Liquid Air Corporation

Annual Report 1982

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Financial Highlights*

Liquid Air Corporation — Years ended December 31

(Millions of dollars except per share amounts)	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Net sales	$175.5	$220.0	$240.8	$265.6	$284.5	$304.3	$369.1	$408.2	$428.0	$449.0
Net earnings	12.1	14.1	17.6	21.2	19.8	18.3	24.3	29.4	31.5	27.5
Per share:(1)										
Net earnings	$1.63	$1.89	$2.35	$2.73	$2.73	$2.48	$2.45	$2.76	$2.86	$2.13
Dividends paid	1.20	1.15	1.25	1.25	1.40	1.40	1.40	1.40	1.55	1.60
Total assets									$484.3	$537.2
Shareholders' equity(2)									259.0	281.9

*See Note A of notes to consolidated financial statements.
(1) Per common share and common equivalent share.
(2) Includes $24.0 million of redeemable preferred stock.

Corporate Profile

Liquid Air is a major producer of industrial gases, welding products and safety and diving equipment. During the past decade, Liquid Air has assumed an important position in the marketplace by researching and developing important technologies for the industries it serves. The Company's commitment to research and development and to meeting the needs of emerging industries has helped secure its presence in the industrial gas market.

President's Letter

Times of economic uncertainty serve as the most severe test of a company's ability to manage, to produce, even to survive. During such times, management must concentrate on managing productivity, inflation, and liquidity.

The year 1982 was such a period, and Liquid Air weathered it rather well. We concentrated on the fundamentals first by improving our efficiency wherever possible. All divisions operating as Liquid Air in 1981 were able to reduce their costs and expenses, excluding depreciation, at a rate that was almost proportionate to their reduction in sales. While overall sales of said divisions decreased 8.6%, costs and expenses decreased 7.4%, a good achievement considering that a substantial part of our expenses are considered fixed and therefore normally cannot be reduced with sales volume decreases.

The most important productivity improvement was a workforce reduction of approximately 14%. We also closed several marginal facilities, installed a new computerized dispatch distribution system for the Industrial Gases Division, and, as an additional cost control measure, put into effect a general salary freeze. The efforts made by all of our employees enabled us to cushion the effects of inflation, most of which resulted from energy cost increases of approximately 15%.

We also improved the liquidity of the Company by reducing investments in accounts receivable and inventories at rates that were substantially greater than sales decreases experienced by those divisions that were operating in 1981. Moreover, the increase in capital through a 4:1 stock rights issue enabled us to acquire Cardox without deteriorating our liquidity and/or borrowing capacity. The issue, which began in the last quarter of 1981, was completed in 1982.

Sales in 1982, which were \$449 million, showed an increase of \$21 million, or 5% over 1981, due to the acquisition of Cardox Corporation. The weak economic conditions in those countries in which the Company operates were the primary causes for the decrease in net earnings from \$31.5 million in 1981 to \$27.5 million in 1982.

Although 1982 was a year of uncertainty, it was also a time favorable for growth and opportunity. For Liquid Air, one of the greatest opportunities was the addition of Cardox and its potential for adding balance to the product mix of our organization.

We sincerely appreciate the efforts and sacrifices made by all of our employees during this difficult time, and we welcome the employees of Cardox to our growing company.

Jean H. Delorme
Chairman of the Board

Pierre A. Salbaing
President and
Chief Executive Officer

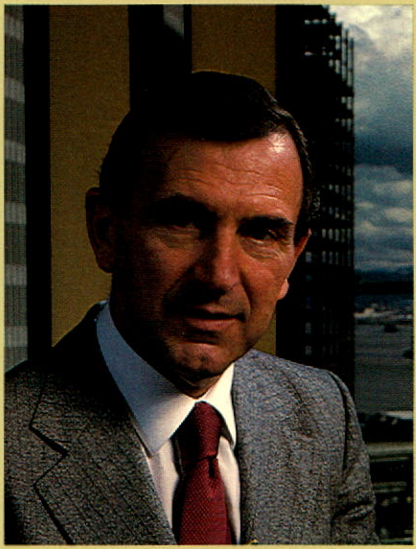
Right: Jean Henri Delorme
Chairman of the Board

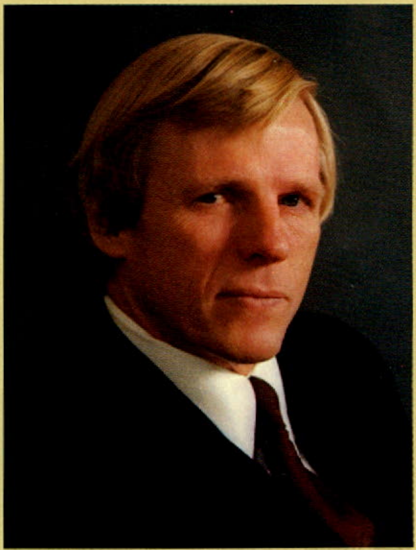
Middle Left: Pierre A. Salbaing
President and Chief Executive Officer

Middle Right: Mike V. Breber
Executive Vice President and Chief Operating Officer

Lower Left: Thomas E. Slattery
Executive Vice President and President, Industrial Gases Division

Lower Right: Richard A. Johnson
Senior Vice President and Executive Vice President, Industrial Gases Division





1982–A Year of Change

Liquid Air is taking advantage of the long-term approach, and has developed the capacity to change the direction of its business as the world changes.

1982 represented a year of significant change and adaptation. The United States, indeed, the entire industrial world, is profoundly changing the way it uses human and material resources, capital and manufacturing processes. We are undergoing what economists refer to as a structural change. This change requires both the humanization of industrial productivity and the conservation of raw materials and natural resources. In effect, we are caught between eras, the old and the new, and we are experiencing turbulence.

The industrial gas industry as a whole did not escape the difficulties without its share of pain. Volumes were depressed from previous levels, owing to the recession and particularly to our link with the steel and metal working industries. The rate of decline, however, did not parallel the rate of decrease experienced by the primary industrials. There are several reasons for this: first, the base of the industrial gas business widened; and second, the range of applications for industrial gases continued to increase despite the economic downturn. (See section titled *The Industrial Gas Industry.*)

Liquid Air Corporation is structured to adapt to the characteristics of its primary business, industrial gases, and has done so in all locations and all markets. During this difficult period, Liquid Air approached the future with long-term planning that includes a capacity to change the direction of its business as the world changes.

The most important of these long-term approaches were:

- Improvement in Liquid Air's productivity through a substantial work force reduction.
- Acquisition of Cardox Corporation, one of America's largest carbon dioxide producers. The addition of Cardox's

markets in the food and beverage industry provides balance when Liquid Air's industrial markets experience negative trends.

- Placement of more field engineering staff with greater experience in all of its divisions to better understand and assist customers, their needs and conditions. In this regard, Liquid Air is presently expanding its R&D facilities in the United States.
- Creation of specialized sales and marketing teams assigned to growth industries such as electronics, food, medical and energy producing related industries.
- Slowdown of planned merchant capacity installation, in view of the excess capacity in the industry. Liquid Air is now able to properly plan new production capacity for the future as the economic picture improves.
- Implementation of a pilot program for the enhanced recovery of heavy oil by in-situ combustion of the oil in the reservoir with pure oxygen gas, conducted by two major Canadian oil companies in conjunction with Liquid Air Energy Corporation. This program is taking place in the oil fields of Alberta and Saskatchewan, Canada.

Increases in productivity, expanded R&D, new sales and marketing teams in growth industries and the contributions of Cardox helped position the Company for growth in 1983.

- The completion of air separation facilities in West Texas, Alaska and Brazil.
- The introduction and development of a new line of diving equipment and an important new improvement to the existing line of safety self-contained breathing apparatus.
- The increase in capital through a 4:1 stock rights issue, which began in the last quarter of 1981 was completed in 1982. This issue raised $49.5 million and enabled Liquid Air to acquire Cardox without deteriorating its liquidity and/or borrowing capacity.
- Completion of new and improved long-term revolving credit agreements with major banks at rates of interest which allowed the Company to borrow at well below prime rate last year.
- Completion in early 1983 of a new long-term $20 million loan with a major insurance company at 11⅞%.
- The appointment of Mr. John W. McGill, formerly Executive Vice President and Chief of Group Enterprises for Air Canada, as the new President of Canadian Liquid Air.

The Industrial Gas Industry

Volumes and sales for industrial gases have grown at a rate more than twice that of the GNP.

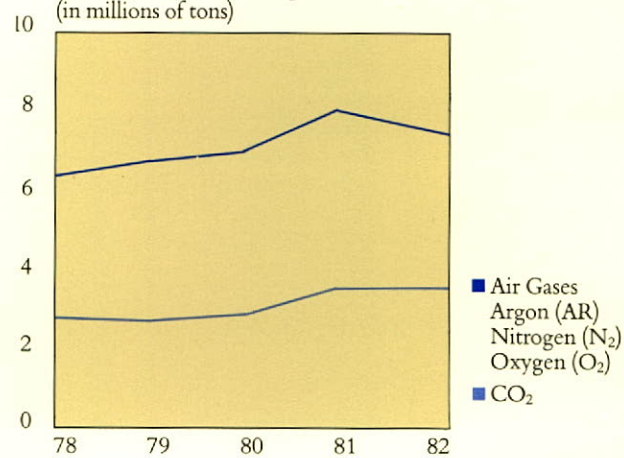
The industrial gas industry in general, and Liquid Air in particular, are in the business of supplying "atmospheres" which are adaptable and responsive to the needs of other branches of industry. While man, of course, lives his everyday existence in the "ambient" conditions required by his metabolism, his manufacturing activity, by contrast, often involves extremes of temperature and pressure, whether on earth in such fields as medicine, agriculture or metal casting, or underwater or in outer space.

The optimism Liquid Air Corporation holds for improvements in revenue and profitability is directly linked to the multiplicity of the ongoing needs for the industrial gases it produces. Historically, volumes and sales for the industry as a whole have grown at a rate more than twice that of the Gross National Product. The recent economic downturns have obscured this trend but have not, however, diminished our expectations for continued growth in our still dynamic industry.

The base of the industrial gas business is no longer weighted by large on-site gaseous oxygen consumers, such as steel mills. Today's industry has a much larger concentration of nitrogen users, both in on-site and in liquid bulk form. In addition, applications such as electronics and food are less severely affected by economic swings. The demand for other specialized industrial gases, such as argon, hydrogen, neon, krypton and helium, has actually increased, in sharp contrast to reduced levels of other industrial indicators. Even the least optimistic forecasts for this segment of the industry project healthy gains through the next decade.

Sales of industrial gases have grown, and should continue to grow, at a multiple of real GNP growth. The principal reason for this above-average growth is the continued development of new applications for industrial gases.

Industry Merchant Shipments
(in millions of tons)



Liquid Air Corporation

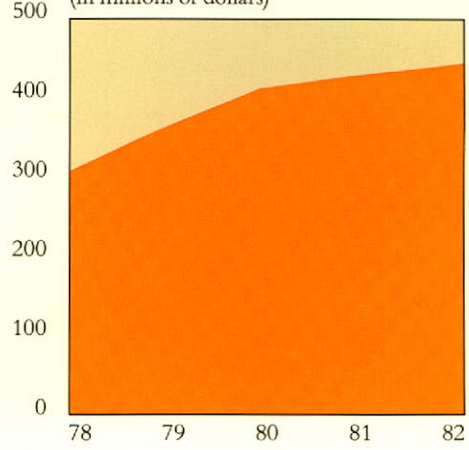
The Liquid Air Corporation management team believes in the industry, has the skills necessary to participate, and recognizes opportunity for growth in the market.

Our team understands the importance of marketing the technology we offer. In all divisions, Liquid Air Corporation places engineering staff in both the field and the marketplace to better understand and assist the customer. Indeed, Liquid Air is planning even larger and more extensive R&D facilities to maintain its leadership in gas technology. At Liquid Air Corporation, industrial gas technology is the result of hands-on experience with proven gas applications, backed by a management that both knows and believes in the value of technological development. Liquid Air Corporation concentrates its R&D efforts in the marketplace, working with customers at their plants, helping them install new and improved methods of production.

Our people understand the nature of air separation plants, of large on-site customers and pipeline supply. They comprehend delivering product in bulk cryogenic form and in small gaseous cylinders. Our management also deals with large multinational companies as well as many very successful and independent distributors.

Liquid Air Corporation has the team, the knowledge, the experience, and the skills. It concentrates these attributes on one area, the industrial gas industry. It has demonstrated significant growth and accomplishment throughout the past decade and more. It is this team and these strengths that have skillfully guided Liquid Air Corporation through the current period of uncertainty. These factors allowed Liquid Air to acquire Cardox Corporation without exerting any pressure on our lines of credit. These were, in fact, increased and improved for the economic recovery which seems to be at long last underway.

Sales of Liquid Air Corporation
(in millions of dollars)



Industrial Gases Division

Today, the operations of the Industrial Gases Division are as diverse as the applications for its gases.

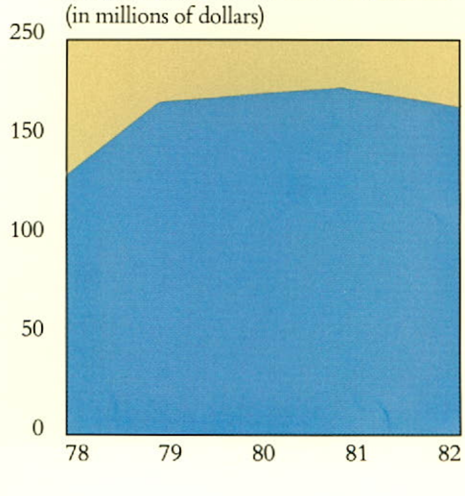
Today, the Industrial Gases Division plays a key role from coast to coast in the very competitive industrial gas industry. Successful competition in this industry requires a vast range of skills in widely varying, but equally important, areas.

One of the primary sources for the diversity of skills and experience within the Industrial Gases Division has been the very nature of its growth. Unlike many companies, where growth through acquisition has produced a managerial labyrinth of separate directions and goals, the Division's acquisitions have been focused on the business it knows best–industrial gases. In 1969, the Company first entered the U.S. marketplace through the acquisition of strong regional industrial gas manufacturers, such as American Cryogenics, Inc. in the South and Industrial Air Products with operations in the Pacific Northwest. In 1972, the Company expanded into the Southwest through the acquisition of Dye Oxygen Company and into Louisiana through the purchase of Gulf Oxygen Industries, Inc. More recently, Chemetron's industrial gas operations were incorporated into the Division, producing both the nationwide image and scope, as well as the strong localized presence, which the Division now commands.

The operations of the Industrial Gases Division are now as diverse as the many applications for its gases. The Industrial Gases Division has created an engineering structure unique in the industry. Its "grass roots" begin at the customer level, with a staff of applications engineers in every geographic region.

The continuing development of the Industrial Gases Division's independent distributor network has accompanied the Division's growth. Now numbering in excess of 200 dealers, with more than 600 locations across the country, Liquid Air distributors are valued contributors and strong participants in their various local markets.

Sales of the Industrial Gases Division
(in millions of dollars)



Cardox Corporation

Cardox is America's third largest manufacturer of carbon dioxide, and has been the preeminent trade name within that business since its establishment.

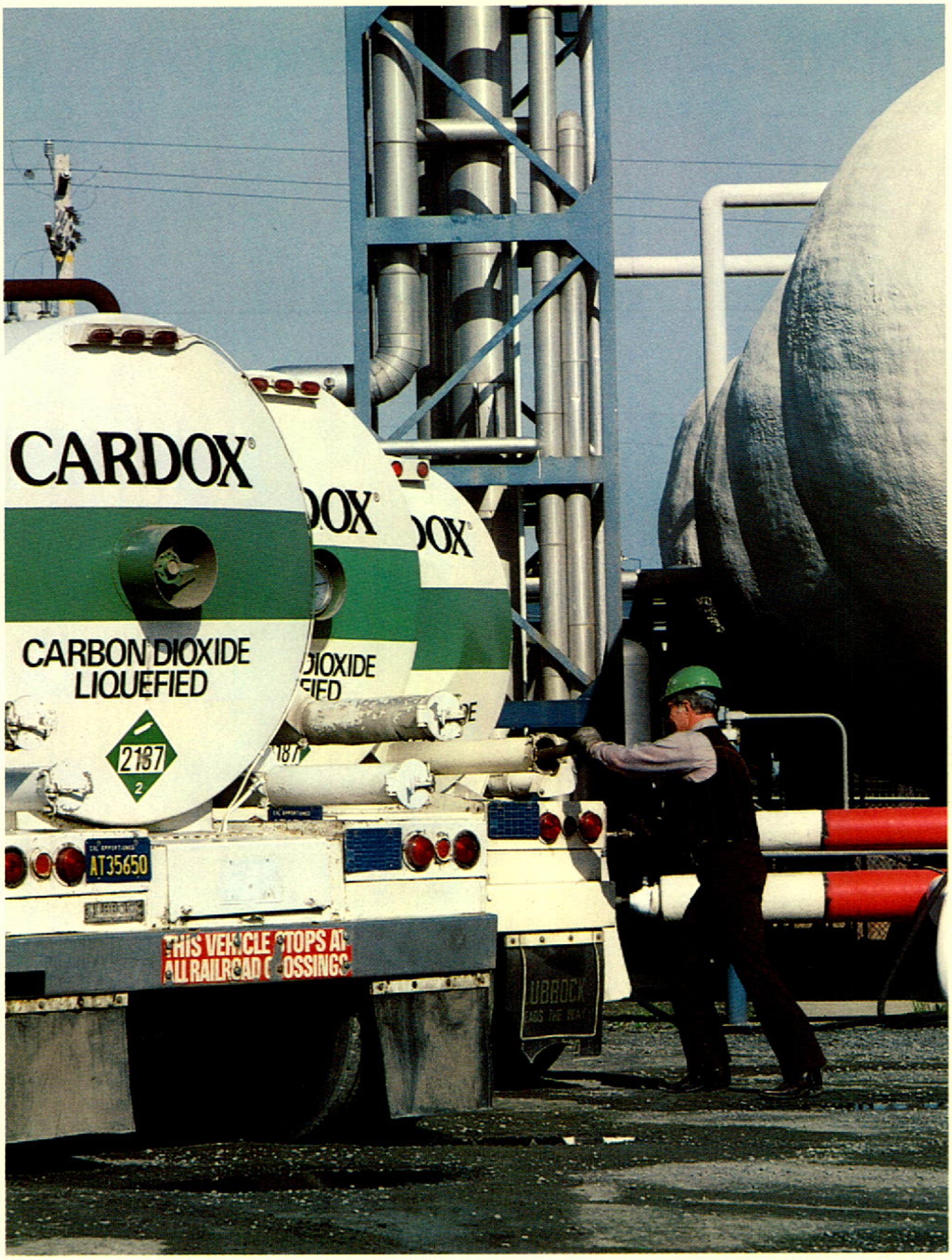
The most recent addition to Liquid Air Corporation, Cardox represents a well-planned extension of Liquid Air's total commitment to the industrial gas industry. Cardox is among the largest manufacturers of carbon dioxide, and has been the preeminent trade name within that business since its establishment in the late 1950's. More importantly, the nature and makeup of Cardox's production sources and sales base are well positioned for the realities of the 80's and beyond.

Much like the Industrial Gases Division, Cardox operates production facilities throughout the United States. Unlike the air separation gases (such as oxygen, nitrogen, argon, etc.) however, carbon dioxide is generally produced by removal and purification from by-product chemical gas streams. Such streams, normally found in various chemical processes, are obviously dependent on the economic conditions of whatever primary product is being manufactured.

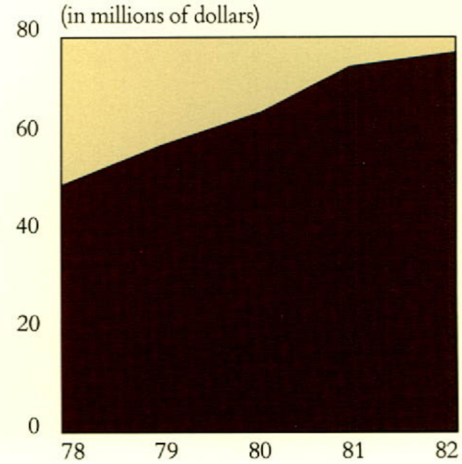
An example of such a source is ammonia manufacturing and processing. While this area represents almost 50% of the resources for the American carbon dioxide industry as a whole, it is extremely sensitive to price fluctuations and foreign imports. When prices drop, plants may shut down, often for extended periods. Carbon dioxide producers allied to these plants face obvious difficulties in supply and distribution.

Cardox has less than 13% of its production dependent on ammonia sources. The Company's principal sources for raw carbon dioxide are generally refineries and chemical plants, other than ammonia plants, and natural wells.

Cardox has evolved from a small regional carbon dioxide producer to the national corporation it is today. In 1982, Cardox increased R&D programs to stay in the forefront of CO_2 technology. This is accomplished through pilot plant projects located at suppliers' plant sites and an expansion of laboratory facilities. To this end, Cardox works with the other divisions of Liquid Air around the world involved with CO_2 operations, as well as with their counterparts at Canadian Liquid Air.



Sales of Cardox*
(in millions of dollars)



*Includes sales of Cardox prior to acquisition on March 31, 1982.

More than just the leader in producing and marketing industrial gases in Canada, Canadian Liquid Air also plays a key role in developing important new technologies.

Since its founding in 1911, Canadian Liquid Air ("CLA") has become the largest producer and marketer of industrial and medical gases in Canada. It is also a Canadian leader in both the technology for air separation and new processes to further the use of industrial gases.

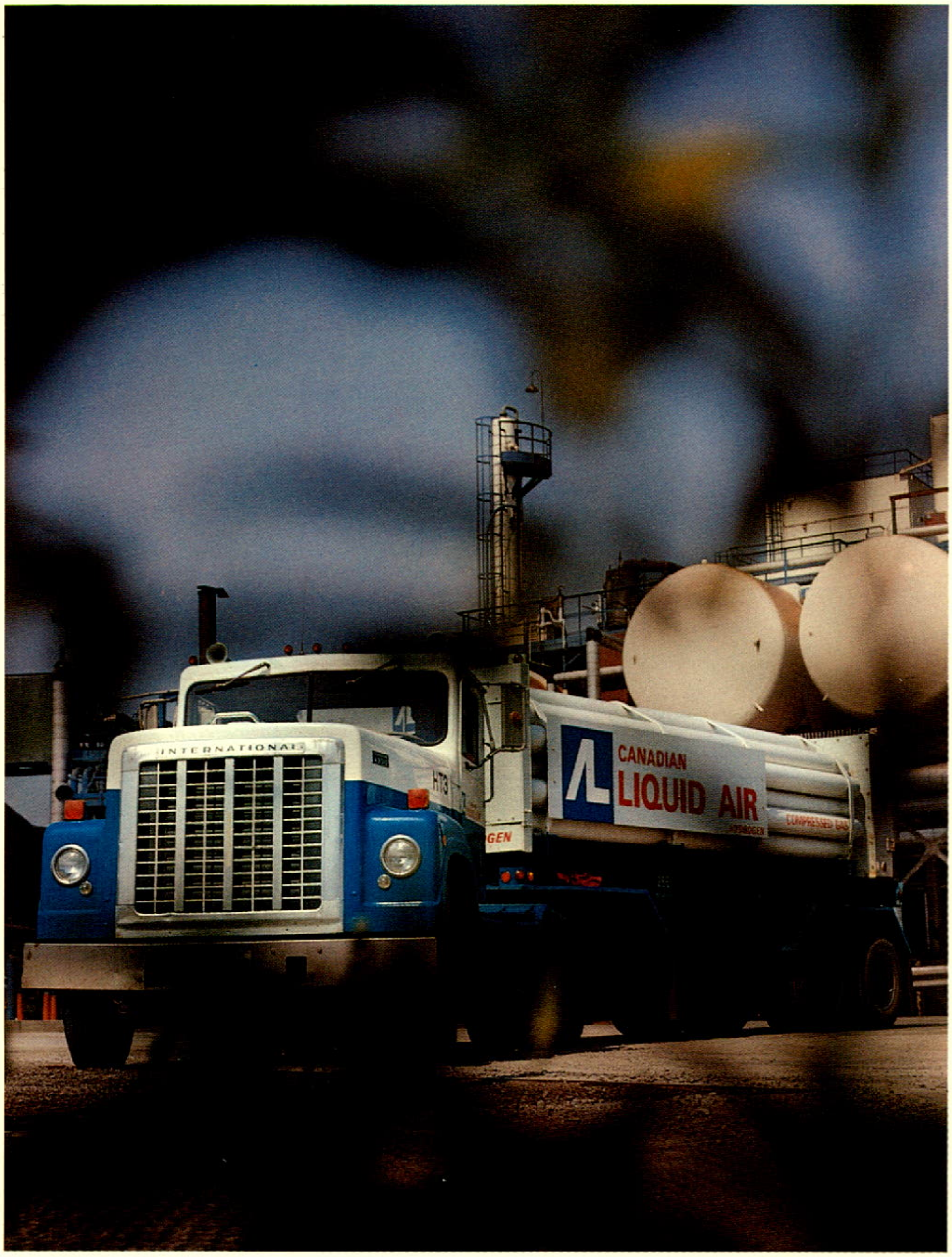
CLA is also the largest producer of welding electrodes and wire in Canada. It produces its own wire feeders, gas tungsten arc (TIG) torches, and a complete range of other industrial gas apparatus. To support its leading position in the industry, Canadian Liquid Air also maintains a technology center.

CLA continues to play a key role in the new technologies that sustain the growth and development of this vast resource-rich country. For example, the pioneering work by Liquid Air Energy Corporation, a subsidiary of Canadian Liquid Air, holds great promise. In the oil fields of Alberta and Saskatchewan, in conjunction with two major Canadian oil companies, we are conducting large scale pilot programs on enhanced recovery of heavy oil by in-situ combustion of the oil in the reservoir with oxygen gas.

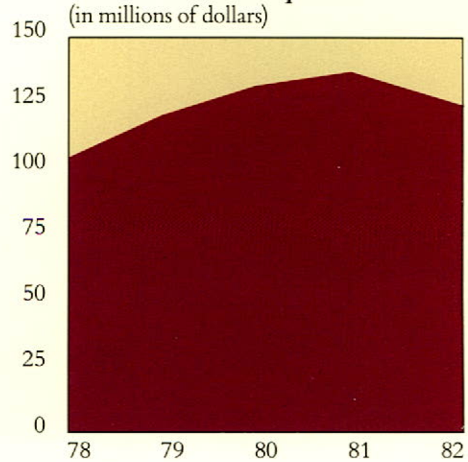
Known as oxygen "fire flooding," this complex process reduces the viscosity of heavy oil and pressurizes the formation, driving the oil to outlying production wells, where it is pumped to the surface. Canadian Liquid Air has participated in designing and implementing these pilot programs. We anticipate extensive usage of this technique not only throughout the western Canadian provinces, where there are vast reserves of heavy oil, but also in some of the oil-producing regions of the United States.

CLA is well-positioned to provide energy-related industries with engineering and construction of cryogenic plants, industrial gas application technology and over-the-fence supply of industrial gases.

CLA, directly and through its coast-to-coast network of independent distributors, has been an important participant in Canadian growth.



Sales of Canadian Liquid Air
(in millions of dollars)



Oxigenio do Brasil

To meet increasing demands, Oxigenio do Brasil completed a liquid-producing facility near Porto Alegre and is well-positioned to continue its participation in the growth of Brazil.

Oxigenio do Brasil has been a member of the worldwide Liquid Air family since 1949, and a division of the Corporation since early 1976. During this time, Oxigenio do Brasil has maintained its position as one of the important industrial gas companies in Brazil, with air separation plants and long-term supply contracts for product strategically located in the industrialized sectors of the country. To continue meeting Brazilian needs, the Company recently completed a new liquid-producing facility near Porto Alegre in the south.

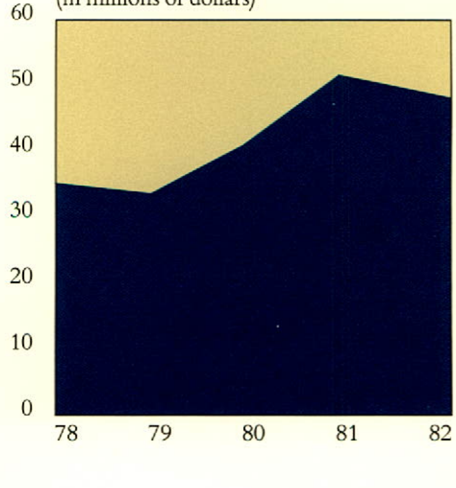
The Company also maintains an efficient distribution network for its gas products, as well as for the proprietary line of welding equipment and supplies manufactured in Sao Paulo. Another important aspect of Oxigenio do Brasil's continuing effort to service its customers is reflected in the Company's growing staff of applications engineers, who have much to offer in new, improved and more efficient methods of production, using various industrial gases.

Oxigenio do Brasil continues to be a strong contributor to the profitability of Liquid Air, despite the worldwide recession and the effects of the world economy on Brazilian industry. Part of this continuing strength is derived from the manner in which Oxigenio do Brasil has adapted and reacted to the problems created by the severe inflation affecting much of South America. Liquid Air anticipated the recent maxi-devaluation and was able to make the necessary adjustments which reduced its balance sheet impact to an amount less than $300,000. Oxigenio do Brasil has succeeded in prospering despite inflation and devaluation.

As Brazil's exports have tripled since 1974, to more than $23 billion, and as this growth has been promoted extensively in the industrial sector, the accompanying industrial activity creates strong potential for Oxigenio do Brasil. In addition, world oil price declines indicate an additional improvement in Brazil's position as a net exporter of goods.

We believe that Oxigenio do Brasil is well positioned to continue its participation in the ongoing growth of Brazil, South America's most highly industrialized nation.

Sales of Oxigenio do Brasil
(in millions of dollars)



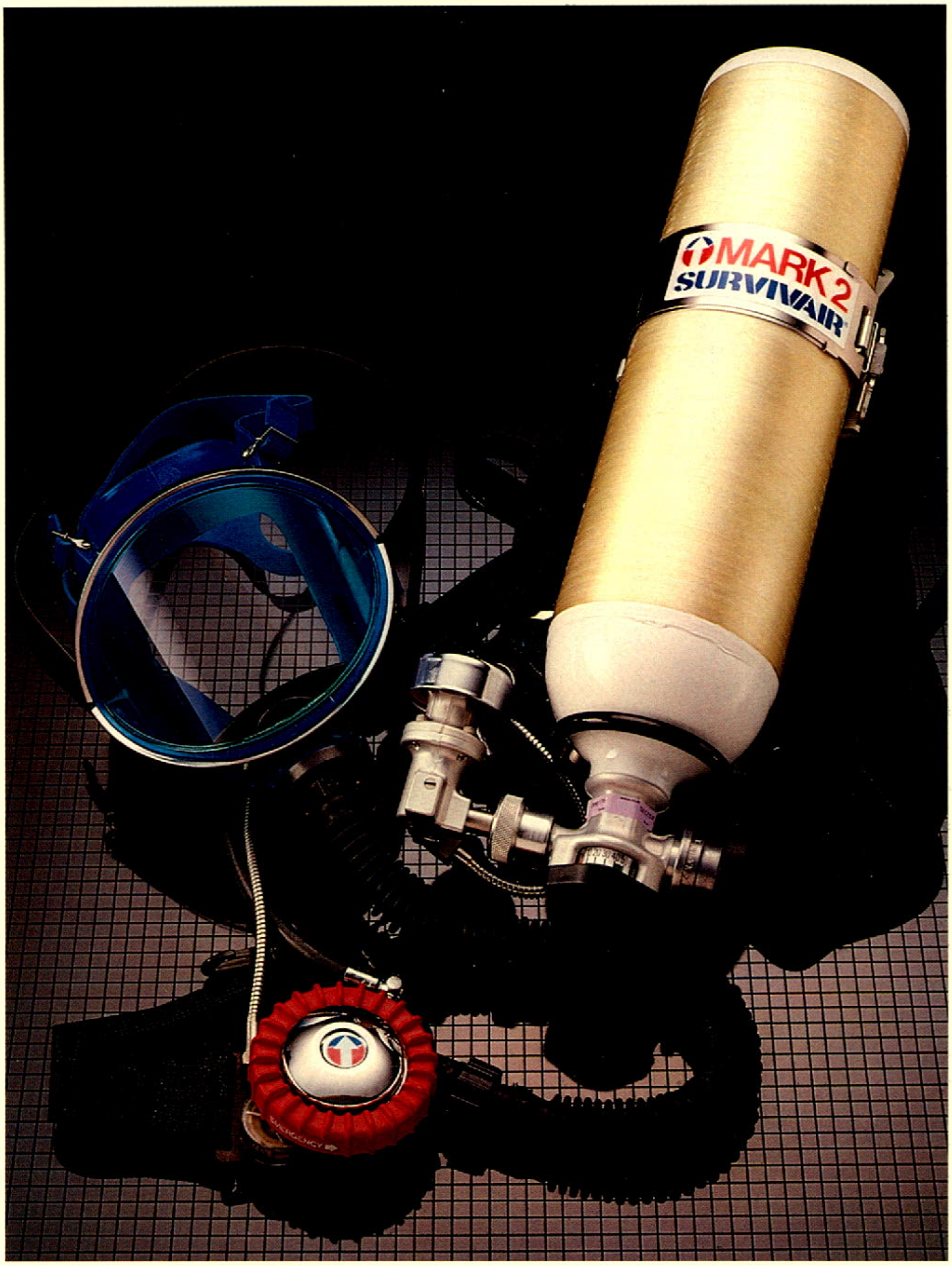
U.S.D. Corp

U.S.D.'s presence in the fire, rescue and hazardous atmosphere equipment market provides an excellent balance to the division's traditional diving business.

U.S.D. Corp, co-founded with Captain Jacques-Yves Cousteau, is the only component of Liquid Air actively engaged in the consumer market. Through its manufacture, assembly and distribution of Aqua Lung® diving gear and related equipment, U.S.D. enjoys a healthy share of the sport diving market. This market, however, has long been tied to economic trends, and in recessionary times, purchases are significantly reduced. To bolster U.S.D.'s presence in this market, the Company has developed a complete new line of diving equipment. Some items of this exciting new line are shown on the facing page.

Several years ago, U.S.D. recognized the cyclical nature of buying patterns in these markets, and extended its product lines into safety equipment, often mandated by governmental agencies such as OSHA. Unfortunately, sales of this division's line of safety products did not escape the recent recessionary period unaffected, but the rate of decline was much lower than that of the company's diving division. The Survivair™ line of breathing and life support apparatus and apparel has given U.S.D. a very strong presence in the fire, rescue and hazardous atmosphere equipment market. In addition, the Survivair™ division has just developed a brand-new line of air purifying respirators. These products constitute an excellent balance to U.S.D.'s traditional diving equipment business, and offer even greater potential for further growth. The company also prides itself on having developed the most technologically advanced line of self-contained breathing apparatus.

Pictured on the left is Captain Jacques-Yves Cousteau, Chairman of the Board of U.S.D. Corp, with his son, Jean-Michel, who is also a consultant to the Company. U.S.D. Corp is indebted to these great men, who have done so much to protect the environment in which we live.


MARK 2
SURVIVAIR

Management's Discussion and Analysis

Results of Operations

Sales in 1982 totalled $449.0 million, an increase of $21.0 million, or 5% over 1981. This overall sales increase was due to the inclusion of the sales of Cardox (see Note B of notes to consolidated financial statements). Excluding Cardox, industrial gas sales were lower in 1982 in both the United States and Brazil, mostly as a result of volume decreases. Canadian industrial gas sales showed a slight increase despite a lower value of the Canadian dollar. Sales of welding products in Canada declined, primarily due to a drop in volume and in Brazil resulted in a modest decrease. Sales of underwater diving and life support equipment fell substantially.

Sales in 1981 totaled $428.0 million, an increase of $19.8 million, or 5% over 1980. The increase in industrial gas sales resulted mainly from price and volume increases in Brazil. The United States operations achieved an overall increase in sales despite the absence of sales related to facilities divested in 1981 and 1980. Canada had a modest increase despite a lower value of the Canadian dollar and a shutdown for an extended period of the Company's largest plant caused by a strike of the employees of a large on-site customer.

The effect upon operating profit and net earnings of the weak economic conditions in those countries in which the Company operates was mostly responsible for the decreases of 6% ($3.1 million) in operating profit and of 13% ($4.0 million) in net earnings. Net earnings were $27.5 million, compared with $31.5 million in 1981. Earnings per share, reflecting the increase in capital stock of 16%, were $2.13 in 1982 compared with $2.86 in the prior year. Excluding Cardox, lower operating profits were experienced in all of the Company's operations, particularly in the welding products and underwater diving and life support equipment businesses, where operating profits were nominal. Net interest expense was higher due to decreases in interest income and capitalized interest and to an increase in debt as a result of the Cardox acquisition, with some offset by a decrease in interest expense in the Brazilian operations. The small decline in other income was primarily due to a loss on translation of Brazilian currency (see Note M of notes to consolidated financial statements) mostly offset by increased gains on disposal of fixed assets and gain on settlement of a legal matter. Partially offsetting the decrease in net earnings was the inclusion of the Cardox operations.

1981 net earnings from operations were $31.5 million, an increase of $4.1 million, or 15% over 1980 net earnings from operations of $27.4 million. 1980 net earnings, including a $2.0 million gain on disposal of certain gas assets were $29.4 million. Reflecting the 4% increase in capital stock, net earnings from operations per share were $2.86 in 1981, compared with $2.57 in 1980. The 1980 net earnings per share, including the gain on disposal, amounted to $2.76. The Brazilian operations, which showed a substantial increase in both sales and earnings, and the United States industrial gas operations accounted primarily for the increase in earnings by the Company.

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 33% at the end of 1982, compared with 28% at the end of 1981 and 31% at the end of 1980. However, since the Company had excess cash at the end of each year and certificates of deposit of $14.2 million at the end of 1981, this ratio can be viewed as 31%, 17% and 26% at the end of 1982, 1981 and 1980. This ratio is considered to be at a reasonable level.

In March, 1982, the Company reached agreement with a number of banks to increase its long-term revolving lines of credit from $75.8 million to $160.0 million at substantially the same terms or better (see Note E of notes to consolidated financial statements). This increased the unused long-term credit lines available to the Company to $102.7 million. These credit lines are available through 1989. The Company utilized part of these bank lines of credit and the proceeds from a common stock issue of 833,750 shares for $17.5 million to finance the acquisition of Cardox Corporation.

It is expected that these unused long-term credit lines of $102.7 million, the excess cash of $14.8 million and the projected 1983 cash flow will be sufficient to enable the Company to finance all of its 1983 capital programs, cash dividend requirements and working capital requirements.

Impact of Inflation

The Company has published its interpretation of this subject in its annual report to shareholders in a section entitled "Accounting for Inflation"–see page 36 for this year's report.

Reference is also made to Note N of notes to consolidated financial statements for financial information on the effects of inflation using measurement bases developed by the Financial Accounting Standards Board.

Ten Year Summary of Earnings*

Liquid Air Corporation — Years ended December 31

(Millions of dollars except per share amounts)	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Sales	**$449.0**	**$428.0**	**$408.2**	**$369.1**	**$304.3**	**$284.5**	**$265.6**	**$240.8**	**$220.0**	**$175.5**
Cost of products sold	233.5	222.7	209.0	190.9	162.0	152.4	138.2	127.5	117.3	93.1
Operating expenses	134.6	126.8	121.3	109.9	87.7	81.7	75.9	64.4	58.4	50.0
Depreciation and amortization	32.8	27.3	26.6	23.7	16.6	14.2	13.0	10.9	10.0	8.4
Operating Profit	**48.1**	**51.2**	**51.3**	**44.6**	**38.0**	**36.2**	**38.5**	**38.0**	**34.3**	**24.0**
Other income	3.2	3.6	7.4	3.4	.3	3.3	2.5	1.2	.3	.2
Interest–net(2)	7.5	4.3	7.8	9.9	9.6	9.2	5.9	6.7	6.8	3.7
Earnings Before Taxes	**43.8**	**50.5**	**50.9**	**38.1**	**28.7**	**30.3**	**35.1**	**32.5**	**27.8**	**20.5**
Income taxes	16.3	19.0	21.5	13.8	10.4	10.5	13.9	14.9	13.7	9.5
Earnings Before Extraordinary Item	**27.5**	**31.5**	**29.4**	**24.3**	**18.3**	**19.8**	**21.2**	**17.6**	**14.1**	**11.0**
Extraordinary item										1.1
Net Earnings	**$ 27.5**	**$ 31.5**	**$ 29.4**	**$ 24.3**	**$ 18.3**	**$ 19.8**	**$ 21.2**	**$ 17.6**	**$ 14.1**	**$ 12.1**
Per Share:(1)										
Earnings before extraordinary item	$ 2.13	$ 2.86	$ 2.76	$ 2.45	$ 2.48	$ 2.73	$ 2.73	$ 2.35	$ 1.89	$ 1.48
Net earnings	2.13	2.86	2.76	2.45	2.48	2.73	2.73	2.35	1.89	1.63
Dividends paid	1.60	1.55	1.40	1.40	1.40	1.40	1.25	1.25	1.15	1.20

(1) Per common share and common equivalent share.
(2) Net of interest income.

Summary by Geographic Location*

Liquid Air Corporation — Years ended December 31

(Millions of dollars)	1982**	1981**	1980**	1979	1978	1977	1976	1975	1974	1973
Sales	**$449.0**	**$428.0**	**$408.2**	**$369.1**	**$304.3**	**$284.5**	**$265.6**	**$240.8**	**$220.0**	**$175.5**
United States	276.9	240.7	235.2	214.5	165.5	157.3	140.5	122.0	118.3	96.8
Foreign	172.1	187.3	173.0	154.6	138.8	127.2	125.1	118.8	101.7	78.7
Canada	124.8	135.4	132.0	119.9	103.1	97.4	97.6	93.8	81.1	65.2
Brazil	47.3	51.9	41.0	34.7	35.7	29.8	27.5	25.0	20.6	13.5
Operating Profit	**48.1**	**51.2**	**51.3**	**44.6**	**38.0**	**36.2**	**38.5**	**38.0**	**34.3**	**24.0**
United States	19.3	17.6	20.0	18.1	13.0	14.0	16.1	15.6	13.9	10.0
Foreign	28.8	33.6	31.3	26.5	25.0	22.2	22.4	22.4	20.4	14.0
Canada	19.1	21.3	23.9	21.1	17.8	17.8	18.3	18.5	16.9	12.0
Brazil	9.7	12.3	7.4	5.4	7.2	4.4	4.1	3.9	3.5	2.0

*See Note A of notes to consolidated financial statements.
**See Note M of notes to consolidated financial statements.

Summary by Operating Group*

Liquid Air Corporation

Years ended December 31

(Millions of dollars)	1982**	1981**	1980**	1979	1978	1977	1976	1975	1974	1973
Sales	**$449.0**	**$428.0**	**$408.2**	**$369.1**	**$304.3**	**$284.5**	**$265.6**	**$240.8**	**$220.0**	**$175.5**
Industrial gases	370.9	327.0	311.8	271.8	184.8	171.8	155.7	134.6	113.9	93.5
Welding products	48.5	61.6	59.7	61.3	88.4	87.1	86.2	87.8	87.8	65.3
Underwater diving and life support	29.6	39.4	36.7	36.0	31.1	25.6	23.7	18.4	18.3	16.7
Operating Profit(1)	**48.1**	**51.2**	**51.3**	**44.6**	**38.0**	**36.2**	**38.5**	**38.0**	**34.3**	**24.0**
Industrial gases	47.8	45.5	43.6	40.4	33.9	31.1	30.8	26.9	21.3	17.3
Welding products	.1	2.3	3.2	1.0	1.4	2.9	5.3	9.3	11.8	4.8
Underwater diving and life support	.2	3.4	4.5	3.2	2.7	2.2	2.4	1.8	1.2	1.9
Depreciation and Amortization(2)	**32.8**	**27.3**	**26.6**	**23.7**	**16.6**	**14.2**	**13.0**	**10.9**	**10.0**	**8.4**
Industrial gases	31.7	26.0	25.3	22.7	15.8	13.4	12.3	10.3	9.5	8.0
Capital Expenditures(2)	**58.7**(3)	**61.8**	**60.5**	**50.7**	**37.1**	**31.9**	**32.0**	**27.2**	**23.4**	**25.5**
Industrial gases	57.2(3)	59.9	58.4	48.9	35.5	31.0	30.6	26.3	22.6	24.8

(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 acquisition–See Note B of notes to consolidated financial statements.
*See Note A of notes to consolidated financial statements.

Summary of Identifiable Assets

Liquid Air Corporation

Years ended December 31

(Millions of dollars)	1982**	1981**	1980**	1979	1978	1977	1976	1975	1974	1973
By Geographic Location	**$537.2**	**$484.3**	**$444.9**	**$417.3**	**$317.6**	**$293.1**	**$260.3**	**$228.3**	**$222.8**	**$193.6**
United States	336.3	272.3	256.4	259.1	180.7	170.7	152.3	120.3	115.1	102.2
Foreign	200.9	212.0	188.5	158.2	136.9	122.4	108.0	108.0	107.7	91.4
Canada	148.5	160.8	145.2	120.4	101.3	90.5	78.6	76.9	77.6	68.2
Brazil	52.4	51.2	43.3	37.8	35.6	31.9	29.4	31.1	30.1	23.2
By Operating Group	**$537.2**	**$484.3**	**$444.9**	**$417.3**	**$317.6**	**$293.1**	**$260.3**	**$228.3**	**$222.8**	**$193.6**
Industrial gases	455.3	378.7	356.0	340.9	237.0	216.2	187.0	168.7	149.2	132.1
Welding products	20.5	33.0	29.0	28.5	47.3	46.6	47.0	41.0	42.8	31.2
Underwater diving and life support	21.3	25.5	26.2	26.8	20.3	17.0	16.9	11.9	11.4	10.7
Corporate	40.1	47.1	33.7	21.1	13.0	13.3	9.4	6.7	19.4	19.6

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

Quarterly Data

Liquid Air Corporation

Years ended December 31

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

1982					1981			
Industrial gases	Welding products	U.S.D. Corp*	Total	**Sales**	Industrial gases	Welding products	U.S.D. Corp*	Total
$ 82.3	$14.2	$ 7.0	$103.5	First	$ 81.9	$16.1	$11.8	$109.8
97.7	13.3	9.3	120.3	Second	83.4	16.4	9.5	109.3
97.7	11.1	6.4	115.2	Third	81.8	14.8	8.7	105.3
93.2	9.9	6.9	110.0	Fourth	79.9	14.3	9.4	103.6
$370.9	**$48.5**	**$29.6**	**$449.0**	Total	**$327.0**	**$61.6**	**$39.4**	**$428.0**
				Operating Profit				
$ 10.6	$ .9	$ 0	$11.5	First	$ 13.7	$ 1.4	$ 1.7	$ 16.8
13.6	.2	.5	14.3	Second	11.4	1.1	.3	12.8
12.3	(.6)	(.2)	11.5	Third	11.6	.1	.1	11.8
11.3	(.4)	(.1)	10.8	Fourth	8.8	(.3)	1.3	9.8
$ 47.8	**$ .1**	**$ .2**	**$ 48.1**	Total	**$ 45.5**	**$ 2.3**	**$ 3.4**	**$ 51.2**

Net earnings	Earnings per share	Dividends paid	**Net Earnings, Earnings and Dividends Per Share**	Net earnings	Earnings per share	Dividends paid
$7.8	64¢	40¢	First	$9.4	89¢	35¢
7.8	60¢	40¢	Second	7.5	70¢	40¢
6.0	46¢	40¢	Third	7.1	66¢	40¢
5.9	44¢	40¢	Fourth	7.5	62¢	40¢

High bid	Low bid	**Common Stock Price Range**	High bid	Low bid
19 3/16	16 1/4	First	29 3/4	26
19 3/4	17 3/4	Second	29	23
20 3/4	14 3/4	Third	23	18
20 1/2	18 1/4	Fourth	18 1/2	16 3/4

*Underwater diving and life support equipment.

Ten Year Financial Summary*

Liquid Air Corporation

Years ended December 31

(Millions of dollars)	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Source and Application of Funds										
Source of Funds										
From operations	$ 71.9	$ 58.2	$ 65.2	$ 53.3	$ 42.0	$ 38.8	$ 36.8	$ 30.3	$ 27.3	$ 22.5
Additional long-term debt	64.4	23.1	8.0	18.1	20.8	46.7	33.6	9.5	22.6	17.3
Shares issued for cash										
Preferred						24.0				
Common	19.5	30.0						7.9	2.1	3.1
Shares issued to acquire companies				60.0						
Decrease in other assets						5.3		.2	6.4	
Property, plant and equipment sold	1.4	11.7	22.4	1.1	.7	.3	.7	.5	.7	.4
Decrease in certificates of deposit	14.2									
Decrease in noncash working capital		9.8	5.9	2.2						3.2
	$171.4	**$132.8**	**$101.5**	**$134.7**	**$ 63.5**	**$115.1**	**$ 71.1**	**$ 48.4**	**$ 59.1**	**$ 46.5**
Application of Funds										
Property, plant and equipment acquired	$ 58.7	$ 61.8	$ 60.5	$ 50.7	$ 37.1	$ 31.9	$ 21.7	$ 27.2	$ 23.4	$ 25.5
Property, plant and equipment of subsidiaries acquired	47.0			52.5			10.3			
Reduction of long-term debt	30.7	22.5	9.3	10.2	10.7	32.9	19.4	18.2	9.5	5.0
Cash dividends paid	21.0	17.7	15.6	14.4	10.9	10.4	9.6	9.1	8.4	8.5
Purchase of common shares						28.9				
Increase in goodwill	15.5		1.7		.3	1.3	.8	.1	.5	.2
Increase in other assets	4.4	17.5	6.5	2.1	.9	.7	5.4			7.3
Other	(6.9)			(1.9)			1.5		.1	.1
Increase in noncash working capital	17.5				7.7	1.9	3.9	4.1	9.2	
Cash and certificates of deposit increase (decrease)	(16.5)	13.3	7.9	6.7	(4.1)	7.1	(1.5)	(10.3)	8.0	(.1)
	$171.4	**$132.8**	**$101.5**	**$134.7**	**$ 63.5**	**$115.1**	**$ 71.1**	**$ 48.4**	**$ 59.1**	**$ 46.5**

*See Note A of notes to consolidated financial statements.

Ten Year Financial Summary*

Liquid Air Corporation (Millions of dollars)										Years ended December 31
	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Balance Sheet Data										
Assets										
Cash and certificates of deposit	$ 20.3	$ 36.8	$ 23.5	$ 15.6	$ 8.9	$ 13.0	$ 5.9	$ 7.4	$ 17.7	$ 9.7
Other current assets	107.3	111.4	116.8	116.8	105.2	97.6	86.0	74.3	74.0	59.4
Other assets	22.1	31.9	14.4	8.0	5.0	4.1	8.7	3.3	3.5	9.9
Property, plant and equipment, net of accumulated depreciation	353.4	285.0	270.8	259.0	180.3	160.3	142.6	126.9	111.1	98.4
Goodwill	34.1	19.2	19.4	17.9	18.2	18.1	17.1	16.4	16.5	16.2
	$537.2	**$484.3**	**$444.9**	**$417.3**	**$317.6**	**$293.1**	**$260.3**	**$228.3**	**$222.8**	**$193.6**
Liabilities and Equity										
Current liabilities	$ 67.8	$ 88.9	$ 83.9	$ 77.3	$ 63.6	$ 63.6	$ 54.9	$ 50.8	$ 56.4	$ 49.0
Long-term debt	139.2	99.0	98.9	101.0	90.2	80.2	65.4	51.7	58.7	47.6
Deferred taxes	48.3	37.4	39.8	30.6	25.3	18.3	13.4	10.8	9.2	6.2
Shareholders' equity(1)	281.9	259.0	222.3	208.4	138.5	131.0	126.6	115.0	98.5	90.8
	$537.2	**$484.3**	**$444.9**	**$417.3**	**$317.6**	**$293.1**	**$260.3**	**$228.3**	**$222.8**	**$193.6**
(1) Includes redeemable preferred stock	24.0	24.0	24.0	24.0	24.0	24.0	16.9	16.9	19.0	19.0

*See Note A of notes to consolidated financial statements.

Consolidated Statement of Earnings

Liquid Air Corporation (Thousands of dollars except per share amounts)			Years ended December 31
	1982	1981	1980
Sales	**$448,996**	**$427,991**	**$408,249**
Costs and Expenses			
Costs of products sold	233,472	222,697	209,029
Selling, distribution, general and administrative expenses	134,610	126,789	121,315
Depreciation and amortization (principally applicable to costs of products sold)	32,847	27,346	26,560
	400,929	**376,832**	**356,904**
Operating Profit	**48,067**	**51,159**	**51,345**
Other Expenses (Income)			
Interest (net of interest income of $3,977 in 1982, $8,008 in 1981 and $2,890 in 1980)	7,452	4,310	7,764
Gain on sale of assets		(1,000)	(4,800)
Other income	(3,150)	(2,617)	(2,493)
	4,302	**693**	**471**
Earnings Before Income Taxes	**43,765**	**50,466**	**50,874**
Income Taxes			
Current	4,717	19,595	12,248
Deferred	11,536	(655)	9,178
	16,253	**18,940**	**21,426**
Net Earnings	**$ 27,512**	**$ 31,526**	**$ 29,448**
Net Earnings per Common Share	**$2.13**	**$2.86**	**$2.76**

See notes to consolidated financial statements.

Consolidated Balance Sheet

Liquid Air Corporation

(Thousands of dollars)

	December 31 1982	1981
Assets		
Current Assets		
Cash	$ 5,502	$ 10,488
Certificates of deposit	14,788	26,331
Receivables		
Trade, less allowances ($2,922 in 1982 and $3,222 in 1981)	64,127	62,776
Other	5,311	6,115
Due from affiliates	2,561	2,014
Inventories	31,495	37,025
Prepaid expenses and deposits	3,851	3,421
	127,635	**148,170**
Certificates of Deposit		**14,228**
Other Assets	**22,079**	**17,704**
Property, Plant and Equipment–at cost	552,565	457,212
Less accumulated depreciation	(199,189)	(172,186)
	353,376	**285,026**
Goodwill	**34,092**	**19,179**
	$537,182	**$484,307**

See notes to consolidated financial statements.

Liabilities and Shareholders' Equity	December 31 1982	1981
Current Liabilities		
Bank indebtedness	$ 6,769	$ 9,632
Accounts payable	44,386	48,271
Accrued interest	1,839	2,097
Accrued taxes, other than income taxes	4,011	4,108
Due to parent and other affiliates	2,087	2,487
Income taxes	2,892	16,853
Current maturities of long-term debt	5,833	5,451
	67,817	**88,899**
Long-term Debt, exclusive of current maturities	**139,135**	**99,002**
Deferred Income Taxes	**48,337**	**37,451**
Redeemable Preferred Stock, convertible, par value $100		
Authorized and issued 240,000 shares	**24,000**	**24,000**
Common Stock, no par value		
Authorized 16,000,000 shares		
Issued 12,562,796 shares in 1982 and 11,627,176 shares in 1981, at stated value	**40**	**37**
Other Shareholders' Equity		
Capital surplus	**170,377**	**150,882**
Retained earnings	**97,607**	**91,101**
Cumulative translation adjustment	**(10,131)**	**(7,065)**
	$537,182	**$484,307**

Consolidated Statement of Changes in Funds

Liquid Air Corporation

(Thousands of dollars)

	Years ended December 31 1982	1981	1980
Source of Funds			
From operations			
Net earnings	$ 27,512	$ 31,526	$ 29,448
Expenses not affecting working capital			
Depreciation and amortization	32,847	27,346	26,560
Deferred income taxes	11,536	(655)	9,178
Total from operations	**71,895**	**58,217**	**65,186**
Common stock issued	19,498	29,961	
Additional long-term debt	64,410	23,123	8,069
Sales of property, plant and equipment	1,331	11,752	22,410
Decrease in certificates of deposit	14,228		
Decrease in noncash working capital		9,786	5,884
Total source of funds	**171,362**	**132,839**	**101,549**
Disposition of Funds			
Additions to property, plant and equipment	58,657	61,818	60,469
Noncurrent assets and liabilities of business acquired:			
Property, plant and equipment	47,000		
Long-term debt	(6,850)		
Increase in certificates of deposit		14,228	
Repayment of long-term debt	30,745	22,469	9,325
Cash dividends	21,006	17,701	15,601
Increase in goodwill	15,500	72	1,758
Increase in other assets	4,375	3,276	6,474
Increase in noncash working capital, including working capital acquired of $4,737	17,458		
Total disposition of funds	**187,891**	**119,564**	**93,627**
Increase (decrease) in cash and certificates of deposit	(16,529)	13,275	7,922
Cash and certificates of deposit at beginning of year	36,819	23,544	15,622
Cash and certificates of deposit at end of year	**$ 20,290**	**$ 36,819**	**$ 23,544**
Changes in Components of Noncash Working Capital			
Increase (decrease) in current assets			
Receivables	$ 547	$ (9,617)	$ 8,786
Due from affiliates	547	1,754	(3,214)
Inventories	(5,530)	2,984	(4,177)
Prepaid expenses and deposits	430	(522)	180
Income taxes recoverable			(1,595)
	(4,006)	**(5,401)**	**(20)**
Increase (decrease) in current liabilities			
Bank indebtedness	(2,863)	(925)	1,388
Accounts payable and accrued expenses	(4,240)	(3,000)	(1,156)
Due to parent and other affiliates	(400)	478	(372)
Income taxes	(13,961)	7,832	6,004
	(21,464)	**4,385**	**5,864**
Decrease in noncash working capital	**$ 17,458**	**$ (9,786)**	**$ (5,884)**

See notes to consolidated financial statements.

Consolidated Statement of Common Stock and Other Shareholders' Equity

Liquid Air Corporation

Years ended December 31

(Thousands of dollars except per share amounts)	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Cumulative Translation Adjustment	Treasury Shares
Balance December 31, 1979	**11,104,570**	**$32**	**$149,858**	**$63,429**		**$(28,932)**
Net earnings				29,448		
Cash dividends						
Common ($1.40 per share)				(14,281)		
Preferred ($5.50 per share)				(1,320)		
Balance December 31, 1980	**11,104,570**	**32**	**149,858**	**77,276**		**(28,932)**
Cumulative translation adjustment, January 1, 1981					(7,704)	
Current year's translation adjustment					639	
Stock issued	522,606	5	1,024			28,932
Net earnings				31,526		
Cash dividends						
Common ($1.55 per share)				(16,381)		
Preferred ($5.50 per share)				(1,320)		
Balance December 31, 1981	**11,627,176**	**37**	**150,882**	**91,101**	**(7,065)**	
Current year's translation adjustment					(3,066)	
Net earnings				27,512		
Stock issued	935,620	3	19,495			
Cash dividends						
Common ($1.60 per share)				(19,686)		
Preferred ($5.50 per share)				(1,320)		
Balance December 31, 1982	**12,562,796**	**$40**	**$170,377**	**$97,607**	**$(10,131)**	**$ –**

See notes to consolidated financial statements.

Note 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'Étude et l'Exploitation des Procédés Georges Claude (L'Air Liquide) owns directly or through other affiliates approximately 57% and 61% of the Company's common stock outstanding and all of its preferred stock outstanding as of December 31, 1982 and 1981.

Depreciation and Amortization: The Company follows the policy of providing for depreciation principally on the straight-line method for financial reporting purposes and by the declining balance method for income tax purposes. When assets are sold or otherwise disposed of, 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, primarily relating to depreciation methods, in reporting income for financial statements and income tax purposes.

Consolidated retained earnings include $146,534,000 and $125,155,000 of retained earnings of foreign subsidiaries at December 31, 1982 and 1981, 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 $6,948,000, $7,229,000 and $6,245,000 in 1982, 1981 and 1980. These amounts include royalties of $3,690,000, $4,149,000 and $4,052,000 in 1982, 1981 and 1980 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 in accordance with FASB Statement No. 34. Accordingly, interest expense amounting to $2,314,000 in 1982, $4,805,000 in 1981 and $3,227,000 in 1980 has been included in the costs of newly constructed manufacturing facilities.

Change in Accounting for Foreign Currency Translation: The financial statements of foreign entities for the years ended December 31, 1982 and 1981 have been translated to U.S. dollars in accordance with FASB Statement No. 52, "Foreign Currency Translation." Under that Statement, 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.

Note B–Acquisitions and Divestitures

On March 31, 1982, pursuant to a Contract for Purchase of the Issued and Outstanding Capital Stock of Cardox Corporation ("Cardox") dated January 29, 1982, LAI Properties, Inc. a wholly owned subsidiary of Liquid Air Corporation, acquired all of the outstanding shares of capital stock of Cardox from Allegheny International, Inc. (which owned 28.7% of the common shares of the Company) for approximately $60,000,000. Cardox, which was formerly the Cardox Division of Chemetron Corporation, a wholly owned subsidiary of Allegheny, is engaged in the processing and marketing of carbon dioxide, which is sold primarily to industrial and commercial users in liquid, solid and gaseous form. Substantially all of the assets acquired as a result of the acquisition constituted plant, equipment and other property used in the production and distribution of carbon dioxide, and Liquid Air Corporation intends to continue such use of the assets. The acquisition has been accounted for by the purchase method of accounting. The accounts of Cardox have been consolidated from April 1, 1982. The allocation of the purchase price to the individual assets acquired less the liabilities assumed resulted in goodwill of $15,500,000 being recognized.

Following is an unaudited pro forma summary of the results of operations as if the acquisition had been consummated on January 1, 1981:

	Year Ended December 31 1982	1981
Sales	$466,341,000	$502,534,000
Net earnings	27,786,000	34,942,000
Net earnings per common share	$2.12	$2.70

In addition to the above, pursuant to an agreement effective May 31, 1981 and consummated on May 13, 1982, the Company disposed of certain facilities, required by the Federal Trade Commission to be divested, for a cash sales price, resulting in no significant effect on net earnings.

Note C–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 $8,003,000 at December 31, 1982 and $7,692,000 at December 31, 1981.

	1982	1981
Finished goods	$17,797,000	$20,643,000
Work in progress	1,904,000	3,286,000
Materials and supplies	11,794,000	13,096,000
	$31,495,000	$37,025,000

Note D–Property, Plant and Equipment

Property, plant and equipment (including assets purchased from affiliates of approximately $86,208,000 and $73,925,000 at December 31, 1982 and 1981) are summarized as follows:

	1982	1981
Land	$ 12,556,000	$ 11,233,000
Buildings	50,236,000	37,992,000
Cylinders	104,758,000	97,897,000
Machinery and equipment	350,632,000	290,537,000
Construction in progress	34,383,000	19,553,000
	$552,565,000	$457,212,000

Cost to complete construction in progress at December 31, 1982 is estimated at $12,952,000.

Note E–Credit Arrangements

The Company has both short-term and long-term lines of credit as follows at December 31, 1982:

	Short-Term	Long-Term
Total available	$34,366,000	$160,000,000
Amount unused	27,871,000	102,708,000
Amount used	$ 6,495,000	$ 57,292,000

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 through 1989 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.

Note F–Long-Term Debt

	1982	1981
9% note payable to an insurance company, due April 1, 1993, payable in annual installments of $1,000,000	$ 11,000,000	$ 12,000,000
8¾% note payable to an insurance company, due February 1, 1996, payable in installments of $2,000,000	28,000,000	30,000,000
Prime rate or less, revolving loans to a maximum of $145,000,000, $5,000,000 expiring in 1985 and the balance due in 1987	42,292,000	48,750,000
Prime rate or less, revolving loans to a maximum of $15,000,000, due in 1989	15,000,000	
Industrial Revenue Bonds at rates from 6½% to 8%, payable in varying maturities through 2004	13,050,000	2,800,000
Notes payable to affiliates at rates from 8⅜% to 11%, payable in 1987	25,665,000	
Various long-term indebtedness at rates from 6% to 13%, payable in varying maturities through 1994	9,961,000	10,903,000
	144,968,000	104,453,000
Less current maturities	5,833,000	5,451,000
	$139,135,000	$ 99,002,000

Long-term debt includes the U.S. dollar equivalent (approximately $5,031,000 and $6,235,000 at December 31, 1982 and 1981) of loans repayable in foreign currencies.

The principal payments required on long-term debt at December 31, 1982, during the succeeding five years, are as follows:

1983	$ 5,833,000
1984	5,440,000
1985	4,345,000
1986	5,157,000
1987	41,751,000

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, 1982. Approximately $58,584,000 and $58,340,000 of consolidated retained earnings were unrestricted under these agreements as to the payment of dividends at December 31, 1982 and 1981.

Note G–Redeemable Preferred Stock

Redeemable preferred stock 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 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 preferred shares and exercise of an option to purchase 93,750 common shares at $21 per share.

Note H–Common Stock

During 1981, the Company commenced a subscription rights offering to its shareholders, on the basis of the right to subscribe for one new share for each four shares held of record on December 9, 1981, the record date for the offering. The subscription rights were exercisable at a price of $21 per share, with the subscription period to remain open until September 8, 1982. At December 31, 1981, the Company had issued 1,426,731 shares (which includes the 904,125 shares previously held in Treasury) for proceeds of $29,961,000. During 1982, additional subscription rights were exercised and 935,620 shares were issued for $19,498,000, resulting in aggregate proceeds of $49,459,000.

Note I–Pensions

The Company and its significant subsidiaries have pension plans for eligible employees, including certain employees of a foreign subsidiary. It is the policy of the Company and its subsidiaries to fund actuarially determined pension costs as accrued and to amortize prior service costs over a period of 30 to 40 years. Total pension expense amounted to $1,775,000, $1,564,000 and $1,551,000 in 1982, 1981 and 1980.

Accumulated plan benefit information, as determined by consulting actuaries, and plan net assets for the Company's domestic plans are presented below:

	January 1 1982	1981
Actuarial present value of accumulated benefits:		
Vested	$16,560,000	$11,333,000
Nonvested	1,840,000	1,162,000
	$18,400,000	$12,495,000
Net assets available for pension benefits	$20,284,000	$14,082,000

The assumed rate of return used in determining the actuarial value of accumulated plan benefits ranged from 5½% to 11%. The Company's foreign pension plan is not required to report to certain governmental agencies pursuant to ERISA and does not otherwise determine the actuarial value of accumulated plan benefits or net assets available for pension benefits as calculated and disclosed above. For that plan, the value of the plan assets exceeds the actuarially computed value of vested benefits.

Note J–Leases

The Company leases certain real property and equipment. Rental expense was $13,774,000, $11,738,000 and $11,438,000 for 1982, 1981 and 1980.

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

1983	$ 7,814,000
1984	6,834,000
1985	3,727,000
1986	2,270,000
1987	1,507,000
Thereafter	3,032,000
	$25,184,000

Note K–Income Taxes

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

	1982	1981	1980
Domestic	$11,139,000	$ 6,926,000	$14,861,000
Foreign	32,626,000	43,540,000	36,013,000
	$43,765,000	$50,466,000	$50,874,000

The provision for income taxes consists of:

	Federal and State		Foreign	
	Current	Deferred	Current	Deferred
1980	$1,175,000	$4,998,000	$11,073,000	$4,180,000
1981	704,000	317,000	18,891,000	(972,000)
1982	1,909,000	3,505,000	2,808,000	8,031,000

	Total	
	Current	Deferred
1980	$12,248,000	$ 9,178,000
1981	19,595,000	(655,000)
1982	4,717,000	11,536,000

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:

	1982	1981	1980
Statutory federal rate	46.0%	46.0%	46.0%
Investment tax credit	(6.3)	(8.8)	(5.9)
Lower effective foreign rates	(2.8)	(1.0)	(1.0)
Other	.3	1.3	3.0
Effective tax rate	37.2%	37.5%	42.1%

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

	1982	1981	1980
Accelerated depreciation for tax purposes	$10,533,000	$ (842,000)	$6,098,000
Capitalization of interest costs	839,000	2,253,000	1,600,000
Vacation pay accrual	578,000	85,000	1,088,000
Gain on sale of assets	(825,000)		642,000
Acquisition costs	834,000	576,000	737,000
Provision for doubtful accounts in excess of allowable tax expense			1,073,000
Investment tax credits	(675,000)	(2,007,000)	(2,100,000)
Other	252,000	(720,000)	40,000
	$11,536,000	$ (655,000)	$9,178,000

Note L–Earnings Per Share

Earnings per share are computed by dividing net earnings, less preferred stock dividends, by the average number of outstanding common shares (12,289,114, 10,560,059 and 10,200,445 in 1982, 1981 and 1980). The preferred stock is not deemed to be a common share equivalent. Fully diluted earnings per share are not shown, as the effect of conversion of the preferred stock would be anti-dilutive.

Note M–Segments of Business and Foreign Operations

Summary of operations and assets by geographic location and by operating group are contained on pages 21 and 22. Business segment information for 1982, 1981 and 1980 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 1982, 1981 and 1980 of $15,900,000, $16,700,000 and $15,500,000 to industrial gases and $9,000,000, $11,000,000 and $9,600,000 to welding products. Included in these expenses are $1,500,000, $2,100,000 and $1,700,000 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 $20,756,000, $25,621,000 and $20,760,000 for 1982, 1981 and 1980. The consolidated balance sheet includes total assets of the foreign subsidiaries of $201,000,000 and $212,000,000 and net assets of $123,700,000 and $143,400,000 for 1982 and 1981, respectively.

Included in other income are gains (losses) on foreign currency translations of ($1,150,000), $646,000 and $477,000 in 1982, 1981 and 1980.

Note N–Supplemental Information on the Effects of Changing Prices (Unaudited)
For a number of years, the Company has been concerned about the effects of inflation on individual businesses and its impact on the Company's operations. The Company has experimented with sundry methods proposed by accounting bodies and other regulatory authorities for measuring inflation. The Company has found that certain historical ratios provide the best indices of its success in keeping pace with inflation. No one of these indices taken alone is a sufficient guide. One should look at all ratios together and observe whether the ratios have improved or weakened over a long period. It is through these ratios and their trends, rather than trying to measure in precise terms the effects of inflation on a corporation, that one can best judge how an enterprise is affected by inflation. This utilization of ratios gives one additional useful information which the current cost method does not. The Company has published this information for a number of years in its annual report to shareholders in a section entitled "Accounting for Inflation." See page 36 for this year's report.

However, current reporting requirements under generally accepted accounting principles have been extended to require that the Company provide historical financial information converted to current cost using specified methods notwithstanding the Company's own opinion that this information may be less meaningful than that presented on page 36. This required information is provided in the two tables set below. The Company believes this information was prepared on a reasonable basis; however, judgmental decisions were required. Accordingly, the Company cannot represent that this additional information accurately reflects the effects of inflation.

Generally accepted accounting principles require a restatement of the reported costs of inventory and property, plant and equipment, as well as the related costs of products sold and depreciation expense. It was assumed that all revenues and all expenses other than costs of products sold and depreciation expense were earned or incurred ratably throughout the year in such a way that these amounts are already stated in average 1982 dollars. As prescribed by generally accepted accounting principles, no adjustments have been made to income tax expense.

In accordance with FASB Statement No. 70, "Financial Reporting and Changing Prices: Foreign Currency Translation," the Company has incorporated the translation requirements of FASB Statement No. 52 "Foreign Currency Translation" in reporting the effects of changing prices for the years ended December 31, 1982 and 1981. Adjustments to the current cost information to reflect the effects of general inflation on operations with a foreign functional currency were determined utilizing a general price level index appropriate to that functional currency and then translated into U.S. dollars.

For current cost, generally accepted accounting principles require that the Company develop its best estimate to restate the necessary items. The Company used a combination of published governmental and business indices, internally generated indices and representative costs of construction of plant and equipment.

Certain air separation plants have been built to largely supply specific customers on the basis of long-term contracts which require contractual payments to be made to the Company. These plants have been included at historical costs in the current cost information. The costs of these plants have not been adjusted because of the direct relationship between historical costs and contractual revenues. These assets are treated as monetary assets and thus affect the unrealized gain on net monetary liabilities. The net book value of these plants was $46,300,000 at December 31, 1982.

Depreciation expense recomputed under the current cost method exceeds comparable amounts computed on a historical cost basis as a result of the continuing impact of inflation; however, because the Company uses the LIFO method for welding products inventory valuation, the impact on costs of products sold is not material. The purchasing power gain from holding net monetary liabilities during the year is largely due to the amount of long-term debt used to finance property, plant and equipment.

Statement of Earnings Adjusted for Changing Prices

Year Ended December 31, 1982
(In millions of dollars)

	As Reported	Current Costs
Sales	$449.0	$449.0
Costs of products sold	233.5	233.7
Operating expenses	134.6	134.6
Depreciation and amortization	32.8	48.7
Other income	(3.2)	(3.2)
Interest expense–net	7.5	7.5
Earnings before income taxes	43.8	27.7
Income taxes	16.3	16.3
Net earnings	$ 27.5	$ 11.4
Purchasing power gain from holding net monetary liabilities during the year		$ 1.1
Increase in current costs of inventory and property, plant and equipment held during the year		$ 14.9
Effect of increase in general price level		16.9
Excess of increase in the general price level over increase in current costs		$ 2.0

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Changing Prices

(In millions of dollars, except per share data and Consumer Price Index)

	(Average 1982 Dollars) 1982	1981	1980	1979	1978
Sales	$449.0	$454.2	$478.3	$491.0	$450.3
Historical cost information adjusted for current costs:					
Operating costs and expenses	368.3	371.2	387.5	401.8	
Operating profit*	80.7	83.0	90.8	89.2	
Depreciation and amortization	48.7	43.9	46.2	44.6	
Other income	(3.2)	(3.8)	(8.6)	(4.6)	
Interest expense	7.5	4.6	9.1	13.2	
Earnings before income taxes	27.7	38.3	44.1	36.0	
Income taxes	16.3	20.2	25.1	18.4	
Net earnings	11.4	18.1	19.0	17.6	
Net earnings per common share	.83	1.59	1.71	1.69	
Excess of increase in general price level over increase in current costs in 1982 and 1981 and excess of increase in current costs over increase in the general price level in 1980 and 1979	2.0	2.2	(2.2)	(20.3)	
Translation adjustment	1.4	2.6			
Net assets at year end	418.7	413.8	409.7	402.8	
Other information:					
Purchasing power gain from holding net monetary liabilities during the year	1.1	3.5	10.1	11.6	
Cash dividends declared per common share	1.60	1.65	1.65	1.86	2.07
Market price per common share at year end	18.54	17.97	33.28	29.88	38.12
Average Consumer Price Index	289.1	272.4	246.8	217.4	195.4

*Operating profit is defined as profit before depreciation and amortization, other income, interest expense and income taxes.

Accounting for Inflation

General
To test the impact of inflation on its own operations–to make sure that the strengthening trend of its earnings and of its balance sheet is real and not illusory, the Company has experimented with the sundry methods proposed by accounting bodies and other regulatory authorities for measuring inflation. It has found that certain historical ratios provide the best indices of its success in keeping pace with inflation. No one of these indices taken alone is a sufficient guide. The reader should look at all the ratios together and observe whether the ratios have improved or weakened over a long period.

Current dollars operating ratios

a) Before taxes
represents profit (after LIFO inventory costing) before depreciation, interest expense, interest income, exceptional gains and income taxes to sales.

b) After taxes
same as above except it is after taxes which are calculated at the effective tax rate of a given year.

This ratio indicates whether or not the Company was able to recover the rising current costs from its customers through volume and price increases. During inflationary periods, this ratio should be maintained.

This ratio, together with the above ratio, should tell the reader whether or not lower tax rates have compensated the Company for rising current costs that were not recovered through price and volume increases.

	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
a)	18.8%	19.1%	19.8%	19.6%	18.1%	18.9%	20.9%	21.2%	20.5%	18.9%
b)	11.8%	12.1%	11.4%	12.6%	11.5%	12.3%	12.6%	11.5%	10.4%	10.1%

Actual debt ratio
The actual debt ratio represents the percentage of capital employed obtained by borrowings. We believe that this ratio indicates that the Company has hedged itself against inflation within sound financial limits.

	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Total debt	$151,737	$114,085	$114,356	$114,224	$108,528	$ 99,260	$ 85,484	$ 61,899	$ 78,152	$ 68,245
Total capital employed	484,897	412,903	378,374	354,875	273,730	249,894	226,792	191,744	188,771	167,935
Ratio	31.3%	27.7%	30.2%	32.2%	39.6%	39.7%	37.7%	32.3%	41.4%	40.6%

Capital employed is defined as total assets less accounts payable and accrued interest, taxes other than income taxes, due to parent and other affiliates and income taxes.

Return on capital employed before taxes and after taxes
Return on capital employed, before income taxes, is the ratio of income before interest expense, exceptional gains and income taxes to the average capital employed. Return on capital employed after taxes is calculated in the same manner as the above defined ratio except that it takes into consideration the effective tax rate in any given year.

	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Return–before taxes	12.4%	15.7%	15.6%	15.8%	15.2%	16.9%	20.8%	21.7%	20.2%	16.7%
Return–after taxes	7.8%	9.8%	9.0%	10.1%	9.7%	11.0%	12.6%	11.8%	10.2%	9.0%

All dollar amounts expressed above are in thousands of dollars.

Report of Ernst & Whinney, Independent Accountants

Shareholders and Board of Directors
Liquid Air Corporation
San Francisco, California

We have examined the consolidated balance sheet of Liquid Air Corporation and subsidiaries as of December 31, 1982 and 1981, 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, 1982. 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, 1982 and 1981, 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, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

San Francisco, California
February 23, 1983

Corporate Data

Liquid Air Corporation

Directors

Jean Henri Delorme†
Chairman, President
and Chief Executive Officer,
L'Air Liquide S.A.

Peter F. Baumberger
President, Executive Committee,
Carba Holding A.G.

Mike V. Breber
Executive Vice President and
Chief Operating Officer

Robert J. Buckley†
Chairman, President and
Chief Executive Officer,
Allegheny International, Inc.

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

Raymond S. Fries
Executive Vice President and Group
President, Commercial Products and
Systems, Allegheny International, Inc.

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

Graemer K. Hilton*
Executive Vice President
and Chief Financial Officer,
Allegheny International, Inc.

Wilburn Ray Hines
President, SCOBOCO, Inc.

Jacques G. Maisonrouge
Senior Vice President,
IBM Corporation and Chairman,
IBM World Trade Corporation

Jean P. Pineau*
Vice Chairman and
Executive Vice President,
L'Air Liquide S.A.

Pierre A. Salbaing
Vice Chairman and
Executive Vice President,
L'Air Liquide S.A.

Clayton A. Sweeney
Executive Vice President
and Chief Administrative Officer,
Allegheny International, Inc.

Colin W. Webster
Chairman of the Board,
St. Lawrence Warehousing Ltd.

*Audit Committee
†Compensation Committee

Officers

Jean Henri Delorme
Chairman of the Board

Jean P. Pineau
Vice Chairman

Pierre A. Salbaing
President and Chief Executive Officer

Mike V. Breber
Executive Vice President and
Chief Operating Officer

Thomas E. Slattery
Executive Vice President and President
Industrial Gases Division

Richard A. Johnson
Senior Vice President
and Executive Vice President,
Industrial Gases Division

Thaddeus Pylko
Vice President

Claude Salama
Vice President

Ward J. Sheridan
Vice President

John N. Baird
Secretary

Emilio A. Dominianni
Assistant Secretary

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Canadian Liquid Air Ltd.
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Canada H3A 1H8
Telephone (514) 842-5431

U.S.D. Corp
3323 West Warner Avenue
Santa Ana, California 92702
Telephone (714) 540-8010

Oxigenio do Brasil S.A.
Praca Nami Jafet, 44
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30 West Broadway
New York, New York 10015

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

Registrar

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, New York 10015

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 statments 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
One Embarcadero Center
San Francisco, California 94111

Liquid Air Corporation
One Embarcadero Center
San Francisco, California 94111