Liquid Air Corporation

1986 Annual Report

C

The Emerging Company

In a rapidly changing world of accelerating business and technical complexity and challenge, and in an era of increasing emphasis on the task of efficient management, Liquid Air is able to adapt quickly and flexibly to meet the working realities and opportunities of the markets the Company serves. Today, the Company is a fully diversified industrial gas company.

Liquid Air's resources, rooted in a team of effective professionals in all key disciplines, are its source of future performance.

Liquid Air Corporation

Contents

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

Manuel J. Bignolas
Executive Vice President

Claude Salama
Vice President

Ward J. Sheridan
Vice President

John N. Baird
Secretary

Emilio A. Dominianni
Assistant Secretary

Financial Highlights*

(Millions of dollars except per share amounts)

Years ended December 31	**1986**	1985	1984	1983	1982
Net sales	**$570.6**	$543.0	$501.7	$459.4	$449.0
Net earnings	**34.7**	31.8	27.3	23.9	27.5
Per share[1]					
Net earnings	**2.42**	2.42	2.07	1.80	2.13
Dividends paid	**1.60**	1.60	1.60	1.60	1.60
Total assets	**717.5**	633.6	584.8	535.6	537.2
Shareholders' equity[2]	**338.7**	324.1	281.6	279.8	281.9

*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 1986, $62.9 million in 1985 and $24.0 million in 1984 and prior.

To Our Shareholders and Employees

Jean H. Delorme
Chairman

Richard A. Johnson
Executive Vice President
and Chief Operating Officer

Thomas E. Slattery
President and
Chief Executive Officer

Manuel J. Bignolas
Executive Vice President

For the year ending December 31, 1986, net earnings were $34.7 million, up 9% over 1985. Sales for the same period were $571 million, up 5%. The increase in earnings was primarily due to the strong performance of our Brazilian operations and from increased other income, as well as an overall lower effective tax rate. The Brazilian and Canadian operations had excellent increases in operating profit. However, despite their performances, overall operating profit showed a small decline due to decreases in operating profit in the U.S. industrial gases and in the underwater diving and life support operations. Margin erosion due to competitive pricing pressures and increased depreciation expense from new investments were mainly responsible for the decline in the U.S. industrial gases operating profit.

As we mentioned last year, 1985 was a year of unprecedented activity in starting projects to strengthen and expand the Company's operations, to achieve a more balanced product mix, especially in market segments with greater profit and growth potentials, such as argon, hydrogen, helium and specialty gases. 1986 was, and 1987 will continue to be, a year of completing these new projects in the United States, Canada and Brazil. As previously reported, and as part of the Company's strategy to concentrate on its principal lines of business, the Company sold the Safety Division of its subsidiary U.S.D. Corp in December, 1986.

The Company's confidence in the growth potential of its business is reflected in the number and size of its capital expenditures. During 1985 and 1986 we have spent in excess of $230 million on capital projects, and our priority continues to emphasize doing business in all markets with large, intrinsic technological content with the greatest prospects for long-term growth. To help finance these projects, last year we borrowed $20 million on a long-term basis at 8.675% and in late 1985, we issued $39 million of preferred shares.

Canada

In Canada, the economy continued to grow in 1986 for the fourth consecutive year despite falling oil prices that reduced energy investment plans significantly. The estimated growth rate of 3.3% in GDP masked serious imbalances across Canada, with a booming manufacturing sector in Central Canada and weakness in the West and East due to the energy sector. Sales in Canada increased 5% over 1985; operating profit increased by 11% during the same period.

The Company recently concluded two significant long-term pipeline supply agreements and, in connection with one of these contracts, the Company is building a new air-separation plant near Montreal. The Company's new liquid hydrogen plant, also near Montreal, will be on stream before year end, providing the Company with an important new source of hydrogen for the North American market. In addition, two new 300-ton-per-day CO_2 plants in Western and Central Canada, respectively, went on stream in 1986.

Brazil

In Brazil, the Company is expanding its production capacity to meet the increasing needs of its customers. As mentioned later in this report, Brazil had a very strong performance for the year and we hope that the latest difficulties the country is facing will not adversely affect our 1987 results.

United States

In the United States, the Company is currently in the final stages of phase two of a three-phase plan to install on-site generating plants in Dallas and Stafford, Texas to produce the ultra-high-purity gases required with respect to the Company's long-term contract with Texas Instruments to supply them with nitrogen, oxygen, argon and hydrogen for their semiconductor manufacturing facilities at selected locations.

The new 1,000-ton-per-day air-separation unit located at Borden's Petrochemical Complex in Geismar, Louisiana, which is owned and operated pursuant to a joint-venture agreement, went on stream in the fall of 1986. The 600-ton-per-day expansion at the same site should be on stream this fall.

While the Company's operations in Fairfield, Alabama were hampered by a long strike by our customer, USX Corporation, the operations of a new 850-ton-per-day air-separation plant, pursuant to an agreement with USX, should commence this fall. The Company's two new 240-ton-per-day merchant plants in Tucson, Arizona and Orlando, Florida are now on stream.

Our U.S. Cardox Division continues to be affected by certain suppliers' inability to supply raw carbon dioxide for processing, and the Company has had to shut down one of the plants it purchased last year on the Gulf Coast. The equipment is recoverable and will be moved to a new source of CO_2 in the future. This division also completed construction of three new CO_2 plants last year, although one is not yet operational because of problems with the supplier of raw gas, which we believe is in the process of being remedied. Two more plants are targeted for completion in late 1987.

Last year, the Federal Trade Commission ("FTC") ordered the Company to divest itself of certain assets as a result of the Company's parent, L'Air Liquide S.A., acquiring Big Three Industries, Inc. The assets to be divested include: (i) the Company's air-separation plants in Odessa, Texas and Stafford (Houston), Texas and related assets, (ii) the Company's existing merchant air-separation gas customer and distributor contracts in Texas, including related storage vessels and cylinders (but excluding any contracts between the Company and Texas Instruments), and (iii) all argon to which the Company is entitled under a December, 1984 Operating Agreement among Borden, Inc., BASF Wyandotte Corporation and the Company.

On December 31, 1986, in anticipation of the order becoming final, the Company sold all of those assets, except for the argon supply referred to above, to ALDA Corporation. ALDA is a wholly-owned subsidiary of American Air Liquide, Inc., which itself is a wholly-owned subsidiary of L'Air Liquide. The purchase price for these assets depends partly upon the ultimate price to be paid by a third party for said assets. In March of this year, a third-party purchaser entered into an agreement with ALDA Corporation to purchase these assets and the Company estimates that it will receive approximately $28 million from the sale. The assets sold did not represent a material portion of the Company's total assets, and the Company believes that the earnings on cash from such sale would offset any profits that would have been earned from the divested operations. No agreements have been reached to date with respect to the sale of the argon.

Jacques Maisonrouge, a Vice Chairman of the Company, resigned last year after many years of valuable service to both the Company and its parent, L'Air Liquide, when he was appointed as the top civil servant in the French Industry Ministry. We wish him well in his new post. Although Mike Breber, also a Vice Chairman of the Company, resigned last year after over 28 years of continuous service to the Company, we will continue to have the benefit of his advice and counsel in his new capacity as Executive Vice President of L'Air Liquide and as President and Chief Executive Officer of American Air Liquide, the Company's immediate parent.

Finally, we would like to thank all of the employees of Liquid Air, who collectively create its pride and its strength.

Jean Delorme
Chairman of the Board

T.E. Slattery

Thomas E. Slattery
President and
Chief Executive Officer

International Markets

Customer access to Liquid Air, on both American continents, is one of the strengths that make the Company among the most competitive industrial gas companies. Across Canada and Alaska in the north, in all industrial regions of Brazil in the south, and throughout the United States, Liquid Air has developed a presence to match and anticipate market needs.

Where customers need Liquid Air, that is where the Company establishes itself, based on logistical evaluations that consider all factors, especially responsive customer service and lowest real cost to the user.

Liquid Air's geographical strength can be gauged by these 1986 achievements:

- In Canada, we will be bringing on stream a liquid hydrogen plant this Fall to serve both Canadian and American markets; we are also completing construction of a new air-separation plant and a pipeline system in Quebec to supply a major steel company. The pipeline system will also interconnect our existing facility at Varennes with this new plant.

- In Brazil, our efficient, well-managed subsidiary continues to generate excellent profits.

- In the U.S.—for Texas Instruments in Dallas, one of the world's largest, diversified makers of semiconductor products—we signed an exclusive contract to supply all four major gases: nitrogen, oxygen, argon and hydrogen; these gases will be produced from ultra-high-purity, on-site generating facilities at Dallas, the only such site in the world delivering all four major gases. We are also committed to supply similar requirements to other selected Texas Instruments locations in Texas.

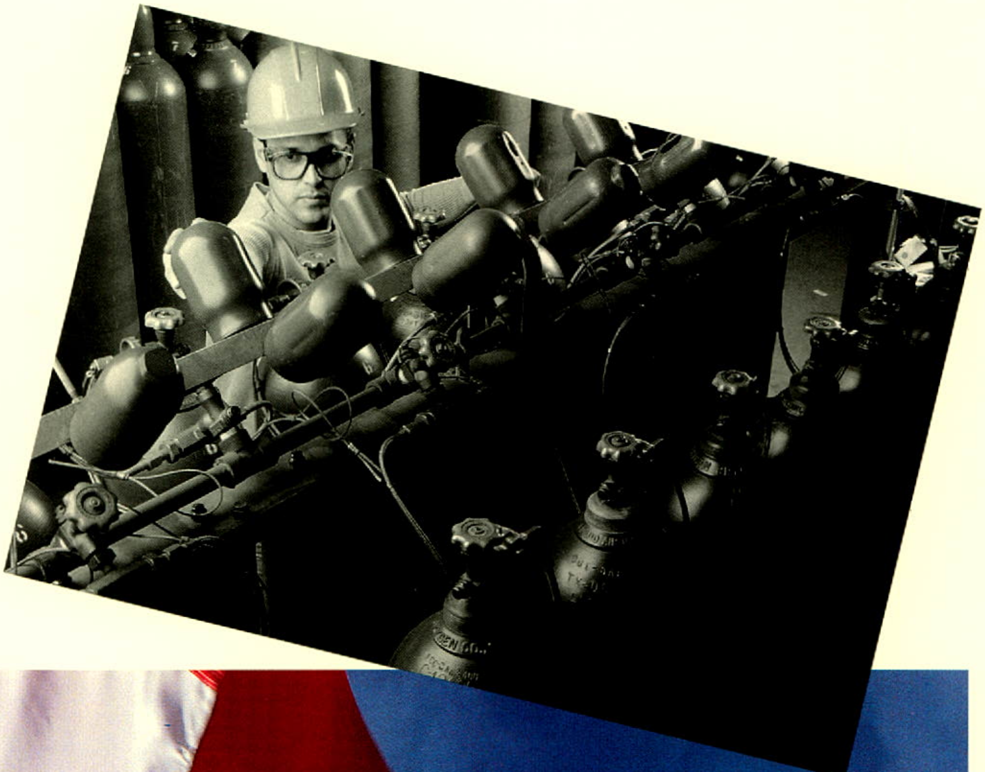
With our diversified line of industrial gases, welding supplies and specialty/ultrapure gas products/systems, and delivery "packaging" ranging from tank cars to individual cylinders, Liquid Air can draw on broad geographical strengths that have improved year by year since our inception on the North American continent in 1911. The Company's geographical reach can be measured statistically, reflecting the Company's sustained growth through 1986 in all geographical areas of activity.

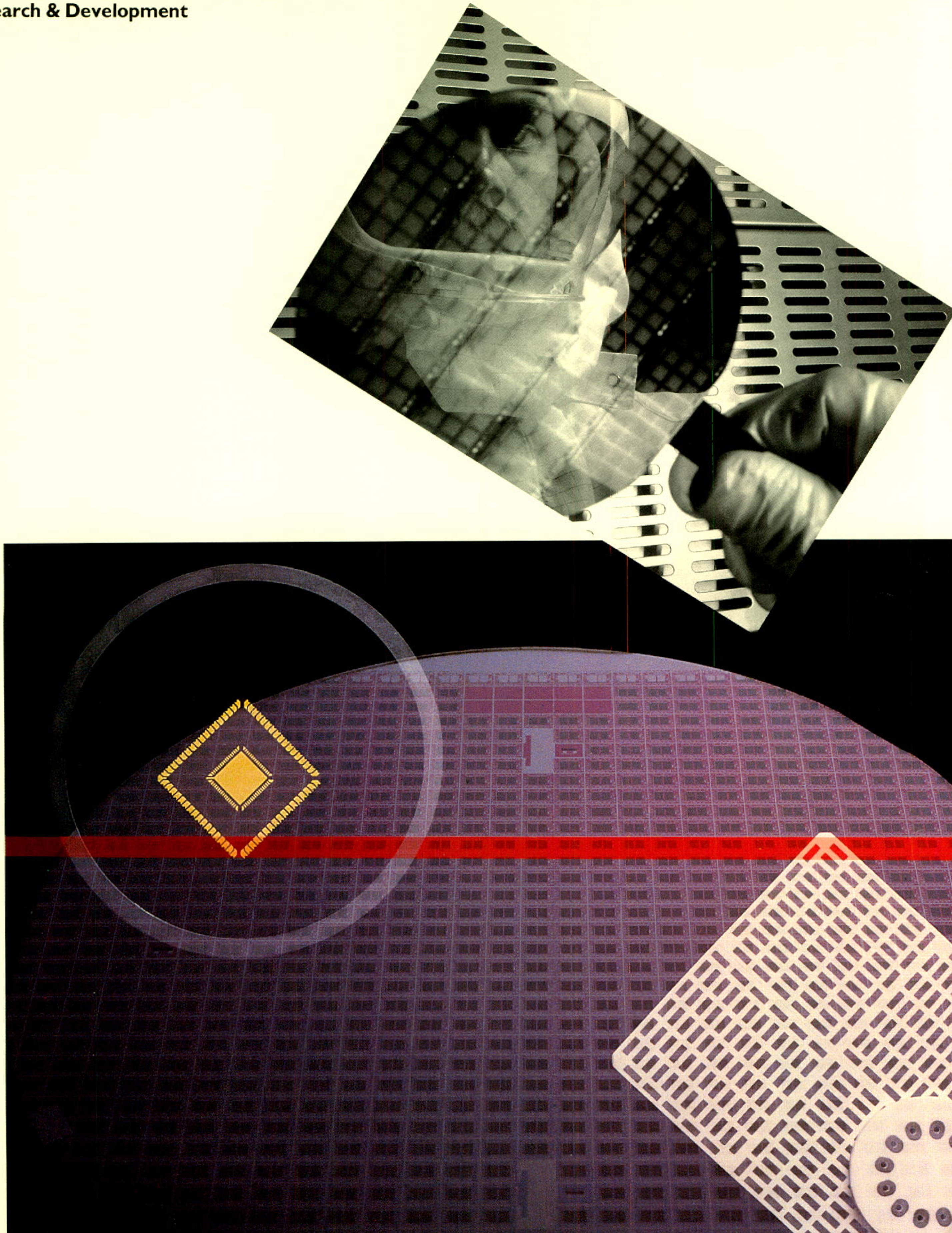
Liquid Air has over 4,000 employees in three countries on two continents. They manage and operate air-separation, acetylene, carbon dioxide and hydrogen plants at over 120 locations in the U.S., Canada and Brazil. In addition, sales, service and support offices at critical locations in all three countries are staffed to provide customer assistance.

As many industry segments served by Liquid Air continue to grow—for example, the semiconductor and high-technology areas, the drug and genetic-engineering activities, and the home respiratory therapy area—ongoing effort will be invested in the expansion of our geographical "reach."

Liquid Air is a growing merchant supplier of a fully diversified line of industrial gases. In addition, the Company has built an unexcelled reputation in the associated fields of specialty/ultrapure gases and gas-delivery systems meeting the needs of the most demanding customers in the United States, Canada and Brazil.

The Company has also developed new manifold systems for fast cylinder filling and precise mixture control (as shown on the right) along with a simple but effective new cylinder marking concept to enable customers to expedite and improve their internal distribution and control of industrial gas cylinders.





Technological reach is one of Liquid Air's strengths. A true world approach characterizes our technologies, in R&D that fuels new products, applications and markets.

The company's largest shareholder, L'Air Liquide of France with operations in 55 countries, has for years undertaken research—both basic and applied. It conducts this work itself, in France, and through its subsidiaries and affiliates in the United States, Canada and Japan in five different research centers. These efforts, and specific research programs, are now coordinated and managed on a worldwide basis, allowing efficient response to market needs. Today Liquid Air has access to new technology developed in any L'Air Liquide laboratory in the world.

Recent applied technology achievements include:

- For the pharmaceutical industry, we developed a way to enhance bacterial metabolism used to "manufacture" certain antibiotics, by oxygenation that substantially raises production efficiency;

- Based on innovative work done in our laboratories, we applied our technology to a new process to bleach paper pulp with oxygen, replacing costly chemicals needing complex disposal systems, effecting large cost savings in an environmentally sound waste-management system. As a result we have installed systems for many of the major paper producers in the U.S. and Canada;

- For the semiconductor industry, our Alphagaz Specialty Gases Division developed new systems to manage hazardous gases all the way from delivery to safe disposal of used components. In a related area we announced availability of 99.9999% pure gases for the industry's increasingly stringent processing needs.

1986's advances in technology were achieved through an improved focus on addressing our customers' problems and becoming more efficient in solving them.

Atmospheric control in the modern high-technology clean room, and ultra-high-purity and specialty gases necessary in the production of high-technology products, depend on strict worker discipline and meticulous production-control processes. Liquid Air's advanced engineering systems, industrial and specialty gases, in some cases guaranteed up to 99.9999% pure, are playing an increasingly important role in the development and manufacture of high-performance technology products such as lasers, semiconductors and ceramics (as shown on the left).

Meeting Customer Requirements

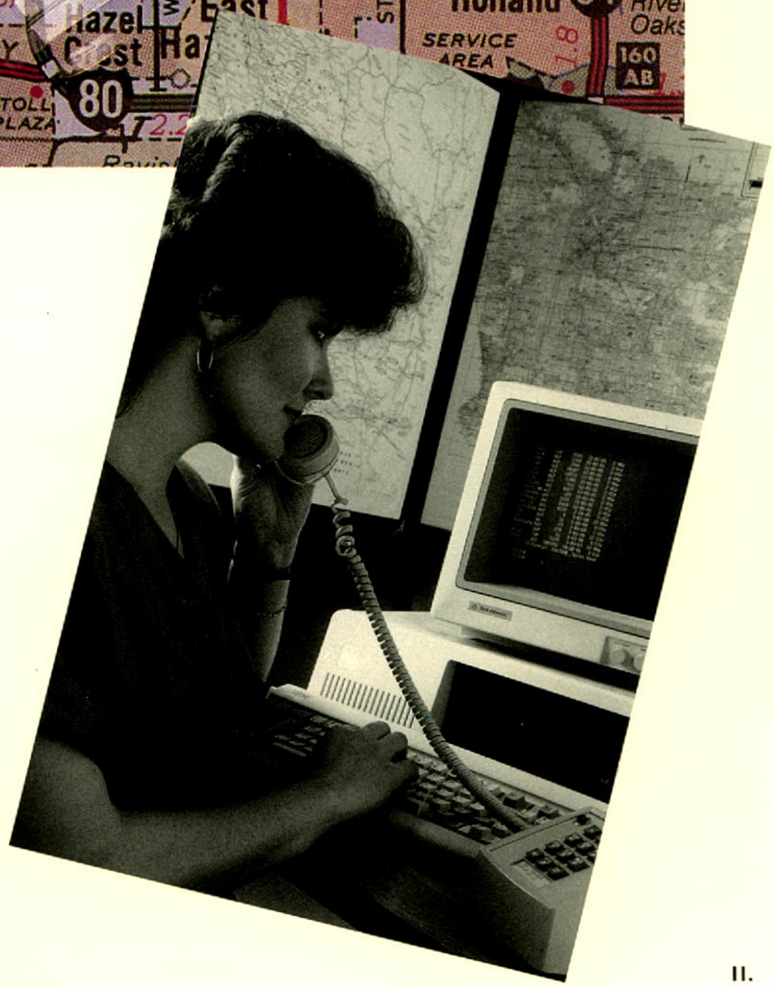
Liquid Air's merchant gas products and services must be tailored to users' needs. Our customers, whether in industry, food, health or research, are increasingly demanding higher purity gases, new applications for their uses and new mixtures to satisfy their operating problems and priorities. We have responded and are continuing to respond by broadening our line of gases and systems to assist customers, including:

- increasing our production capacity of hydrogen for the North American markets;
- building new on-site plants with increased argon capacity;
- securing a long-term supply of helium for resale to our customers;
- expanding our capabilities to process and market carbon dioxide;
- providing a growing range of specialty and ultra-high-purity gases and mixtures sold by our Alphagaz Division;
- developing a fast cylinder filling operation and bar-coded cylinder control system for increased customer convenience;
- instituting on-line ordering systems for selected customers;
- providing special systems to manage and monitor products from initial order through safe recovery (vital in the case of hazardous gases).

This emphasis on multi-product and delivery flexibility to meet users' working needs delivers market advantage. During 1986, for example, we won a large, long-term contract to supply a broad range of industrial gases to one of the nation's most demanding users—Sandia National Laboratory (Albuquerque, New Mexico). We earned this business because we demonstrated our ability to meet Sandia's total requirements, measured against demanding technical and business criteria.

Computerized distribution management in selected product areas increasingly enables us to manage production and transportation more efficiently, giving us advantages at many stages of customer service, as well as yielding operating and distribution economies.

The distribution support systems needed to manage such a broad range of products and services demand careful planning and attention to detail. These systems are costly to implement, in markets that are increasingly competitive to serve. We believe, however, that we are able to fulfill all the diverse needs of our customers.



Expediting industrial gases in a carefully planned, managed and staffed system, gives Liquid Air customers the gases they need, when they need them, in precisely the desired quantities, via the most effective and appropriate delivery method. Through on-line computers, Liquid Air customers save time and money, reduce inventories to meet modern, "just-in-time" criteria, and enables Liquid Air to optimize production, delivery and all associated manpower considerations.

Five Year Financial Summary*

(Millions of dollars except per share amounts)

Years ended December 31	**1986****	1985**	1984**	1983	1982
Sales	**$570.6**	**$543.0**	**$501.7**	**$459.4**	**$449.0**
Cost of products sold	275.0	263.7	244.0	225.3	225.7
Operating expenses	185.4	174.5	164.4	149.6	141.6
Depreciation and amortization	49.6	43.3	39.3	37.1	32.8
Operating Profit	**60.6**	**61.5**	**54.0**	**47.4**	**48.9**
Other income	6.1	1.8	1.4		2.3
Interest—net(1)	10.7	10.0	9.0	8.8	7.4
Earnings Before Taxes	**56.0**	**53.3**	**46.4**	**38.6**	**43.8**
Income Taxes	21.3	21.5	19.1	14.7	16.3
Net Earnings	**$ 34.7**	**$ 31.8**	**$ 27.3**	**$ 23.9**	**$ 27.5**
Per share(2)					
Net earnings	$2.42	$2.42	$2.07	$1.80	$2.13
Dividends paid	1.60	1.60	1.60	1.60	1.60
BY GEOGRAPHIC LOCATION					
Sales	**$570.6**	**$543.0**	**$501.7**	**$459.4**	**$449.0**
United States	366.8	353.3	331.5	300.1	276.9
Foreign	203.8	189.7	170.2	159.3	172.1
Canada	151.2	144.6	134.5	125.1	124.8
Brazil	52.6	45.1	35.7	34.2	47.3
Operating Profit	**60.6**	**61.5**	**54.0**	**47.4**	**48.9**
United States	19.7	27.3	27.2	24.9	20.1
Foreign	40.9	34.2	26.8	22.5	28.8
Canada	25.3	22.8	18.9	16.0	19.1
Brazil	15.6	11.4	7.9	6.5	9.7

*See Note A of notes to consolidated financial statements.

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

(1)Net of interest income.

(2)Per common share and common equivalent share.

Five Year Financial Summary*

(Millions of dollars)

	Years ended December 31	1986**	1985**	1984**	1983	1982
BY OPERATING GROUP	**Sales**	**$570.6**	**$543.0**	**$501.7**	**$459.4**	**$449.0**
	Industrial gases	491.0	459.4	426.1	389.7	370.9
	Welding products	48.6	50.0	45.2	41.0	48.5
	Underwater diving and life support	31.0	33.6	30.4	28.7	29.6
	Operating Profit(1)	**60.6**	**61.5**	**54.0**	**47.4**	**48.9**
	Industrial gases	59.1	57.8	52.2	49.3	48.6
	Welding products	.7	1.5	(.4)	(1.8)	.1
	Underwater diving and life support	.8	2.2	2.2	(.1)	.2
	Depreciation and Amortization(2)	**49.6**	**43.3**	**39.3**	**37.1**	**32.8**
	Industrial gases	48.3	41.9	37.9	35.8	31.7
	Capital Expenditures(2)	**130.6**	**103.7**	**63.8**	**41.9**	**59.7(3)**
	Industrial gases	128.6	99.9	62.2	41.1	58.2(3)
IDENTIFIABLE ASSETS	**By Geographic Location**	**$717.5**	**$633.6**	**$584.8**	**$535.6**	**$537.2**
	United States	440.0	420.8	369.2	343.4	336.3
	Foreign	277.5	212.8	215.6	192.2	200.9
	Canada	203.8	152.0	163.7	141.4	148.5
	Brazil	73.7	60.8	51.9	50.8	52.4
	By Operating Group	**717.5**	**633.6**	**584.8**	**535.6**	**537.2**
	Industrial gases	595.2	541.6	486.9	465.1	455.3
	Welding products	17.4	16.7	15.2	14.5	20.5
	Underwater diving and life support	10.9	25.5	20.4	22.9	21.3
	Corporate	94.0	49.8	62.3	33.1	40.1

*See Note A of notes to consolidated financial statements.

**See Note L 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 and underwater diving and life support equipment are not significant.

(3) Excludes $47.0 million of property, plant and equipment acquired in an acquisition.

LIQUID AIR CORPORATION

Five Year Financial Summary*

(Millions of dollars)

SOURCE AND APPLICATION OF FUNDS

Years ended December 31	**1986**	1985	1984	1983	1982
Source of Funds					
From operations	$ 96.4	$ 76.8	$ 76.0	$ 62.4	$ 72.9
Additional long-term debt	125.7	53.6	89.6	57.2	64.4
Common shares issued for cash	2.5				19.5
Preferred shares issued for cash	.2	38.9			
Property, plant and equipment sold	26.3	5.6	1.8	2.3	1.4
Decrease in certificates of deposit					14.2
Decrease in noncash working capital	15.9	19.0		6.5	
	$267.0	**$193.9**	**$167.4**	**$128.4**	**$172.4**
Application of Funds					
Property, plant and equipment acquired	$130.6	$103.7	$ 63.8	$ 41.9	$ 59.7
Property, plant and equipment of subsidiary acquired					47.0
Reduction of long-term debt	67.7	80.9	46.4	68.3	30.7
Cash dividends paid	24.3	21.4	21.4	21.4	21.0
Purchase of common shares			(3.1)	3.1	
Increase in goodwill	1.7		1.1	1.6	15.5
Increase in other assets	32.1	7.8	15.9	1.6	4.4
Other					(6.9)
Increase in noncash working capital			9.3		17.5
Cash and certificates of deposit increase (decrease)	10.6	(19.9)	12.6	(9.5)	(16.5)
	$267.0	**$193.9**	**$167.4**	**$128.4**	**$172.4**

BALANCE SHEET DATA

Years ended December 31	**1986**	1985	1984	1983	1982
Assets					
Cash and certificates of deposit	$ 14.1	$ 3.5	$ 23.4	$ 10.8	$ 20.3
Other current assets	115.2	131.7	117.0	111.3	107.3
Other assets	77.7	45.9	38.9	23.7	22.1
Property, plant and equipment, net of accumulated depreciation	475.3	418.2	370.5	354.8	353.4
Goodwill	35.2	34.3	35.0	35.0	34.1
	$717.5	**$633.6**	**$584.8**	**$535.6**	**$537.2**
Liabilities and Equity					
Current liabilities	$110.9	$110.8	$ 74.8	$ 78.0	$ 67.8
Long-term debt	198.5	141.2	171.0	128.4	139.2
Deferred taxes	69.4	57.5	57.4	49.4	48.3
Shareholders' equity[(1)]	338.7	324.1	281.6	279.8	281.9
	$717.5	**$633.6**	**$584.8**	**$535.6**	**$537.2**

*See Note A of notes to consolidated financial statements.

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

Management's Discussion and Analysis

RESULTS OF OPERATIONS

Sales in 1986 were $570.6 million, an increase of $27.6 million, or 5% over 1985. Sales by the industrial gases operations were $491 million reflecting a 7% increase which mainly resulted from volume growth in all countries in which the Company operates and from price increases in Canada and Brazil. Welding products sales decreased 3% due to a decline in Canada which exceeded an increase in Brazil. Underwater diving and life support equipment experienced a volume decline resulting in a sales decrease of 8%.

1985 sales were $543 million, an increase of $41.3 million, or 8% over 1984. The industrial gases operations, with sales of $459.4 million, achieved an increase of 8%, which was mainly due to Canadian and Brazilian volume growth with price increases and to modest price and volume increases in the United States. Volume growth with some price improvement accounted for the increases of 11% in both welding products and underwater diving and life support equipment.

1986 overall operating profit declined 1.5% as a result of decreases in the U.S. industrial gases operations, which had significant margin erosion and increased depreciation from new investments, and the underwater diving and life support equipment operations. Operating profit improved in Brazil and Canada. Net earnings were $34.7 million, up 9% over 1985. The increase in net earnings was due to an improvement in other income resulting from gains on sales of assets and the settlement of a contract dispute, and an overall lower effective tax rate. Earnings per share of $2.42 were the same as in 1985, reflecting the issue of Class A Preferred Shares at the end of 1985.

Overall operating profit in 1985 was up 14% as a result of increases in operating results of all divisions except the Cardox division, which had lower operating profits due to CO_2 source supply difficulties at several of its plants. Increased borrowings, which were repaid prior to the year-end from the proceeds of the Class A Preferred Stock issue, caused net interest expense to increase. Net earnings were $31.8 million, an increase of 16% over 1984. Earnings per share increased to $2.42 from $2.07 in 1984.

LIQUIDITY AND CAPITAL RESOURCES

The Company, being in a capital intensive industry, must utilize the debt markets to the extent its cash flow is insufficient to meet its requirements. Accordingly, the ratio of its long-term debt to total capitalization (long-term debt plus equity, including preferred stock) is critical since it indicates its potential to utilize the debt markets. This ratio was 37% at the end of 1986, compared with 30% at the end of 1985 and 38% at the end of 1984. However, since the Company had excess cash at the end of each year, this ratio can be viewed as 36%, 30% and 34% which is considered reasonable.

$195 million in long-term revolving bank lines of credit is available to the Company for periods of between five and seven years at the prime rate or less and up to ½% over the London Interbank Offer Rate (LIBOR). These credit arrangements do not require that the Company maintain any compensating balances. Commitment fees of approximately ¼ of 1% are paid on the overall unused line of credit. At December 31, 1986, $187.8 million was unused.

It is expected that the long-term credit lines and the projected 1987 cash flow will be sufficient to enable the Company to finance all of its 1987 capital programs, cash dividends and working capital requirements.

INFLATION

The Company is subject to the effects of inflation and changing prices in the countries in which it operates.

The low rates of inflation experieced in recent years in the United States and Canada have not had a material impact on the financial statements of the Company.

The financial statements of the Company's Brazilian operation are included in the consolidated financial statements of the Company following generally accepted accounting principles applicable to the translation of financial statements denominated in a currency of a highly inflationary economy; therefore, the impact of inflation on this operation is directly reflected in the financial statements of the Company.

TAX REFORM ACT OF 1986

The U.S. Tax Reform Act of 1986 was enacted on October 22, 1986. Its provisions include an overall reduction in corporate tax rates, elimination of the investment tax credit, reduction of investment tax credit carryforwards, and changes in the alternative minimum tax.

Consolidated Statement of Earnings

(Thousands of dollars except per share amounts)

Years ended December 31	**1986**	1985	1984
Sales	**$570,565**	**$543,041**	**$501,735**
Costs and Expenses:			
Costs of products sold	275,025	263,681	243,986
Selling, distribution, general and administrative expenses	185,344	174,534	164,466
Depreciation and amortization	49,619	43,305	39,322
	509,988	**481,520**	**447,774**
Operating Profit	**60,577**	**61,521**	**53,961**
Other Expenses (Income):			
Interest (net of interest income of $4,065 in 1986; $5,206 in 1985 and $5,599 in 1984)	10,639	9,968	9,018
Other income	(6,073)	(1,745)	(1,482)
	4,566	**8,223**	**7,536**
Earnings Before Income Taxes	**56,011**	**53,298**	**46,425**
Income Taxes:			
Current	9,268	19,858	9,697
Deferred	12,063	1,687	9,424
	21,331	**21,545**	**19,121**
Net Earnings	**$ 34,680**	**$ 31,753**	**$ 27,304**
Net Earnings Per Common Share	**$2.42**	**$2.42**	**$2.07**

See notes to consolidated financial statements.

Consolidated Balance Sheet

(Thousands of dollars)

	December 31	1986	1985
ASSETS	**Current Assets**		
	Cash	$ 4,077	$ 3,138
	Certificates of deposit	10,018	327
	Receivables:		
	Trade, less allowances ($3,182 in 1986 and $2,736 in 1985)	63,073	66,526
	Other	8,023	19,925
	Due from affiliates	7,057	3,865
	Inventories	30,007	35,519
	Prepaid expenses and deposits	7,015	5,865
		129,270	**135,165**
	Other Assets	**77,716**	**45,951**
	Property, Plant and Equipment—at cost	**793,194**	**711,214**
	Less accumulated depreciation	(317,873)	(293,049)
		475,321	**418,165**
	Goodwill	**35,181**	**34,277**
		$717,488	**$633,558**
LIABILITIES AND SHAREHOLDERS' EQUITY	**Current Liabilities**		
	Bank indebtedness	$ 17,402	$ 17,941
	Accounts payable	63,509	61,917
	Accrued interest	2,434	2,160
	Accrued taxes, other than income taxes	3,046	3,434
	Due to parent and other affiliates	13,664	5,346
	Income taxes	1,845	11,736
	Current maturities of long-term debt	8,977	8,264
		110,877	**110,798**
	Long-term Debt, exclusive of current maturities	**198,450**	**141,179**
	Deferred Income Taxes	**69,426**	**57,485**
	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 in 1986 and 389,000 shares in 1985	**39,091**	**38,900**
	Common Stock, no par value:		
	Authorized 20,000,000 shares		
	Issued 12,679,696 shares in 1986 and 12,562,796 in 1985, at stated value	**40**	**40**
	Other Shareholders' Equity		
	Capital surplus	**172,907**	**170,377**
	Retained earnings	**126,651**	**116,306**
	Cumulative translation adjustment	**(23,954)**	**(25,527)**
		$717,488	**$633,558**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Funds

	(Thousands of dollars) Years ended December 31	1986	1985	1984
SOURCE OF FUNDS	From operations:			
	Net earnings	$ 34,680	$ 31,753	$ 27,304
	Expenses not affecting working capital:			
	Depreciation and amortization	49,619	43,305	39,322
	Deferred income taxes	12,063	1,687	9,424
	Total from operations	**96,362**	**76,745**	**76,050**
	Common stock issued	2,530		
	Class A Redeemable Preferred Stock issued	191	38,900	
	Additional long-term debt	125,671	53,597	89,638
	Disposals of property, plant and equipment	26,329	5,614	1,752
	Decrease in noncash working capital	15,891	18,997	
	Total source of funds	**266,974**	**193,853**	**167,440**
DISPOSITION OF FUNDS	Additions to property, plant and equipment	130,544	103,675	63,845
	Repayment of long-term debt	67,712	80,881	46,384
	Cash dividends	24,335	21,420	21,420
	Increase in goodwill	1,670		1,043
	Increase in other assets	32,083	7,802	15,940
	Down payment for purchase of common stock			(3,128)
	Increase in noncash working capital			9,312
	Total disposition of funds	**256,344**	**213,778**	**154,816**
	Increase (decrease) in cash and certificates of deposit	10,630	(19,925)	12,624
	Cash and certificates of deposit at beginning of year	3,465	23,390	10,766
	Cash and certificates of deposit at end of year	**$ 14,095**	**$ 3,465**	**$ 23,390**
CHANGES IN COMPONENTS OF NONCASH WORKING CAPITAL	Increase (decrease) in current assets:			
	Receivables	$(15,355)	$ 7,722	$ 6,087
	Due from affiliates	3,192	691	(581)
	Inventories	(5,512)	5,216	(2,438)
	Prepaid expenses and deposits	1,150	1,060	2,619
		(16,525)	**14,689**	**5,687**
	Increase (decrease) in current liabilities:			
	Bank indebtedness	(539)	13,177	(4,063)
	Accounts payable and accrued expenses	1,478	11,175	5,394
	Due to parent and other affiliates	8,318	1,322	2,300
	Income taxes	(9,891)	8,012	(7,256)
		(634)	**33,686**	**(3,625)**
	Increase (decrease) in noncash working capital	**$(15,891)**	**$(18,997)**	**$ 9,312**

See notes to consolidated financial statements.

Consolidated Statement of Common Stock and Other Shareholders' Equity

(Thousands of dollars except per share amounts)
Years ended December 31, 1986, 1985 and 1984

	Common Stock		Capital	Retained	Cumulative Translation
	Shares	Amount	Surplus	Earnings	Adjustment
Balance December 31, 1983	**12,562,796**	**$40**	**$167,249**	**$100,089**	**$(11,541)**
Current year's translation adjustment					(7,180)
Net earnings				27,304	
Cash dividends:					
Common ($1.60 per share)				(20,100)	
Preferred				(1,320)	
Reimbursement of down payment for purchase of common stock			3,128		
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)**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1986

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 87% of the Company's common stock outstanding and 95% of its preferred stock outstanding as of December 31, 1986.

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 $192,605,000 and $180,525,000 of retained earnings of foreign subsidiaries at December 31, 1986 and 1985, respectively, 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 $10,350,000, $9,571,000 and $9,631,000 in 1986, 1985 and 1984, respectively. These amounts include royalties of $4,674,000, $4,180,000 and $4,859,000 in 1986, 1985 and 1984, respectively, paid to L'Air Liquide and its affiliates to secure rights to their research and development.

Interest Expense: The Company capitalizes interest as part of the costs of newly constructed manufacturing facilities. Accordingly, interest expense amounting to $5,708,000 in 1986, $3,298,000 in 1985 and $1,781,000 in 1984, has been included in the costs of newly constructed manufacturing facilities.

Foreign Currency Translation: The financial statements of foreign entities have been translated into 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 1986 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 H "Pensions."

B—INVENTORIES

Inventories are priced at the lower of cost or market. Welding products are primarily determined on the last-in, first-out method. Underwater diving and life support equipment and industrial gases are primarily determined using the first-in, first-out method. The excess of current inventory costs over LIFO values aggregated approximately $5,850,000 at December 31, 1986 and $4,263,000 at December 31, 1985.

	1986	1985
Finished goods	$21,918,000	$21,137,000
Work in progress	1,874,000	3,461,000
Materials and supplies	6,215,000	10,921,000
	$30,007,000	$35,519,000

C—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows:

	1986	1985
Land	$ 13,281,000	$ 13,959,000
Buildings	65,779,000	61,219,000
Cylinders	114,440,000	113,457,000
Machinery and equipment	543,127,000	467,742,000
Construction in progress	56,567,000	54,837,000
	$793,194,000	$711,214,000

Cost to complete construction in progress at December 31, 1986 is estimated at $72,179,000.

D—CREDIT ARRANGEMENTS

The Company has both short-term and long-term lines of credit as follows at December 31, 1986:

	Short-Term	Long-Term
Total available	$69,500,000	$195,000,000
Amount unused	52,098,000	187,800,000
Amount used	$17,402,000	$ 7,200,000

Short-term lines of credit have no termination dates but are reviewed annually for renewal. Commitment fees of approximately ¼% are paid on the overall unused long-term lines of credit which are available to the Company for periods of between five to seven years, at the prime rate or less.

These credit arrangements do not require that the Company maintain any compensating balances.

E—LONG-TERM DEBT

	1986	1985
Industrial Revenue Bonds at rates from 5.25% to 8.25%, payable in varying maturities through 2014	$ 13,915,000	$ 14,370,000
Notes payable to affiliates at rates from 6.25% to 6.5%, due in 1991	106,319,000	6,186,000
Prime rate or less, revolving loans to a maximum of $175,000,000, due in 1991	7,200,000	61,500,000
Prime rate or less, revolving loans to a maximum of $20,000,000, due in 1993		5,000,000
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	
8.75% note payable to an insurance company, due February 1, 1996, payable in annual installments of $2,000,000	20,000,000	22,000,000
9% note payable to an insurance company, due April 1, 1993, payable in annual installments of $1,000,000	7,000,000	8,000,000
9.625% note payable to a bank, due in 1991	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 1990, payable in varying annual installments	5,000,000	7,000,000
Various long-term indebtedness at rates from 6% to 13% payable through 1994	2,993,000	5,387,000
	207,427,000	149,443,000
Less current maturities	8,977,000	8,264,000
	$198,450,000	$141,179,000

Long-term debt includes the U.S. dollar equivalent (approximately $1,956,000 and $3,192,000 at December 31, 1986 and 1985) of loans repayable in foreign currencies.

The principal payments required on long-term debt at December 31, 1986, during the succeeding five years, are as follows:

1987	1988	1989	1990	1991
$8,977,000	$5,748,000	$3,642,000	$25,699,000	$121,904,000

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, 1986. Approximately $67,722,000 and $66,014,000 of consolidated retained earnings were unrestricted under these agreements as to the payment of dividends at December 31, 1986 and 1985.

F—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 5.5% premium and accumulated dividends. The premium declines each year thereafter by .25% and in any event 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 1,184,563 common shares are reserved for conversion of the issued Class A Redeemable Preferred Shares.

G—COMMON STOCK

On June 21, 1983, the Company signed an agreement to acquire 1,563,750 shares of its common stock from Chemetron Corporation or its Assignee, Allegheny International Inc., for an estimated price of $48,500,000. A $3,128,000 down payment was made on July 1, 1983 which was charged to Capital Surplus. On December 28, 1984, the down payment was reimbursed, with a profit based upon the cost of funds and the shares were acquired by an affiliated company.

On February 23, 1983, the Incentive Stock Option Plan (1983) was adopted. This Plan 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 1986, 16,900 options were exercised at an average exercise price of $22.47 per share.

H—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 1986 follows:

Service cost—benefits earned during the period	$1,434,000
Interest cost on projected benefits obligation	3,642,000
Actual return on plan assets	(5,405,000)
Net amortization and deferral	(426,000)
Net periodic pension cost (Income)	$ (755,000)

Pension costs were $1,924,000 in 1985 and $1,837,000 in 1984 which, in accordance with FASB Statement No. 87, have not been restated.

H—PENSIONS (continued)

The following table presents the funded status, amounts recognized in the consolidated balance sheet, and assumptions as of December 31, 1986 and January 1, 1986:

	December 31, 1986	January 1, 1986
Actuarial present value of accumulated benefit obligations:		
Vested	$33,644,000	$29,336,000
Nonvested	2,603,000	2,159,000
Total	$36,247,000	$31,495,000
Actuarial present value of projected benefit obligation	$50,280,000	$44,145,000
Plan assets at fair value	60,328,000	54,259,000
Plan assets in excess of projected benefit obligation	10,048,000	10,114,000
Unamortized net asset as of January 1, 1986	(10,754,000)	(11,755,000)
Unrecognized net loss	1,765,000	
Prepaid (accrued) pension cost	$ 1,059,000	$(1,641,000)
Assumptions:		
Discount rate	8.20%	8.20%
Rate of increase in compensation levels	7.00%	7.00%
Expected long-term rate of return on assets	8.75%	8.75%

I—LEASES

The Company leases certain real property and equipment. Rental expense was $19,214,000, $17,039,000, and $15,394,000 for 1986, 1985 and 1984.

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

1987	1988	1989	1990	1991	Thereafter	Total
$12,708,000	$10,886,000	$8,590,000	$7,461,000	$6,952,000	$18,444,000	$65,041,000

J—INCOME TAXES

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

	1986	1985	1984
Domestic	$10,290,000	$10,611,000	$13,852,000
Foreign	45,721,000	42,687,000	32,573,000
	$56,011,000	$53,298,000	$46,425,000

The provision for income taxes consists of:

	1986	1985	1984
Federal and State			
Current	$ (59,000)	$ 1,725,000	$3,470,000
Deferred	2,545,000	1,450,000	1,606,000
Foreign			
Current	9,327,000	18,133,000	6,227,000
Deferred	9,518,000	237,000	7,818,000
Total			
Current	9,268,000	19,858,000	9,697,000
Deferred	12,063,000	1,687,000	9,424,000

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:

	1986	1985	1984
Statutory federal rate	46.0%	46.0%	46.0%
Investment tax credit	(9.3)	(10.5)	(5.7)
Effective foreign rates	(1.2)	(3.0)	.6
Withholding taxes		4.2	1.9
Other	2.6	3.7	(1.7)
Effective tax rate	38.1%	40.4%	41.1%

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

	1986	1985	1984
Accelerated depreciation for tax purposes	$12,760,000	$5,500,000	$10,579,000
Capitalization of interest costs	(191,000)	88,000	413,000
Capitalization of subsidiary organization costs	(484,000)	(464,000)	
Pension expenses—FASB No. 87	564,000		
Investment tax credits	(1,446,000)	(2,919,000)	(1,930,000)
Reversal of deferred tax on undistributed earnings of Domestic International Sales Corporation			(375,000)
Other	860,000	(518,000)	737,000
	$12,063,000	$1,687,000	$ 9,424,000

K—EARNINGS PER SHARE

Earnings per share are computed by dividing net earnings, less preferred stock dividends, by the average number of outstanding common shares (12,658,390 in 1986, 12,562,796 in 1985 and 1984). 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.

L—SEGMENTS OF BUSINESS AND FOREIGN OPERATIONS

Summaries of operations and assets by geographic location and by operating group are contained on pages 12 and 13. Business segment information for 1986, 1985 and 1984 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 1986, 1985 and 1984 of $19,000,000, $18,200,000 and $17,800,000, respectively, to industrial gases and $8,400,000, $8,800,000 and $8,700,000, respectively, to welding products. Included in these expenses are $2,300,000, $2,300,000 and $2,000,000 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 $26,876,000, $24,317,000 and $18,528,000 for 1986, 1985 and 1984, respectively. The consolidated balance sheet includes total assets of the foreign subsidiaries of $277,500,000 and $212,800,000 and net assets of $145,000,000 and $99,000,000 for 1986 and 1985, respectively.

Included in other income are gains on foreign currency translation of $950,000 and $2,771,000 in 1986 and 1985 and losses on foreign currency translation of $1,090,000 in 1984.

Quarterly Data

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

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total	
Years ended December 31	1986	1985	1986	1985	1986	1985	1986	1985	**1986**	1985
Sales	$136.6	$130.5	$146.0	$136.4	$146.8	$139.6	$141.2	$136.5	**$570.6**	$543.0
Industrial gases	117.2	109.3	124.3	114.1	126.5	119.0	123.0	117.0	**491.0**	459.4
Welding products	11.7	12.5	12.7	13.4	12.4	12.2	11.8	11.9	**48.6**	50.0
U.S.D. Corp*	7.7	8.7	9.0	8.9	7.9	8.4	6.4	7.6	**31.0**	33.6
Operating Profit	$ 13.8	$ 15.8	$ 17.4	$ 17.3	$ 15.3	$ 15.8	$ 14.1	$ 12.6	**$ 60.6**	$ 61.5
Industrial gases	13.1	14.3	16.1	16.1	15.1	15.2	14.8	12.2	**59.1**	57.8
Welding products	.2	.6	.7	.7	.1	.1	(.3)	.1	**.7**	1.5
U.S.D. Corp*	.5	.9	.6	.5	.1	.5	(.4)	.3	**.8**	2.2
Net Earnings	$ 8.8	$ 8.1	$ 9.3	$ 8.6	$ 8.1	$ 7.3	$ 8.5	$ 7.8	**$ 34.7**	$ 31.8
Per Share Information										
Earnings	$.62	$.62	$.65	$.65	$.56	$.56	$.59	$.59	**$2.42**	$2.42
Dividends paid	$.40	$.40	$.40	$.40	$.40	$.40	$.40	$.40	**$1.60**	$1.60
Common Stock Price										
High bid	30¾	25	36½	24¾	34½	27	34	27¾		
Low bid	25¾	19½	31	21	28½	22	27½	24¾		

*Underwater diving and life support equipment.

Report of Ernst & Whinney, Independent Accountants

**SHAREHOLDERS AND
BOARD OF DIRECTORS
LIQUID AIR CORPORATION**

We have examined the consolidated balance sheet of Liquid Air Corporation and subsidiaries as of December 31, 1986 and 1985, 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, 1986. 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, 1986 and 1985, 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, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

San Francisco, California
February 25, 1987

Corporate Data

Corporate Offices

Liquid Air Corporation
- **Alphagaz Division**
- **Cardox Division**
- **Industrial Gases Division**

2121 N. California Blvd.
Walnut Creek, California 94596
Telephone 415 977 6500

U.S.D. Corp
3323 West Warner Avenue
Box 25018
Santa Ana, California 92799
Telephone 714 540 8010

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

Transfer Agents

Morgan Shareholder
Services Trust Company
30 West Broadway
New York,
New York 10007-2192

First Jersey National Bank
One Exchange Place
Jersey City, New Jersey 07303

Registrar

Morgan Shareholder
Services Trust Company
30 West Broadway
New York,
New York 10007-2192

Stock Listing

The Corporation's stock is traded in the over-the-counter market and is quoted by the National Association of Securities Dealers automated quotation system (NASDAQ).

Stock Symbol

LANA

Independent Accountants

Ernst & Whinney
555 California Street
Suite 3000
San Francisco, California 94104

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 to shareholders upon written request to:
Secretary
Liquid Air Corporation
2121 N. California Blvd.
Walnut Creek, California 94596

Liquid Air Corporation
2121 N. California Blvd.
Walnut Creek, CA 94596