristics, and soot-free finishes, in every component, with every load. ¶ Eliminated are expensive quality compromises caused by natural gas

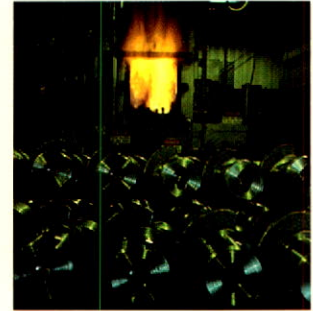


Hard Facing



Cold Stabilization

spiking and temperamental generators. Also gone are the constant maintenance, needless cleanup, and premature wear on equipment. ¶ Safety is improved too. To save loads as well as lives, furnaces can be held oxygen-free for days or be immediately purged to avoid accidents. ¶ **Combustion oxygen enrichment.**



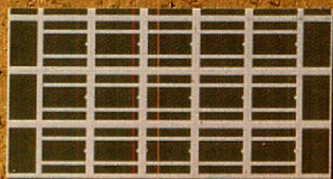
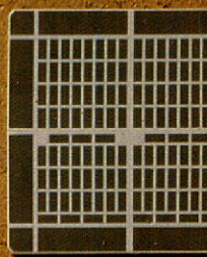
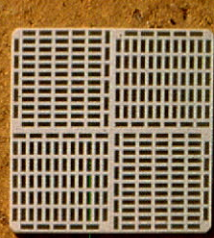
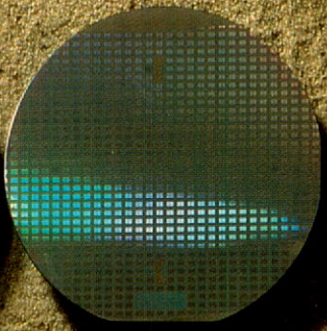
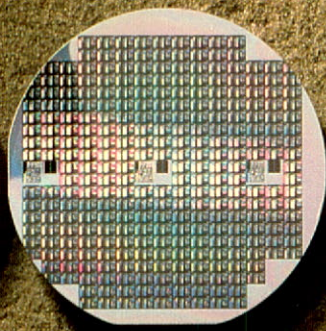
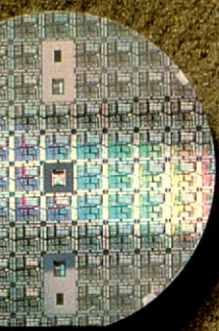
Heat Treating

Liquid Air pioneered oxygen enrichment technology over 35 years ago and is continually improving on it. Example: A cupola oxygen enrichment process called Direct Tuyere Injection (DTI) which gives manufacturers all the advantages of oxygen enrichment, but uses up to 40% less oxygen. ¶ **Stirring & shielding molten metals.** It's easier and more economical to treat molten metals with inert gases, such as argon and nitrogen. Faster, more thorough mixing can be achieved and the maintenance of mechanical mixing devices is eliminated. ¶ These gases are also used to shield molten metals from damaging oxidation. ¶ Whether it's building an earth-orbiting satellite or a deep-sea research vessel, today's more advanced metals and alloys call for equally advanced metal fabricating processes and products. ¶ Shielding gases like Liquid Air's variety of BlueShield® blends assure the most profitability from advanced welding techniques like GMAW (Gas Metal Arc Welding), FCAW (Flux Core Arc Welding) and GTAW (Gas Tungsten Arc Welding). ¶ There's a BlueShield blend specifically formulated for every welding process and every one is precisely mixed to within $\pm 1\%$ of specifications.

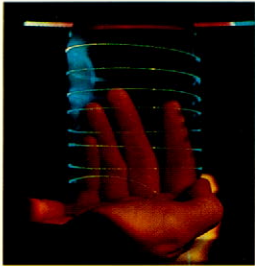


Oxy-Fuel Cutting



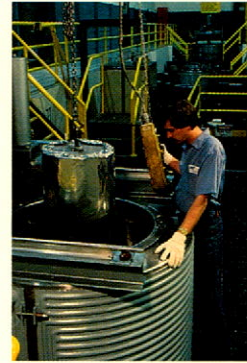


The physical properties of metals, plastics, composites, ceramics, and glass once maintained traditional engineering roles in manufactured components. Not so today. ¶ More and more, we're seeing primary materials exchanging roles as advanced materials and processes are introduced:



Fiber Optics

Ceramics instead of metals, plastics instead of metals, optical glass fibers instead of metal transmission cables, powdered metals formed into intricate parts instead of solid metals machined in complicated ways. ¶ The manufacture of these advanced materials requires precise control of process atmospheres—many utilizing advanced atmosphere technologies



Hardening of Composite Materials

developed by Liquid Air. ¶ With these technologies, Liquid Air helps producers of glass, plastics, composites, powdered metals and other advanced materials develop more control in their processes to maximize quality and yields. And improve efficiency and productivity. ¶ We have atmosphere



Glass Forming

systems that will optimize production results in heat treatments, cryogenic treatments, oxidation control, combustion, inerting, and chemical reactions. ¶ These atmosphere programs can be customized for producing



High Impact Engineering Plastics

glass, ceramic, composite, electronic, plastic, fiber optic or engineered components. Plus, our atmosphere control systems precisely monitor various gas additions to the carrier gases during production processes. ¶ Some examples: High pressure argon and nitrogen delivery systems to form and densify both metal and ceramic components; Systems for sintering non-oxide ceramics, oxide reduction or controlled binder evolution; Atmospheres for high-pressure gas atomization of powder metals and for plasma processing; Oxygen/hydrogen combustion systems and others for glass forming and finishing. ¶ Industrial processes often require a steady source of inert gas for such purposes as purging, blanketing, pressure transfer and safety. While high purity is not critical, the inert gas atmosphere must be clean and dry. ¶ Depending on a company's inerting gas requirements, we have a range of systems that can deliver quantities from 1000 SCFH up to 30,000 SCFH. Purities can be easily increased from 97% to 99.7% as needed. ¶ Applications of non-cryogenic, inerting gas atmospheres range from chemical refining to rubber processing with a multitude of industries in between.

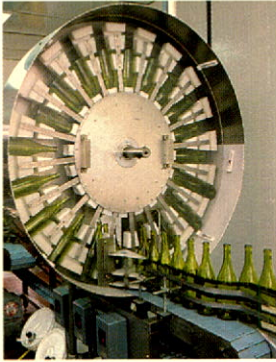


Gas Atomization Producing Powdered Metals

Our Aligal[®] protective atmospheres preserve the natural color, flavor and texture of fresh foods and beverages. Used in "controlled atmosphere" or "modified atmosphere" packaging, Aligal extends shelf lives without traditional chemical additives and preservatives, freezing or irradiation. Products can retain their



Controlled/Modified Atmospheric Packaging



Bottle Purging

natural freshness for extended periods. ¶ Aligal offers a range of specifically blended gas atmospheres that match the appropriate gas or gas mixture to the specific foods. Just about all foods can benefit: From soup to nuts, meats to cheeses, plus beer, wine and other beverages. ¶ In addition to Aligal, we provide a variety of active gas atmospheres that can enhance processes such as ripening, fermenting, hydrogenating, and sterilizing. There are also inert atmospheres for blanketing, stabilizing and protecting foods during storage and transport. ¶ Our Zip Freeze[®] liquid nitrogen systems can

instantly freeze any perishable food minimizing dehydration and cell damage inherent in mechanical systems. So products retain their natural weight, shape, colors and textures. ¶ Zip Freeze also crusts and chills foods instantly for easier forming, slicing and handling, while inhibiting bacteria growth.



Cryogenics Freezing



Active Atmosphere Packaging





Ecological concerns continually demand improved methods of treating industrial and municipal effluent. Liquid Air's oxygen-based systems are used worldwide for



Improving Aquaculture Productivity

oxygenating wastewater, streams, lakes and rivers, and deodorizing sewage. ¶ For decades, pulp and paper mills have taken advantage of Liquid Air oxygen technology to improve efficiency and to control the release of noxious effluents into the environment. Examples:

E₀ application in bleaching pulp provides chemical and steam savings, extra brightness, and may eliminate one or more bleaching stages. **Oxygen enrichment** in lime kilns increases lime production while decreasing energy consumption. **Oxygen delignification** reduces the need for chemicals in the bleach plant. It consequently decreases environmental discharge and



Aquaculture Enhancement

lowers residual chemicals such as chlorine that would be sent through wastewater treatment. **Black liquor oxidation** decreases sulfide emissions from a direct contact evaporator. **Oxygen application** boosts plant wastewater capacity; and can meet the oxygen demands of fluctuating loads. ¶ Oxygen treatment of wastewater also applies to waste streams from tanneries, the food processing industry, and municipal sewage. The use of pure oxygen keeps waste-consuming bacteria flourishing and helps oxidize chemicals. ¶ Limited natural resources have created new economic priorities. One priority is the conservation of fossil fuels. Liquid Air continually researches new ways to extract new oil from old fields. ¶ Enhanced oil recovery uses high pressure nitrogen and carbon dioxide to fracture rocks in old wells freeing oil that previously could not be pumped to the surface. Deep in the earth, oxygen-enriched in situ combustion called "fireflooding" reduces oil viscosity and stimulates well production.



Waste Water Treatment



Oil Recovery



Enhancing Pulp & Paper Processes

Applied science brings us the gift of modern medicine. And Liquid Air is there with the pure gases and precise gas mixtures required by modern medical technology. ¶ Magnetic Resonance Imaging (MRI)



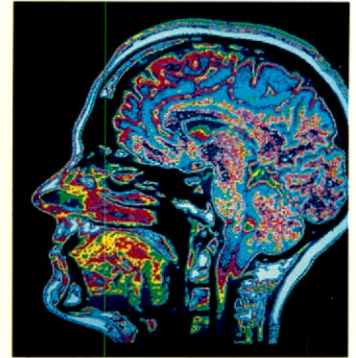
Medical Oxygen Installation

provides physicians with a look inside the human body without invasive surgery. Its working principle lies in the superconductivity of giant magnets—induced by first precooling the magnets with liquid nitrogen, then lowering their temperature to near absolute zero with liquid helium. Liquid Air provides these machines with a ready supply of both liquid nitrogen and helium.

¶ Carbon dioxide and argon lasers may one day consign the surgeon's scalpel to the annals of primitive medicine. With light beams less than the width of a human hair, surgeons can repair a damaged retina in the eye or cauterize broken blood vessels—without

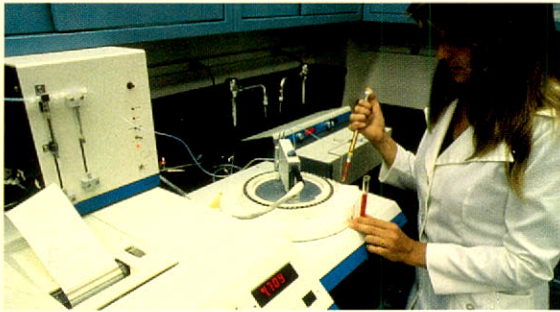
making an incision. ¶ In other uses, gas lasers excise brain tumors that were previously inoperable. They coagulate bleeding ulcers. And they can be used in diagnosis. New medical applications for lasers are always being discovered with Liquid Air providing the gases necessary for their operation.

¶ Oxygen, long vital to medical therapy, has been supplied by Liquid Air's organization for decades. Most hospitals



MRI Process

now pipe oxygen throughout their facilities for patient treatment from outdoor bulk liquid storage vessels that are backed up by manifolded cylinder supplies or secondary liquid vessels. ¶ Liquid Air also provides comprehensive oxygen and equipment for respiratory therapy in the home. ¶ Nitrous oxide, the most common anesthetic, is also supplied to operating rooms by pipelines. We provide it in bulk through liquid transport and storage. Nitrogen is also a safe and inert power source for pneumatic surgical instruments. ¶ Hospital laboratories rely on the consistency of our specialty gases for blood gas analysis and instrument calibration. ¶ As medical science progresses, Liquid Air will remain a partner providing pure gases and precise gas mixtures.



Blood Gas Analysis

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Anesthetic Gases



LIQUID AIR CORPORATION
FIVE YEAR FINANCIAL SUMMARY*

(Millions of dollars except per share amounts)

Years Ended December 31	1987**	1986**	1985**	1984	1983
Sales	\$562.2	\$539.5	\$509.5	\$471.4	\$430.7
Cost of products sold	257.5	257.1	244.4	225.8	208.3
Operating expenses	179.8	173.9	163.4	155.5	138.7
Depreciation and amortization	54.3	48.7	42.4	38.4	36.2
Operating Profit	70.6	59.8	59.3	51.7	47.5
Other income	4.7	3.3	1.7	.7	
Interest—net ⁽¹⁾	13.5	9.8	9.2	8.1	7.9
Earnings from Continuing Operations before Taxes	61.8	53.3	51.8	44.3	39.6
Income Taxes	25.0	20.4	20.9	18.6	15.2
Earnings from Continuing Operations	36.8	32.9	30.9	25.7	24.4
Earnings (loss) from Discontinued Operations	(.2)	1.8	.9	1.6	(.5)
Net Earnings	\$ 36.6	\$ 34.7	\$ 31.8	\$ 27.3	\$ 23.9
Per share ⁽²⁾					
Continuing operations	\$2.59	\$2.28	\$2.35	\$1.94	\$1.84
Discontinued operations (loss)	(.02)	.14	.07	.13	(.04)
Net earnings	\$2.57	\$2.42	\$2.42	\$2.07	\$1.80
Dividends paid	1.60	1.60	1.60	1.60	1.60
Sales	\$562.2	\$539.5	\$509.5	\$471.4	\$430.7
United States	327.3	335.7	319.8	301.2	271.4
Foreign	234.9	203.8	189.7	170.2	159.3
Canada	170.4	151.2	144.6	134.5	125.1
Brazil	64.5	52.6	45.1	35.7	34.2
Operating Profit	70.6	59.8	59.3	51.7	47.5
United States	23.3	18.9	25.1	24.9	25.0
Foreign	47.3	40.9	34.2	26.8	22.5
Canada	28.9	25.3	22.8	18.9	16.0
Brazil	18.4	15.6	11.4	7.9	6.5

* See Note A of notes to consolidated financial statements.

** See Note N of notes to consolidated financial statements.

⁽¹⁾ Net of interest income.

⁽²⁾ Per common share and common equivalent share.

BY GEOGRAPHIC
LOCATION

LIQUID AIR CORPORATION
FIVE YEAR FINANCIAL SUMMARY*

(Millions of dollars)

		1987**	1986**	1985**	1984	1983
Years Ended December 31						
BY OPERATING GROUP	Sales	\$562.2	\$539.5	\$509.5	\$471.4	\$430.7
	Industrial gases	504.7	490.9	459.5	426.2	389.7
	Welding products	57.5	48.6	50.0	45.2	41.0
	Operating Profit⁽¹⁾	70.6	59.8	59.3	51.7	47.5
	Industrial gases	68.4	59.1	57.8	52.1	49.3
	Welding products	2.2	.7	1.5	(.4)	(1.8)
	Depreciation and Amortization⁽²⁾	54.3	48.7	42.4	38.4	36.2
	Industrial gases	54.0	48.3	41.9	37.9	35.8
	Capital Expenditures⁽²⁾	72.2	130.6	103.7	63.8	41.9
	Industrial gases	71.4	128.6	99.9	62.2	41.1
IDENTIFIABLE ASSETS	By Geographic Location	\$751.6	\$717.5	\$633.6	\$584.8	\$535.6
	United States	426.3	440.0	420.8	369.2	343.4
	Foreign	325.3	277.5	212.8	215.6	192.2
	Canada	243.5	203.8	152.0	163.7	141.4
	Brazil	81.8	73.7	60.8	51.9	50.8
	By Operating Group	751.6	717.5	633.6	584.8	535.6
	Industrial gases	610.4	595.2	541.6	486.9	465.1
	Welding products	18.9	17.4	16.7	15.2	14.5
	Corporate	122.3	94.0	49.8	62.3	33.1
	Discontinued operations		10.9	25.5	20.4	22.9

* See Note A of notes to consolidated financial statements.

** See Note N of notes to consolidated financial statements.

⁽¹⁾ Operating profit is before interest expense, other income and income taxes.

⁽²⁾ Depreciation and amortization and capital expenditures relating to welding products are not significant.

LIQUID AIR CORPORATION
FIVE YEAR FINANCIAL SUMMARY*

		(Millions of dollars)				
Years Ended December 31		1987	1986	1985	1984	1983
SOURCE AND APPLICATION OF FUNDS	Source of Funds					
	From continuing operations	\$106.0	\$ 93.7	\$ 75.3	\$ 73.8	\$ 62.0
	From discontinued operations	(.1)	2.7	1.5	2.2	.4
	From operations	105.9	96.4	76.8	76.0	62.4
	Additional long-term debt	33.6	125.7	53.6	89.6	57.2
	Common shares issued for cash	(2.0)	2.5			
	Preferred shares issued for cash		.2	38.9		
	Property, plant and equipment sold	16.5	26.3	5.6	1.8	2.3
	Decrease in goodwill	1.7				
	Decrease in noncash working capital		15.9	19.0		6.5
		\$155.7	\$267.0	\$193.9	\$167.4	\$128.4
	Application of Funds					
	Property, plant and equipment acquired	\$ 72.2	\$130.6	\$103.7	\$ 63.8	\$ 41.9
	Reduction of long-term debt	19.0	67.7	80.9	46.4	68.3
	Cash dividends paid	24.3	24.3	21.4	21.4	21.4
	Purchase of common shares				(3.1)	3.1
	Increase in goodwill		1.7		1.1	1.6
Increase in other assets	37.1	32.1	7.8	15.9	1.6	
Increase in noncash working capital	16.4			9.3		
Cash and certificates of deposit increase (decrease)	(13.3)	10.6	(19.9)	12.6	(9.5)	
	\$155.7	\$267.0	\$193.9	\$167.4	\$128.4	
BALANCE SHEET DATA	Assets					
	Cash and certificates of deposit	\$.8	\$ 14.1	\$ 3.5	\$ 23.4	\$ 10.8
	Other current assets	114.4	115.2	131.7	117.0	111.3
	Other assets	118.5	77.7	45.9	38.9	23.7
	Property, plant and equipment, net of accumulated depreciation	485.1	475.3	418.2	370.5	354.8
	Goodwill	32.8	35.2	34.3	35.0	35.0
		\$751.6	\$717.5	\$633.6	\$584.8	\$535.6
	Liabilities and Equity					
	Current liabilities	\$ 90.4	\$110.9	\$110.8	\$ 74.8	\$ 78.0
	Long-term debt	216.3	198.5	141.2	171.0	128.4
	Deferred taxes	86.9	69.4	57.5	57.4	49.4
	Shareholders' equity ⁽¹⁾	358.0	338.7	324.1	281.6	279.8
		\$751.6	\$717.5	\$633.6	\$584.8	\$535.6

* See Note A of notes to consolidated financial statements.

⁽¹⁾ Includes \$63.1 million of redeemable preferred shares in 1987 and 1986, \$62.9 million in 1985 and \$24.0 million in 1984 and prior.

LIQUID AIR CORPORATION
CONSOLIDATED STATEMENT OF EARNINGS

(Thousands of dollars except per share amounts)

Years ended December 31	1987	1986	1985
Sales	\$562,243	\$539,525	\$509,485
Costs and Expenses:			
Costs of products sold	257,483	257,087	244,356
Selling, distribution, general and administrative expenses	179,818	173,968	163,444
Depreciation and amortization	54,301	48,663	42,413
	491,602	479,718	450,213
Operating Profit	70,641	59,807	59,272
Other Expenses (Income):			
Interest—net	13,534	9,846	9,225
Other income	(4,734)	(3,310)	(1,732)
	8,800	6,536	7,493
Earnings from Continuing Operations Before Income Taxes	61,841	53,271	51,779
Income Taxes:			
Current	10,159	8,270	18,964
Deferred	14,860	12,076	1,922
	25,019	20,346	20,886
Earnings from Continuing Operations	36,822	32,925	30,893
Discontinued Operations—Net of Income Taxes:			
Earnings (loss) from operations	(224)	30	860
Gain on disposal		1,725	
	(224)	1,755	860
Net Earnings	\$ 36,598	\$ 34,680	\$ 31,753
Net Earnings (Loss) Per Common Share:			
Continuing operations	\$2.59	\$2.28	\$2.35
Discontinued operations	(.02)	.14	.07
Net Earnings	\$2.57	\$2.42	\$2.42

See notes to consolidated financial statements.

LIQUID AIR CORPORATION
CONSOLIDATED BALANCE SHEET

(Thousands of dollars)

December 31	1987	1986
ASSETS		
Current Assets		
Cash	\$ 805	\$ 4,077
Certificates of deposit	11	10,018
Receivables:		
Trade, less allowances (\$3,480 in 1987 and \$3,182 in 1986)	64,967	63,073
Other	8,198	8,023
Due from affiliates	5,958	7,057
Inventories	28,418	30,007
Prepaid expenses and deposits	6,856	7,015
	115,213	129,270
Other Assets	118,502	77,716
Property, Plant and Equipment —at cost	859,944	793,194
Less accumulated depreciation	(374,849)	(317,873)
	485,095	475,321
Goodwill	32,831	35,181
	\$751,641	\$717,488
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank indebtedness	\$ 994	\$ 17,402
Accounts payable	68,811	63,509
Accrued interest	2,152	2,434
Accrued taxes, other than income taxes	4,249	3,046
Due to parent and other affiliates	7,202	13,664
Income taxes	1,301	1,845
Current maturities of long-term debt	5,740	8,977
	90,449	110,877
Long-Term Debt	216,282	198,450
Deferred Income Taxes	86,883	69,426
Redeemable Preferred Stock , convertible, par value \$100: Authorized and issued 240,000 shares	24,000	24,000
Class A Redeemable Preferred Stock , convertible, par value \$100: Authorized 479,000 shares Issued 390,906 shares	39,091	39,091
Common Stock , no par value: Authorized 20,000,000 shares Issued 12,586,396 shares in 1987 and 12,679,696 shares in 1986, at stated value	40	40
Other Shareholders' Equity		
Capital surplus	170,913	172,907
Retained earnings	138,978	126,651
Cumulative translation adjustment	(14,995)	(23,954)
	\$751,641	\$717,488

See notes to consolidated financial statements.

LIQUID AIR CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN FUNDS

(Thousands of dollars)

Years ended December 31	1987	1986	1985
SOURCE OF FUNDS			
From continuing operations:			
Earnings	\$ 36,822	\$ 32,925	\$ 30,893
Expenses not affecting working capital:			
Depreciation and amortization	54,301	48,663	42,413
Deferred income taxes	14,860	12,076	1,922
	105,983	93,664	75,228
From discontinued operations:			
Earnings (loss)	(224)	1,755	860
Expenses not affecting working capital:			
Depreciation and amortization	147	956	892
Deferred income taxes	(77)	(13)	(235)
	(77)	2,698	1,517
Total from operations	105,906	96,362	76,745
Common stock issued (cancelled)—net	(1,994)	2,530	
Class A Redeemable Preferred Stock issued		191	38,900
Additional long-term debt	33,609	125,671	53,597
Disposals of property, plant and equipment	16,508	26,329	5,614
Decrease in noncash working capital		15,891	18,997
Decrease in goodwill	1,646		
Total source of funds	155,675	266,974	193,853
DISPOSITION OF FUNDS			
Additions to property, plant and equipment	72,173	130,544	103,675
Repayment of long-term debt	19,014	67,712	80,881
Cash dividends	24,271	24,335	21,420
Increase in goodwill		1,670	
Increase in other assets	37,083	32,083	7,802
Increase in noncash working capital	16,413		
Total disposition of funds	168,954	256,344	213,778
Increase (decrease) in cash and certificates of deposit	(13,279)	10,630	(19,925)
Cash and certificates of deposit at beginning of year	14,095	3,465	23,390
Cash and certificates of deposit at end of year	\$ 816	\$ 14,095	\$ 3,465
CHANGES IN COMPONENTS OF NONCASH WORKING CAPITAL			
Increase (decrease) in current assets:			
Receivables	\$ 2,069	\$(15,355)	\$ 7,722
Due from affiliates	(1,099)	3,192	691
Inventories	(1,589)	(5,512)	5,216
Prepaid expenses and deposits	(159)	1,150	1,060
	(778)	(16,525)	14,689
Increase (decrease) in current liabilities:			
Bank indebtedness	(16,408)	(539)	13,177
Accounts payable and accrued expenses	6,223	1,478	11,175
Due to parent and other affiliates	(6,462)	8,318	1,322
Income taxes	(544)	(9,891)	8,012
	(17,191)	(634)	33,686
Increase (decrease) in noncash working capital	\$16,413	\$(15,891)	\$(18,997)

See notes to consolidated financial statements.

LIQUID AIR CORPORATION
CONSOLIDATED STATEMENT
OF COMMON STOCK & OTHER SHAREHOLDERS' EQUITY

(Thousands of dollars except per share amounts)
Years ended December 31, 1987, 1986, and 1985

	Common Stock		Capital Surplus	Retained Earnings	Cumulative Translation Adjustment
	Shares	Amount			
Balance December 31, 1984	12,562,796	\$40	\$170,377	\$105,973	\$(18,721)
Current year's translation adjustment					(6,806)
Net earnings				31,753	
Cash dividends:					
Common (\$1.60 per share)				(20,100)	
Preferred				(1,320)	
Balance December 31, 1985	12,562,796	40	170,377	116,306	(25,527)
Current year's translation adjustment					1,573
Net earnings				34,680	
Cash dividends:					
Common (\$1.60 per share)				(20,279)	
Preferred				(4,056)	
Stock issued	116,900		2,530		
Balance December 31, 1986	12,679,696	40	172,907	126,651	(23,954)
Current year's translation adjustment					8,959
Net earnings				36,598	
Cash dividends:					
Common (\$1.60 per share)				(20,215)	
Preferred				(4,056)	
Stock issued	6,700		156		
Stock cancelled	(100,000)		(2,150)		
Balance December 31, 1987	12,586,396	\$40	\$170,913	\$138,978	\$(14,995)

See notes to consolidated financial statements.

LIQUID AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1987

A—SUMMARY OF
SIGNIFICANT ACCOUNTING
POLICIES

Principles of Consolidation: The financial statements include the accounts of the Company and its majority owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions have been eliminated.

L'Air Liquide, Société Anonyme pour l'Etude et l'Exploitation des Procédés George Claude (L'Air Liquide) owns directly or through affiliates approximately 88% of the Company's common stock outstanding and 95% of its preferred stock outstanding as of December 31, 1987.

Depreciation and Amortization: The Company follows the policy of providing for depreciation principally on the straight-line method for financial reporting purposes and by accelerated methods for income tax purposes. When assets are sold or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings.

Goodwill: Goodwill represents the cost in excess of net assets of businesses acquired. Goodwill of \$9,767,000 arising from acquisitions prior to November 1, 1970 is not being amortized since, in the opinion of the Company, there has been no diminution in value. Goodwill acquired since November 1, 1970 is being amortized over a 40 year period.

Income Taxes: Deferred income taxes have been provided as a result of timing differences in reporting income for financial statements and income tax purposes.

Consolidated retained earnings include \$207,629,000 and \$192,605,000 of retained earnings of foreign subsidiaries at December 31, 1987 and 1986, for which no provision has been made for taxes which would be payable upon remittance, as it is intended to indefinitely reinvest such retained earnings. Foreign subsidiaries have paid and are expected to continue to pay dividends from current earnings.

Investment tax credits have been accounted for by the flow-through method.

Research Expenses: Research expenditures amounted to \$6,233,000, \$10,350,000 and \$9,571,000 in 1987, 1986 and 1985, respectively. These amounts include royalties of \$5,038,000, \$4,674,000 and \$4,180,000 in 1987, 1986 and 1985, respectively, paid to L'Air Liquide and its affiliates to secure rights to their research and development.

Interest Expense: Interest is net of interest income of \$3,903,000 in 1987, \$4,031,000 in 1986 and \$5,009,000 in 1985.

The Company capitalizes interest as part of the costs of newly constructed manufacturing facilities. Accordingly, interest expense amounting to \$8,852,000 in 1987, \$5,708,000 in 1986 and \$3,298,000 in 1985, has been included in the costs of newly constructed manufacturing facilities.

Foreign Currency Translation: The financial statements of foreign entities have been translated to U.S. dollars. For a certain foreign operation, all balance sheet accounts are translated at the current exchange rate and income and expense items are translated at the average exchange rate for the year. Resulting translation adjustments are made directly to a separate component of shareholders' equity. For all other foreign operations, certain balance sheet accounts, principally property, plant and equipment, and related income and expense items, are translated at historical exchange rates, and all translation adjustments are made directly to income.

Reclassification: Certain minor reclassifications have been made to prior years' financial statements, including the segment data, to conform to the presentation in the 1987 financial statements.

Change in Accounting for Pension Costs: In 1986, the Company elected to adopt Statement of Financial Accounting Standards No. 87, "Employers Accounting for Pension Costs." See Note J "Pensions."

B—DISCONTINUED
OPERATIONS

Effective March 31, 1987, the Company's underwater diving equipment operation was sold. This disposal, combined with the Company's sale of its life support equipment operation in 1986, resulted in the discontinuance of the Company's diving and life support segment of operations as of March 31, 1987. Sales of the discontinued operations were \$3,708,000, \$31,040,000 and \$33,556,000 in 1987, 1986 and 1985, respectively. Income taxes (benefits) of the discontinued operations were (\$181,000), \$60,000 and \$659,000 in 1987, 1986 and 1985, respectively. Income taxes of the 1986 disposal were \$925,000. The Notes to Consolidated Financial Statements exclude discontinued operations where applicable.

LIQUID AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)
 DECEMBER 31, 1987

C—INVENTORIES

Inventories are priced at the lower of cost or market. Welding products are primarily determined on the last-in, first-out method. Industrial gases are primarily determined using the first-in, first-out method. The excess of current inventory costs over LIFO values aggregated approximately \$6,265,000 at December 31, 1987 and \$5,850,000 at December 31, 1986.

	1987	1986
Finished goods	\$22,205,000	\$21,918,000
Work in progress	1,318,000	1,874,000
Materials and supplies	4,895,000	6,215,000
	\$28,418,000	\$30,007,000

D—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows:

	1987	1986
Land	\$ 13,789,000	\$ 13,281,000
Buildings	70,864,000	65,779,000
Cylinders	123,517,000	114,440,000
Machinery and equipment	604,868,000	543,127,000
Construction in progress	46,906,000	56,567,000
	\$859,944,000	\$793,194,000

Cost to complete construction in progress at December 31, 1987 is estimated at \$33,057,000.

E—OTHER ASSETS

Other assets include the Company's investment in two certain unconsolidated partnerships which are accounted for by the equity method and which have not had a significant effect on net earnings. The investment in these two partnerships amounted to \$54,427,000 and \$23,272,000 at December 31, 1987 and 1986, respectively.

F—CREDIT ARRANGEMENTS

The Company has both long-term and short-term lines of credit. Long-term lines of credit are maintained for the Company's United States operations and short-term lines of credit are maintained by its Canadian and Brazilian operations.

During 1987, the Company replaced its long-term revolving bank lines of credit available for its operations in the United States with \$630,000,000 of five year revolving bank lines of credit available through its immediate parent, American Air Liquide, Inc., to its subsidiaries. These lines are available at cost to the Company at various option rates, such as 1/8 of 1% over the London Interbank Offer Rate (LIBOR). These credit arrangements do not require any compensating balances to be maintained. Commitment fees of approximately 1/10 of 1% are paid on the unused bank lines of credit by its parent.

At December 31, 1987, the Company had \$58,053,000 available in short-term lines of credit of which \$57,059,000 was unused and \$994,000 was used. These lines of credit have no termination dates but are reviewed annually for renewal. The Company is not required to maintain any compensating balances for these credit arrangements.

LIQUID AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
DECEMBER 31, 1987

		1987	1986
G—LONG-TERM DEBT	Industrial Revenue Bonds at rates from 6.25% to 8.25%, payable in varying maturities through 2004	\$ 8,010,000	\$ 13,915,000
	Notes payable to affiliates at prime rate or less, due in 1992	139,910,000	106,319,000
	Prime rate or less, revolving loans to a maximum of \$175,000,000, due in 1991		7,200,000
	8.675% note payable to an insurance company, due September 1, 1996, payable in annual installments of \$4,000,000, starting September 1, 1992	20,000,000	20,000,000
	8.75% note payable to an insurance company, due February 1, 1996, payable in annual installments of \$2,000,000	18,000,000	20,000,000
	9% note payable to an insurance company, due April 1, 1993, payable in annual installments of \$1,000,000	6,000,000	7,000,000
	9.625% note payable to a bank, due January 16, 1991	5,000,000	5,000,000
	11.875% note payable to an insurance company, due April 1, 1990	20,000,000	20,000,000
	11.91% note payable to a bank, due June 30, 1990, payable in varying annual installments	3,000,000	5,000,000
	Various long-term indebtedness at rates from 6% to 12% payable through 1994	2,102,000	2,993,000
		222,022,000	207,427,000
	Less current maturities	5,740,000	8,977,000
		\$216,282,000	\$198,450,000

Long-term debt includes the U.S. dollar equivalent (approximately \$1,848,000 and \$1,956,000 at December 31, 1987 and 1986) of loans repayable in foreign currencies.

The principal payments required on long-term debt at December 31, 1987, during the succeeding five years, are as follows:

	1988	1989	1990	1991	1992
	\$5,740,000	\$3,634,000	\$25,758,000	\$8,362,000	\$147,310,000

Debt agreements require the maintenance of stated amounts of working capital and net worth. The company was in compliance with these agreements at December 31, 1987. Approximately \$70,513,000 and \$67,722,000 of consolidated retained earnings were unrestricted under these agreements as to the payment of dividends at December 31, 1987 and 1986.

H—PREFERRED STOCK

The Redeemable Preferred Stock accrues dividends at an annual rate of 5.5% and is redeemable from and after December 31, 1986, at par plus a premium and accumulated dividends. The premium declines each year after 1986 by .25% and was 5.25% at December 31, 1987. The Company must redeem any remaining shares on July 1, 2012. The holders of the Redeemable Preferred Shares do not have voting rights except in the event of dividend arrearages for four quarters in which case they may appoint two directors. A total of 468,750 Common Shares are reserved for conversion of the Redeemable Preferred Shares and exercise of an option to purchase 93,750 common shares at \$21 per share.

The Class A Redeemable Preferred Stock accrues dividends at an annual rate of 7% and is redeemable, at the election of the Company, from and after December 31, 1993 at par plus a 7% premium and accumulated dividends. The premium declines each year after 1994 by 1% for each year after 1994 to the redemption date. The holders of the Class A Redeemable Preferred Shares do not have voting rights except in the event of dividend arrearages for four quarters in which case they may appoint two directors. A total of 1,184,562 Common Shares are reserved for conversion of the issued Class A Redeemable Preferred Shares.

LIQUID AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)
 DECEMBER 31, 1987

I—COMMON STOCK

The Company's Incentive Stock Option Plan (1983) provides for the grant of options to purchase up to 250,000 shares of the Company's Common Stock to officers and other key employees of the Company and its subsidiaries upon terms and conditions determined by a committee of the Board of Directors which administers the Plan. The Plan expires in 1988 but may be extended by the Board of Directors through grant of options to purchase an additional 250,000 shares.

The Company has granted options under the Plan for the purchase of 234,912 shares at an average exercise price of \$23.36 per share. In 1987, 6,700 options were exercised at an average exercise price of \$23.37 per share. At December 31, 1987, 210,112 options were exercisable at an average exercise price of \$23.43 per share.

J—PENSIONS

The Company and its significant U.S. subsidiaries and a foreign subsidiary have retirement plans which cover most of their employees. Plan benefits are based primarily on years of service and the employee's compensation near the time of retirement. It is the policy of the Company and these subsidiaries to fund these plans currently based upon actuarial determinations, and applicable regulations. Plan assets are primarily composed of listed stocks and bonds and U.S. and Canadian government debt obligations.

In 1986, the Company elected to adopt Statement of Financial Accounting Standards No. 87, "Employers Accounting for Pensions." The effect of this change was to increase 1986 net earnings by \$1,548,000 (\$0.12 per share).

A summary of the components of net periodic pension cost for 1987 and 1986 follows:

	1987	1986
Service cost—benefits earned during the period	\$ 1,917,000	\$ 1,434,000
Interest cost on projected benefits obligation	4,303,000	3,642,000
Actual return on plan assets	(1,795,000)	(5,405,000)
Net amortization and deferral	(4,776,000)	(426,000)
Net periodic pension cost (income)	\$ (351,000)	\$ (755,000)

Pension cost was \$1,924,000 in 1985, which, in accordance with FASB Statement No. 87, has not been restated.

The following table presents the funded status, amounts recognized in the consolidated balance sheet, and assumptions as of December 31:

	1987	1986
Actuarial present value of accumulated benefit obligations:		
Vested	\$42,735,000	\$37,517,000
Nonvested	2,935,000	2,860,000
Total	\$45,670,000	40,377,000
Actuarial present value of projected benefit obligation	\$57,186,000	\$50,280,000
Plan assets at fair value	64,279,000	60,328,000
Plan assets in excess of projected benefit obligation	7,093,000	10,048,000
Unamortized net asset as of January 1, 1986	(10,048,000)	(10,754,000)
Unrecognized net loss	6,516,000	1,765,000
Prepaid pension cost	\$3,561,000	\$ 1,059,000
Assumptions:		
Discount rate	8.29%	8.29%
Rate of increase in compensation levels	7.00%	7.00%
Expected long-term rate of return on assets	8.82%	8.75%

LIQUID AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
DECEMBER 31, 1987

K-LEASES

The Company leases certain real property and equipment. Rental expense was \$18,339,000, \$19,214,000 and \$17,039,000 for 1987, 1986 and 1985.

The approximate future rental payments under noncancellable operating leases are as follows:

	1988	1989	1990	1991	1992	Thereafter	Total
	\$12,565,000	\$10,638,000	\$8,404,000	\$8,543,000	\$6,409,000	\$24,197,000	\$70,756,000

L-INCOME TAXES

The components of earnings before income taxes consist of the following:

	1987	1986	1985
Domestic	\$ 9,035,000	\$ 7,550,000	\$ 9,092,000
Foreign	52,806,000	45,721,000	42,687,000
	<u>\$61,841,000</u>	<u>\$53,271,000</u>	<u>\$51,779,000</u>

The provision for income taxes consists of:

	1987	1986	1985
Federal and State			
Current	\$ 5,472,000	\$ (1,057,000)	\$ 831,000
Deferred	(1,071,000)	2,558,000	1,685,000
Foreign			
Current	4,687,000	9,327,000	18,133,000
Deferred	15,931,000	9,518,000	237,000
Total			
Current	10,159,000	8,270,000	18,964,000
Deferred	14,860,000	12,076,000	1,922,000

The reasons for the difference between total tax expense and the amount computed by applying the statutory federal income tax rate to earnings before income taxes are as follows:

	1987	1986	1985
Statutory federal rate	40.0%	46.0%	46.0%
Investment tax credit	(4.4)	(9.8)	(10.6)
Effective foreign rates	2.7	(1.3)	(3.1)
Withholding taxes	1.5		4.3
Other	.7	3.3	3.7
Effective tax rate	<u>40.5%</u>	<u>38.2%</u>	<u>40.3%</u>

Deferred income taxes resulted from timing differences in the recognition of revenue and expense for tax and financial reporting purposes as follows:

	1987	1986	1985
Accelerated depreciation for tax purposes	\$12,780	\$12,277	\$ 6,662
Capitalization of interest costs	2,491	(191)	88
Investment tax credits	1,352	(1,446)	(2,945)
Other, net	(1,763)	1,436	(1,883)
	<u>\$14,860</u>	<u>\$12,076</u>	<u>\$ 1,922</u>

LIQUID AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

DECEMBER 31, 1987

**L—INCOME TAXES
(CONTINUED)**

On December 30, 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." Companies are required to adopt the new method of accounting for income taxes no later than 1989.

The Company has not completed all of the complex analyses required to estimate the impact of the new Statement, and it has not decided whether it will implement the Statement early or restate any periods. However, the adoption of Statement 96 is not expected to have an adverse impact on the Company's financial position.

**M—EARNINGS
PER SHARE**

Earnings per share are computed by dividing net earnings, less preferred stock dividends, by the average number of outstanding Common Shares (12,657,791, 12,658,390 and 12,562,796 in 1987, 1986 and 1985, respectively). The preferred stocks are not deemed to be common share equivalents. Fully diluted earnings per share are not shown as the effect of conversion of shares having a dilutive effect is less than one percent.

**N—SEGMENTS OF
BUSINESS AND FOREIGN
OPERATIONS**

Summaries of operations and assets by geographic location and by operating group are contained on pages 16 and 17. Business segment information for 1987, 1986 and 1985 included therein is an integral part of the financial statements.

Certain selling, distribution, general and administrative expenses are not directly traceable to operating groups and, accordingly, have been allocated by a method which best expresses management's estimate of the relative operating results of the respective groups. Such method resulted in expense allocation in 1987, 1986 and 1985 of \$22,100,000, \$19,000,000 and \$18,200,000 to industrial gases and \$9,600,000, \$8,400,000 and \$8,800,000 to welding products. Included in these expenses are \$1,900,000, \$2,300,000 and \$2,300,000 of general corporate expenses, which in view of their immateriality, have been deducted in computing operating profit.

Net earnings of the foreign subsidiaries included in consolidated net earnings amounted to \$32,188,000, \$26,876,000 and \$24,317,000 for 1987, 1986 and 1985. The consolidated balance sheet includes total assets of the foreign subsidiaries of \$325,300,000 and \$277,500,000 and net assets of \$167,000,000 and \$145,000,000 for 1987 and 1986, respectively.

Included in costs of products sold and in other income are gains on foreign currency translation of \$3,191,000, \$652,000 and \$392,000 in 1987, 1986 and 1985, respectively.

**O—SUBSEQUENT
EVENT**

On February 26, 1988, the Board of Directors of the Company approved a transaction whereby all of the outstanding shares of Common Stock of the Company, other than those held by American Air Liquide, Inc. (AAL) and Carba Holding AG (Carba), will be purchased by AAL for \$37.00 per share. The transaction is to be effected by a merger of the Company and a corporation to be formed by AAL and Carba, as a result of which AAL will own approximately 94% of the Company's Common Stock and Carba approximately 6%. To effect the merger, the Company must comply with certain regulatory requirements of the Securities and Exchange Commission. It is expected that the regulatory requirements will be met and that the merger will be completed during April, 1988.

LIQUID AIR CORPORATION
QUARTERLY DATA

(Millions of dollars except per share amounts and stock price range)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total	
	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986
Years ended December 31										
Sales	\$134.4	\$128.9	\$141.8	\$136.9	\$142.9	\$139.0	\$143.1	\$134.7	\$562.2	\$539.5
Industrial gases	119.8	117.2	126.9	124.2	128.7	126.6	129.3	122.9	504.7	490.9
Welding products	14.6	11.7	14.9	12.7	14.2	12.4	13.8	11.8	57.5	48.6
Operating Profit	\$ 17.3	\$ 13.3	\$ 17.1	\$ 16.8	\$ 18.0	\$ 15.2	\$ 18.2	\$ 14.5	\$ 70.6	\$ 59.8
Industrial gases	16.6	13.1	16.8	16.1	17.6	15.1	17.4	14.8	68.4	59.1
Welding products	.7	.2	.3	.7	.4	.1	.8	(.3)	2.2	.7
Earnings from:										
Continuing operations	\$ 8.7	\$ 8.7	\$ 9.1	\$ 9.1	\$ 9.1	\$ 8.1	\$ 9.9	\$ 7.0	\$ 36.8	\$ 32.9
Discontinued operations	(.2)	.1	.2	.2				1.5	(.2)	1.8
Net Earnings	\$ 8.5	\$ 8.8	\$ 9.1	\$ 9.3	\$ 9.1	\$ 8.1	\$ 9.9	\$ 8.5	\$ 36.6	\$34.7
Per Share Information										
Earnings from:										
Continuing operations	\$.61	\$.61	\$.64	\$.64	\$.64	\$.56	\$.70	\$.47	\$ 2.59	\$ 2.28
Discontinued operations	(.02)	.01	.01	.01				.12	(.02)	.14
Net Earnings	\$.59	\$.62	\$.64	\$.65	\$.64	\$.56	\$.70	\$.59	\$ 2.57	\$ 2.42
Dividends paid	\$.40	\$.40	\$.40	\$.40	\$.40	\$.40	\$.40	\$.40	\$ 1.60	\$ 1.60
Common Stock Price										
High bid	36½	30¾	34½	36½	34	34½	33	34		
Low bid	29	25¾	31	31	31	28½	19½	27½		

SHAREHOLDERS AND
BOARD OF DIRECTORS

We have examined the consolidated balance sheet of Liquid Air Corporation and subsidiaries as of December 31, 1987 and 1986, and the related consolidated statements of earnings, common stock and other shareholders' equity and changes in funds for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Liquid Air Corporation and subsidiaries at December 31, 1987 and 1986, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Walnut Creek, California
February 26, 1988

Directors

Jean Henri Delorme*
Chairman of the Company
and Honorary Chairman,
L'Air Liquide S.A.

Edouard de Royère*‡
Chairman and Chief
Executive Officer,
L'Air Liquide S.A.

Alain Joly†
Chief Executive Officer,
L'Air Liquide S.A.

Pierre A. Salbaing*†
Vice Chairman of
the Company and
Honorary Vice President,
L'Air Liquide S.A.

Jean P. Pineau
Honorary Vice President,
L'Air Liquide S.A.

Thomas E. Slattery
President and Chief
Executive Officer of the
Company

Richard A. Johnson
Executive Vice President
and Chief Operating Officer
of the Company

Peter F. Baumberger
Vice Chairman and President,
Executive Committee,
Carba Holding Ltd.

Emilio A. Dominianni†
Partner, Coudert Brothers,
Attorneys at Law

Donald R. Gant†‡
Partner, Goldman, Sachs &
Co., Investment Bankers

Wilburn Ray Hines
President, SCOBOCO, Inc.

Clayton A. Sweeney†
Partner, Dickie, McCamey &
Chilcote, Attorneys at Law

*Executive Committee

†Audit Committee

‡Compensation Committee

Officers

Jean Henri Delorme
Chairman of the Board

Pierre A. Salbaing
Vice Chairman

Thomas E. Slattery
President and Chief
Executive Officer

Richard A. Johnson
Executive Vice President
and Chief Operating Officer

Claude Salama
Vice President

Ward J. Sheridan
Vice President

John N. Baird
Secretary

Emilio A. Dominianni
Assistant Secretary

Corporate Offices

Liquid Air Corporation

- **Alphagaz Division**
- **Cardox Division**
- **Bulk Gases Division**
- **Vitalaire Corporation**
- **Cylinder Gases Division**
2121 N. California Blvd.
Walnut Creek, California 94596
Telephone 415 977 6500

Canadian Liquid Air Ltd.

1155 Sherbrooke Street W.
Montreal, Quebec
Canada H3A 1H8
Telephone 514 842 5431

**Liquid Air Energy
Systems, Inc.**

801 6th Avenue S.W.
Suite 1050
Calgary, Alberta
Canada T2P 3W2
Telephone 403 262 6959

Oxigenio do Brasil S.A.

Praca Nami Jafet, 44
São Paulo, Brazil
Telephone 55 11 274 2033

Independent Accountants

Ernst & Whinney
200 Pringle Avenue
Walnut Creek, California
94596

Legal Counsel

Coudert Brothers
200 Park Avenue
New York, New York 10166

**Annual Report to the
Securities and Exchange
Commission on Form 10-K
Available**

The Corporation's annual report to the Securities and Exchange Commission on Form 10-K contains financial information and financial statements found in this report as well as additional information. The report to the SEC will be furnished without charge upon written request to:
Secretary
Liquid Air Corporation
2121 N. California Blvd.
Walnut Creek, California 94596



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Walnut Creek, CA 94596