C

LIQUID AIR CORPORATION

IN 1984, WE REACHED OVER HALF A BILLION DOLLARS IN SALES FOR THE FIRST TIME.

1984 Annual Report

Liquid Air Corporation (part of the world's largest industrial gas company—L'Air Liquide of France), operates in the United States, Canada and Brazil. Its primary products and services are concentrated in industrial gases (85% of revenues), welding equipment and supplies (9%) and underwater diving and life-support equipment (6%) 1984 revenues were a record $502 million and net earnings were $27.3 million ($2.07 per share).

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Financial Highlights* (Millions of dollars except per share amounts)

Years ended December 31	1984	1983	1982	1981	1980
Net Sales	$501.7	$459.4	$449.0	$428.0	$408.2
Net earnings	27.3	23.9	27.5	31.5	29.4
Per share[(1)]					
Net earnings	2.07	1.80	2.13	2.86	2.76
Dividends paid	1.60	1.60	1.60	1.55	1.40
Total assets	584.8	535.6	537.2	484.3	444.9
Shareholders' equity[(2)]	281.6	279.8	281.9	259.0	222.3

* 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.

Jean H. Delorme, Chairman

Left to right:
Pierre A. Salbaing and
Jacques G. Maisonrouge,
Vice Chairmen

The impact of the strong economic recovery experienced in our industry during 1984 appears to be continuing into the first quarter of 1985. And in 1984, for the first time, our sales were in excess of half a billion dollars. For the year 1984, net earnings were $27.3 million, up 14%, and sales were $502 million, up 9% compared with 1983. Earnings per share were up 15% and amounted to $2.07 compared with $1.80 in 1983. All divisions posted strong operating results except for the Cardox division, which had lower earnings due to supply difficulties at one of its major plants.

Last year's achievements confirmed our optimism for the future of our dynamic industry, and we are confident that the steps we took during the first half of this decade to strengthen our operations will continue to have the positive effect that they have demonstrated to date.

Our operating profit was up 14% over 1983, more or less consistently through all four quarters. The net earnings, on the other hand, had an increase of 12%, 12%, 15% and 19% for the first, second, third, and fourth quarters respectively.

While some leveling of our U.S. air separation volumes was experienced in the last quarter of 1984, this was more than offset by the strong volume increase in Canada and Brazil. Traditionally, Canada has lagged behind the economic cycles of the U.S. and such was also the case in Brazil in the last upward cycle. We expect that the results of our performance in Canada and Brazil will assure the Company of good net earnings in the first quarter of 1985.

We welcome Mr. Jacques Maisonrouge, formerly Senior Vice President and Director of IBM Corporation, as our Vice Chairman, the position he shares with Pierre Salbaing.

Among Liquid Air Corporation's current highlights are:

- The opening of the Company's R & D center near Chicago.
- Commencement of construction of two merchant industrial gas plants in Tucson, Arizona and Orlando, Florida.
- Major air separation plant expansions completed in Montreal, Quebec and Oklahoma City, with others underway in Hamilton, Ontario and Dallas, Texas.
- Acquisition of an interest in an air separation complex in Louisiana, which will provide the Company with merchant gases.
- Announcement of the construction of a 10 ton-per-day liquid hydrogen plant.
- Construction of three new carbon dioxide plants in Jasper, Tennessee, South Point, Ohio and Savannah, Georgia, and the recent completion of an expanded plant in Madison, Mississippi.
- Announcement of the construction of a 300 ton-per-day carbon dioxide plant in western Canada.

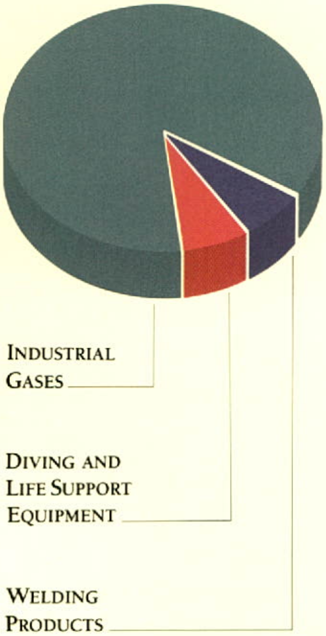
Left to right:
Richard A. Johnson, Executive Vice President; Mike V. Breber, President & Chief Executive Officer; and Thomas E. Slattery, Executive Vice President & Chief Operating Officer

We have entered 1985 in a sound financial and competitive position, and we look forward to the challenges ahead.

Jean H. Delorme
Chairman

Mike V. Breber
President

1984 SALES BY GROUP



INDUSTRIAL GASES

Liquid Air's principal products are industrial, specialty, rare and medical gases. Today, these gases account for approximately 85% of our gross revenues and 96% of our operating profits.

Major industrial gas products we manufacture and sell include oxygen, carbon dioxide, nitrogen, argon, helium, hydrogen and fuel gases such as acetylene and Blue Shield® mixtures. Among our rare gases are krypton, xenon and neon. Specialty gases sold through our Alphagaz® Specialty Gases Division include many high-quality pure and mixed gases, as well as compounds such as silane, used in the growing semiconductor industry. Medical gases include U.S.P. oxygen, nitrogen, nitrous oxide and mixtures.

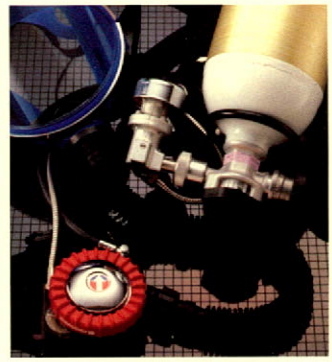
In addition, Liquid Air is using its growing fine-engineering capabilities to design complete gas delivery, storage and control systems with very high levels of purity, precision and safety, to address the needs of the growing high-technology industries, which require increasingly large volumes of high purity gases.

Welding Products

Liquid Air's history in producing gas welding equipment goes back almost to the turn of the century in Canada. Today Canadian Liquid Air is an industry leader in making and distributing a broad line of gas and electronic welding products and equipment in Canada.

Primary products in this area include filler metals for welding, flux-coated electrodes, solid and tubular welding wire and specialty products. The equipment we manufacture includes manual, semi-automatic and automatic gas and electronic welding/cutting machines, accessories and safety equipment.

Diving and Life Support Equipment



Liquid Air's subsidiary U.S.D. Corp designs, builds, assembles and sells equipment for life support and safety applications in the underwater, fire-fighting, medical and industrial arenas.

Products from U.S.D. include the well established Aqua Lung® (self contained underwater breathing apparatus), along with a line of associated diving accessories for sport and commercial use. The Survivair® Division also sells a growing range of breathing, life support and safety systems and equipment enjoying wide acceptance by industrial and government customers.

Liquid Air Corporation, through its parent L'Air Liquide, traces its corporate ancestry back over 80 years.

■ *Countries in which L'Air Liquide operates*

Over 200 years ago the Industrial Revolution launched mankind into the machine age, spawned the world's basic industries and altered the face of the earth forever.

Looking back in time, the key to the transformation of the world by the Industrial Revolution was the emergence of new basic materials, chiefly iron and steel. New energy sources—fuel and motive power—were similarly essential, and would later include coal, petroleum and electricity, as well as the steam and internal-combustion engines. New machinery for increased productivity and widespread invention in transportation and communications resulted. Science drove industry forward, extracting from earth, air, fire and water with increasing ingenuity the ingredients that would build the future.

These developments linked synergistically as an organism that would anchor the industrial world, experience accelerating growth, and thus create more change in a mere 200 years than in the entire previous history of humanity.

A fundamental element in these sweeping changes in the way men and women lived and worked was the emergence of the chemical industry as vital to continued industrial development and progress. Industrial gases—created and controlled 'atmospheres'—are an inseparable part of the world chemical industry and the mainstream industries and professions served by chemistry.

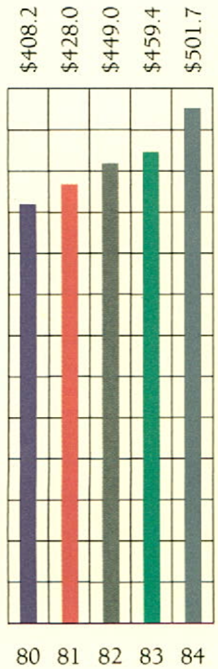
Liquid Air Corporation, through its parent L'Air Liquide, traces its corporate ancestry back over 80 years. Those 80 years represent more than one third of the total time elapsed since the dawn of the Industrial Revolution. Liquid Air's task today is to take the same

YEARS OF PROGRESS FROM THE PERSPECTIVE OF THE 200 YEARS SINCE THE INDUSTRIAL REVOLUTION.

■ *The cutting and welding of steel, with the help of oxygen, was a major industrial activity at the turn of the century when L'Air Liquide was founded.*

raw materials that fueled the epoch—earth, air, fire and water—and manipulate them technologically to extract, refine and deliver an increasingly broad range of elements for thousands of complex industrial, scientific and professional tasks.

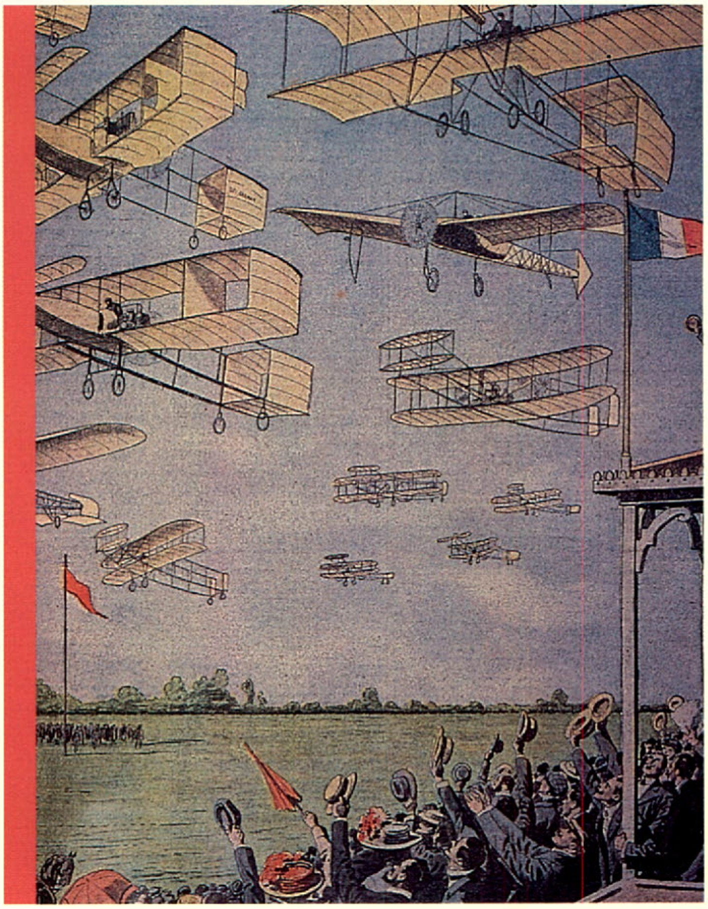
To keep abreast of this rapidly changing technology, Liquid Air has established the Compressed Gas Institute in California to serve the educational needs of its customers and distributors in the production and use of compressed gases as used in industry. The innovations in industrial gases that helped make the Industrial Revolution possible will be preserved in a form that links the past of the 18th century with the future of the 21st century.



LIQUID AIR REVENUES
(MILLIONS OF DOLLARS)

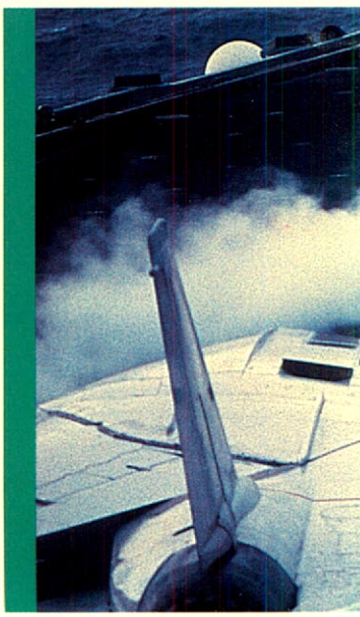
. . .A STAPLE SUPPLIER SERVING THE CORE INDUSTRIES

■ *The birth of modern aviation—anticipated in this display over the plain of Bethany—was destined to change the world and involve Liquid Air in new technology of many kinds.*



As the 20th century began, an increasingly technological world faced even more striking change with commercialization of the airplane and automobile.

Enormous quantities of industrial gases such as oxygen, extracted from the atmosphere, were now needed by industry. Effort centered on iron and steel production and then on the heavy- and light-industry requirements for these raw materials. Uses: shipbuilding and boilermaking,

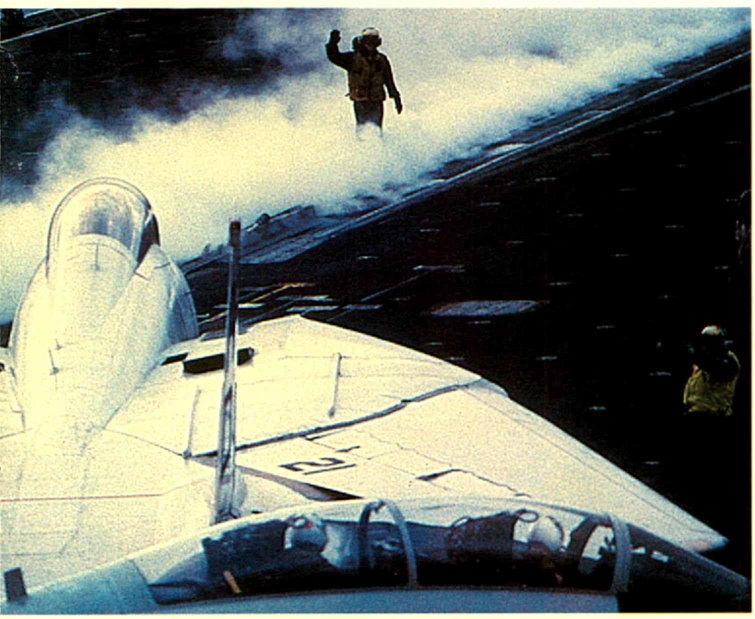


■ *Creating modern warplanes, such as these Grumman F-14 'Tomcat' fighters awaiting launch, requires dozens of specialty gases from Liquid Air to build the thousands of high-technology components from semiconductor devices to jet engines.*

machine tools and chemicals, turbines and switchgear for electric power, construction-industry rebar and framing, plus autos and appliances for millions of consumers.

Challenge and change typified the era. To serve these needs, L'Air Liquide was formed in France in 1902, destined to quickly become the world's largest industrial gas supplier. The core metalworking industries had to have oxygen, welding supplies, heat-treatment techniques. Their goal: to create new products more efficiently from better materials, so that these products would be less costly, more useful, safer and longer-lived.

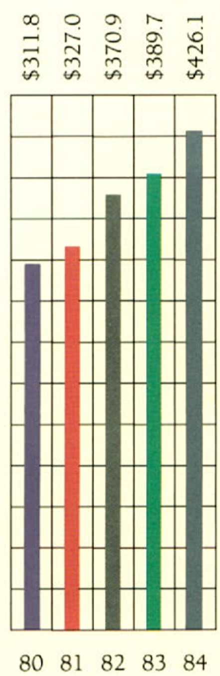
Entirely new gases and compounds were vital to proliferating applications—argon to fill vacuum tubes in the infant electronics industry; rare gases such as xenon and special gas mixtures for a growing array of high-tech industries; and of course natural gases such as carbon dioxide for food and beverage preparation and preservation.



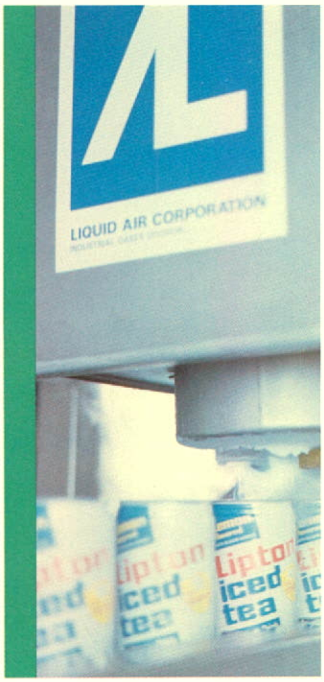
By the late '40s, a 20th-century world recovering from two world wars had generated unprecedented scientific and commercial capabilities. The industrial gas industry had become a staple supplier, serving the core industries of every industrialized and emerging nation. At L'Air Liquide's half century, the company was already established in 33 industrial countries.

Soon gas management systems had to be invented to help process entirely new materials. The semiconductor, nuclear and aerospace industries emerged with highly specialized needs; the underwater world became recognized as a vast resource requiring life-support systems for divers as well as new ways of working on an industrial scale with submerged equipment and structures.

In 1968 Liquid Air began its penetration of the U.S. marketplace, having already reached a dominant position in Canada. In 1970, the Company's U.S. industrial gas operations completed its first full year and generated revenues of $23.3 million and faced an uncertain future in a field dominated by industrial giants.



SALES OF
INDUSTRICAL GASES
(MILLIONS OF DOLLARS)



■ *Liquid nitrogen, injected into cans during filling, increases can structural strength and rigidity and reduces aluminum content and cost.*

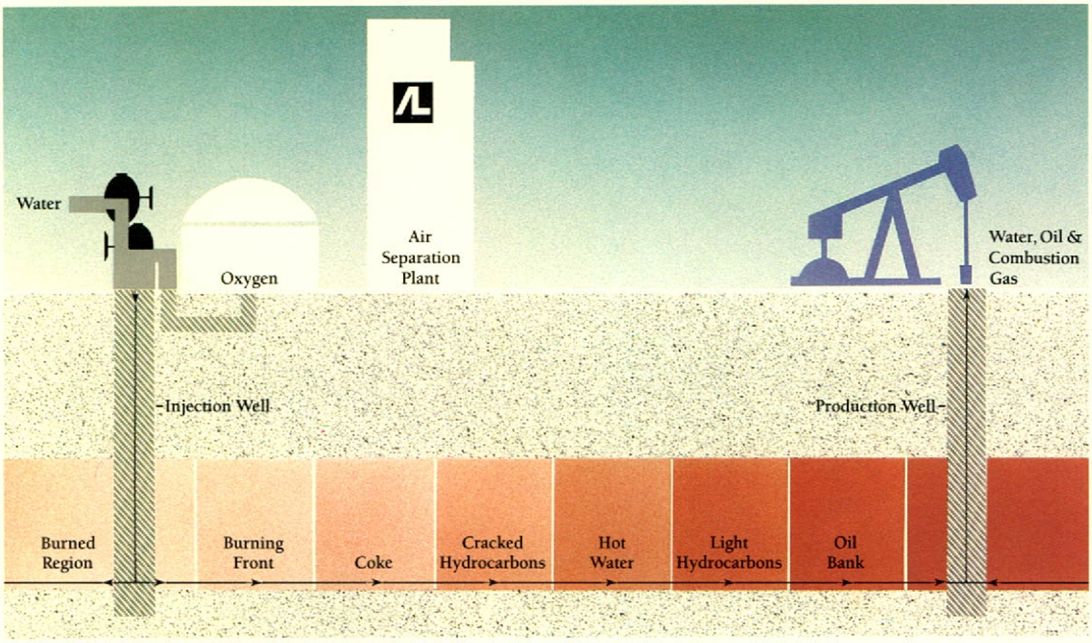
In 1985, as this century draws to a close, technological change is accelerating further. The working world is being transformed once again, sloughing off old systems and rejuvenating itself in fresh forms. Many call this era the 'Second Industrial Revolution,' as applied technology drives the world's major economies.

New bellwether industries such as computers, communications, electronics and aerospace are replacing older, stagnating activities such as steelmaking and shipmaking. In these new areas, linkage is complete between Liquid Air products, customers' processes and end products thus created. We are now central, not peripheral.

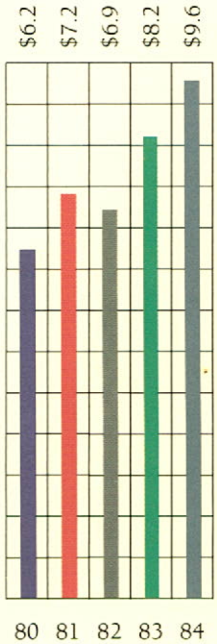
Dozens of new gases, processes and delivery systems are contributing to this increasingly technological world. While established products and processes remain important sources of our revenues and profits, the rare, specialty and ultrapure new gases and associated technologies from Liquid Air's R&D centers are assuming a greater role.

Applications for Liquid Air's gases are becoming more numerous and sophisticated. We now handle hundreds of special cases where dozens of basic areas existed earlier. Not only metalworking but medicine; beyond iron and steel into semiconductors; pushing ahead from agriculture to broad-based food and beverage processing and storage; extending tertiary oil recovery while penetrating outer- and innerspace (oceanography) arenas; working in chemicals but adding cryogenics and pollution control.

PROBLEM-SOLVING ATTITUDES. . .



Oxygen-enriched insitu combustion deep in the earth, using Canadian Liquid Air oxygen, holds the potential of unlocking billions of barrels of heavy oil in Alberta and Saskatchewan. Such oxygen 'fireflooding' reduces oil viscosity and stimulates eventual well production.



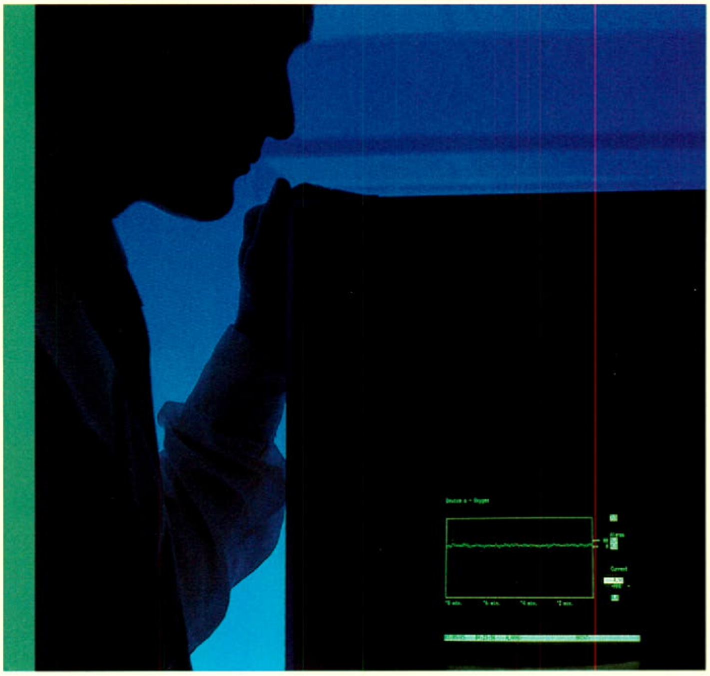
LIQUID AIR RESEARCH & DEVELOPMENT EXPENDITURES (MILLIONS OF DOLLARS)

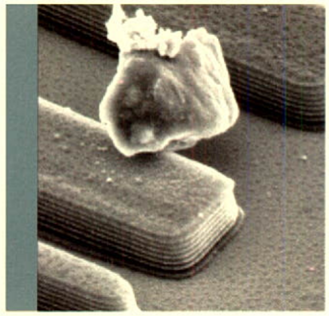
Elegant science and 'fine engineering' to extract, purify and deliver new 'atmospheres' for increasingly challenging tasks is becoming crucial to our future. In 1985, we will open our new 60,000 square foot research laboratory in Countryside, Illinois, a Chicago suburb. This $4 million facility will be staffed with scientists, engineers and technicians dedicated to research and technology.

Understanding our customers and their needs is as important as enhancing our scientific capabilities. Where five years ago Liquid Air had only a handful of field applications engineers, today over 100 are at work with customers in the U.S., Canada and Brazil.

The results of 15 years of effort by Liquid Air are now in. The report shows that in 1984 we reached over half a billion dollars in sales for the first time.

Liquid Air's 'CQC' or computerized Continuous Quality Control analyzer (right) has the potential for wide application in the production of advanced semiconductors. Parts-per-billion gas purity, and the reduction of sub-micron-sized dirt particles, are vital to Liquid Air's semiconductor industry customers. This dirt particle, enlarged 10,000 times in an electron microscope (far right), could destroy a circuit during processing.





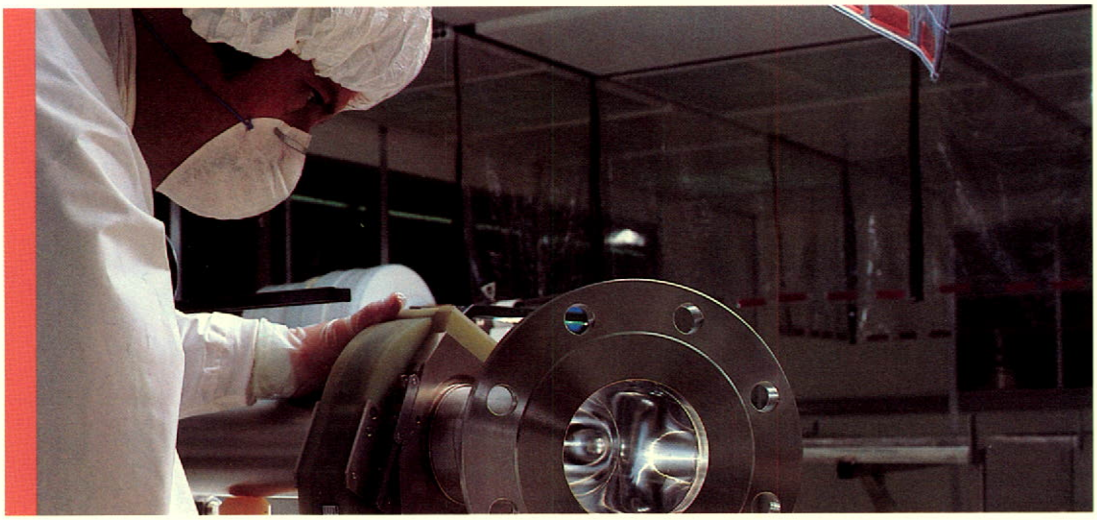
By the end of this century, 95% of all the scientists and engineers who ever lived will be creating yet another new technological order based on information. The Second Industrial Revolution will be in place.

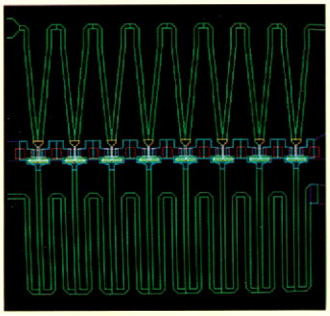
The information age will command special attention from Liquid Air. Information will be the world's largest commercial area, employing more humans than any other activity. It will comprise computer/communications systems based on semiconductor devices, manufactured to new standards of performance and size.

Producing these devices will require that we create and control the most precise atmospheric environments ever envisaged by industry. Critical steps in the semiconductor process, from drawing and doping crystals, then diffusing and etching sliced wafers, to die separation and packaging, will be made possible by specialty gases pure to parts-per-billion levels.

Parts-per-billion purity in specialty gases will only be part of our task. The delivery system—creating, purifying, transporting, storing, delivering and handling the gases in the workplace via piping and valves—will demand total integrity. In the era of sub-micron (millionths of an inch) geometries, only meticulous process cleanliness will enable makers to compete by achieving high yields. Our 'fine engineered atmosphere-delivery systems'

ELEGANT SCIENCE AND 'FINE ENGINEERING'. . .





will be integral to our customers' success.

Problem-solving attitudes, not mere products, will create and deliver these special atmospheres critical to technology's future. Such achievements will be the result of our ongoing commitment to understand and even anticipate customer requirements. Our capabilities will be based on our science, our fine engineering, our applications empathy, the integrity and safety of our systems, the quality and credibility of our lifetime support services and, ultimately, the motivation of our people, whether here in the United States or in our affiliated plants and R&D centers around the world.

Our traditional products and services will remain important to revenues and profits. But we will continue to diversify as we serve new technological applications in aerospace, ocean resources, pharmaceuticals, pollution reduction and waste disposal, agricultural services and food production-transportation-storage-delivery systems.

The past is prologue. Each year Liquid Air renews itself, welcoming the challenges of tomorrow, developing its products, its processes and its people to meet the needs of a rapidly changing world.

Every element in a high-purity gas delivery system, such as this stainless steel tubing used in Liquid Air's semiconductor-industry 'fine engineering' advances, must be controlled for cleanliness at all stages of manufacture.

The Corporate Research Center at Varian Associates, in Palo Alto, California uses the latest computer technology to develop new products and applications such as this monolithic microwave IC, aided by Liquid Air high-purity specialty gas systems.

FIVE YEAR FINANCIAL SUMMARY*

(Millions of dollars except per share amounts)	Years ended December 31	1984**	1983**	1982**	1981	1980
	Sales	$ 501.7	$ 459.4	$ 449.0	$ 428.0	$ 408.2
	Cost of products sold	244.0	225.3	225.7	222.7	209.0
	Operating expenses	164.4	149.6	141.6	126.8	121.3
	Depreciation and amortization	39.3	37.1	32.8	27.3	26.6
	Operating Profit	54.0	47.4	48.9	51.2	51.3
	Other income	1.4		2.3	3.6	7.4
	Interest—net(1)	9.0	8.8	7.4	4.3	7.8
	Earnings Before Taxes	46.4	38.6	43.8	50.5	50.9
	Income taxes	19.1	14.7	16.3	19.0	21.5
	Net Earnings	$ 27.3	$ 23.9	$ 27.5	$ 31.5	$ 29.4
	Per share(2)					
	Net earnings	$ 2.07	$ 1.80	$ 2.13	$ 2.86	$ 2.76
	Dividends paid	1.60	1.60	1.60	1.55	1.40
By Geographic Location	Sales	$ 501.7	$ 459.4	$ 449.0	$ 428.0	$ 408.2
	United States	331.5	300.1	276.9	240.7	235.2
	Foreign	170.2	159.3	172.1	187.3	173.0
	Canada	134.5	125.1	124.8	135.4	132.0
	Brazil	35.7	34.2	47.3	51.9	41.0
	Operating Profit	54.0	47.4	48.9	51.2	51.3
	United States	27.3	24.9	20.1	17.6	20.0
	Foreign	26.7	22.5	28.8	33.6	31.3
	Canada	18.9	16.0	19.1	21.3	23.9
	Brazil	7.8	6.5	9.7	12.3	7.4

*See Note A of notes to consolidated financial statements.
**See Note M 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	1984**	1983**	1982**	1981	1980
By Operating Group	Sales	$501.7	$459.4	$449.0	$428.0	$408.2
	Industrial gases	426.1	389.7	370.9	327.0	311.8
	Welding products	45.2	41.0	48.5	61.6	59.7
	Underwater diving and life support	30.4	28.7	29.6	39.4	36.7
	Operating Profit(1)	54.0	47.4	48.9	51.2	51.3
	Industrial gases	52.0	49.3	48.6	45.5	43.6
	Welding products	(0.4)	(1.8)	.1	2.3	3.2
	Underwater diving and life support	2.4	(.1)	.2	3.4	4.5
	Depreciation and Amortization(2)	39.3	37.1	32.8	27.3	26.6
	Industrial gases	37.9	35.8	31.7	26.0	25.3
	Capital Expenditures(2)	62.5	41.6	58.7(3)	61.8	60.5
	Industrial gases	60.9	40.8	57.2(3)	59.9	58.4
Identifiable Assets	By Geographic Location	$584.8	$535.6	$537.2	$484.3	$444.9
	United States	369.2	343.4	336.3	272.3	256.4
	Foreign	215.6	192.2	200.9	212.0	188.5
	Canada	163.7	141.4	148.5	160.8	145.2
	Brazil	51.9	50.8	52.4	51.2	43.3
	By Operating Group	584.8	535.6	537.2	484.3	444.9
	Industrial gases	486.9	465.1	455.3	378.7	356.0
	Welding products	15.2	14.5	20.5	33.0	29.0
	Underwater diving and life support	20.4	22.9	21.3	25.5	26.2
	Corporate	62.3	33.1	40.1	47.1	33.7

*See Note A of notes to consolidated financial statements.

**See Note M 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 acquisition—See Note B of notes to consolidated financial statements.

Five Year Financial Summary*

(Millions of dollars)	Years ended December 31	1984	1983	1982	1981	1980
Source and Application of Funds	Source of Funds					
	From operations	$ 74.7	$ 62.1	$ 71.9	$ 58.2	$ 65.2
	Additional long-term debt	89.6	57.2	64.4	23.1	8.0
	Common shares issued for cash			19.5	30.0	
	Property, plant and equipment sold	1.8	2.3	1.4	11.7	22.4
	Decrease in certificates of deposit			14.2		
	Decrease in noncash working capital		6.5		9.8	5.9
		$166.1	$128.1	$171.4	$132.8	$101.5
	Application of Funds					
	Property, plant and equipment acquired	$ 62.5	$ 41.6	$ 58.7	$ 61.8	$ 60.5
	Property, plant and equipment of subsidiaries acquired			47.0		
	Reduction of long-term debt	46.4	68.3	30.7	22.5	9.3
	Cash dividends paid	21.4	21.4	21.0	17.7	15.6
	Purchase of common shares	(3.1)	3.1			
	Increase in goodwill	1.1	1.6	15.5		1.7
	Increase in other assets	15.9	1.6	4.4	17.5	6.5
	Other			(6.9)		
	Increase in noncash working capital	9.3		17.5		
	Cash and certificates of deposit increase (decrease)	12.6	(9.5)	(16.5)	13.3	7.9
		$166.1	$128.1	$171.4	$132.8	$101.5
Balance Sheet Data	Assets					
	Cash and certificates of deposit	$ 23.4	$ 10.8	$ 20.3	$ 36.8	$ 23.5
	Other current assets	117.0	111.3	107.3	111.4	116.8
	Other assets	38.9	23.7	22.1	31.9	14.4
	Property, plant and equipment, net of accumulated depreciation	370.5	354.8	353.4	285.0	270.8
	Goodwill	35.0	35.0	34.1	19.2	19.4
		$584.8	$535.6	$537.2	$484.3	$444.9
	Liabilities and Equity					
	Current liabilities	$ 74.8	$ 78.0	$ 67.8	$ 88.9	$ 83.9
	Long-term debt	171.0	128.4	139.2	99.0	98.9
	Deferred taxes	57.4	49.4	48.3	37.4	39.8
	Shareholders' equity[1]	281.6	279.8	281.9	259.0	222.3
		$584.8	$535.6	$537.2	$484.3	$444.9

* See Note A of notes to consolidated financial statements.

[1] Includes redeemable preferred stock of $24.0 million.

Results of Operations

Sales in 1984 increased to a record $501.7 million, exceeding the one-half billion dollar sales mark for the first time. 1984 sales increased by $42.3 million, or 9%, over 1983. The industrial gases operations, with sales of $426.1 million, had an increase of 9%, which reflected volume growth in all countries where the Company operates. Volume growth was also mainly responsible for the 10% increase in welding products sales and the 6% increase in underwater diving and life support equipment sales over 1983.

1983 sales were $459.4 million, an increase of $10.4 million, or 2% over 1982. This overall sales increase was due to the Cardox division which was acquired on March 31, 1982 and which had an excellent year (see Note B of notes to consolidated financial statements). Total sales of industrial gases were up 5% on an actual basis and were also higher than 1982 sales when adjusted to include Cardox for a full year. The 5% overall increase in industrial gas sales was due to increases of 10% in the United States and 3% in Canada. These increases resulted mainly from the Cardox division and from volume growth of the atmospheric gases business in the latter half of the year. Brazilian sales, however, were down 22%, chiefly because of devaluation of the Brazilian currency and minor volume decreases. Welding products sales declined 7% in Canada as a result of volume decreases, and 48% in Brazil due to both currency devaluations and volume decreases. Sales of underwater diving and life support equipment were down 3%.

1984 overall operating profit was up 14% as a result of increases in operating results of all divisions except for the Cardox division which had lower operating results due to supply difficulties at one of its major plants. Geographically, operating profits were up 10% in the United States, 18% in Canada and 20% in Brazil. The improvement in other income was due to an increase in gains on disposals of assets. Lower investment tax credits and higher withholding taxes on dividends from Brazil were instrumental causes for the increase of the overall income tax rate in 1984. Net earnings were $27.3 million, an increase of 14% over 1983. Earnings per share increased to $2.07 from $1.80 in 1983.

The increases in 1983 operating profits and net earnings of the United States operations were exceeded by decreases in Canada and Brazil, with the result that operating profit and net earnings declined 3% and 13% respectively. Operating profit in the United States was up $4.8 million, or 24%, due to the improved profits of the Cardox division, increases in productivity and the inclusion of a full year's operations of Cardox in 1983. Brazilian operating profit was down $3.2 million because of major currency devaluations. The recovery of the Canadian economy, as it related to our industry, lagged behind that of the United States. This was the basic reason for the decreases of $3.1 million in operating profit of the Canadian operations. Increased borrowings which were repaid prior to the year-end, coupled with a reduction in capitalized interest expense, caused interest expense to increase. Larger gains on asset disposals, settlements of legal and other matters, and lower foreign exchange translation losses in the 1982 period explain the decline in other income in 1983 when compared to 1982. Higher effective income tax rates in Canada and Brazil, mostly offset by lower effective income tax rates in the United States, caused the one percentage point increase in the overall income tax rate.

Management's Discussion and Analysis (Continued)

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 38% at the end of 1984, compared with 31% at the end of 1983 and 33% at the end of 1982. However, since the Company had excess cash at the end of each year, this ratio can be viewed as 34%, 30% and 31%, which is considered a reasonable level.

$170 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, 1984, $93.7 million was unused.

It is expected that the long-term credit lines, the excess cash of $22.7 million and the projected 1985 cash flow, will be sufficient to enable the Company to finance all of its 1985 capital programs, cash dividends and working capital requirements.

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.

Inflation

Reference is made to Note N of notes to consolidated financial statements for information regarding the effects of inflation using current cost measurements.

Consolidated Statement of Earnings

(Thousands of dollars except per share amounts) Years ended December 31	1984	1983	1982
Sales	$501,735	$459,409	$448,996
Costs and Expenses:			
Costs of products sold	243,986	225,308	225,686
Selling, distribution, general and administrative expenses	164,466	149,576	141,541
Depreciation and amortization	39,322	37,148	32,847
	447,774	412,032	400,074
Operating Profit	53,961	47,377	48,922
Other Expenses (Income):			
Interest (net of interest income of $6,208 in 1984, $4,396 in 1983 and $3,977 in 1982)	9,018	8,795	7,452
Other income	(1,482)	(50)	(2,295)
	7,536	8,745	5,157
Earnings Before Income Taxes	46,425	38,632	43,765
Income Taxes:			
Current	11,081	13,716	4,717
Deferred	8,040	1,014	11,536
	19,121	14,730	16,253
Net Earnings	$ 27,304	$ 23,902	$ 27,512
Net Earnings Per Common Share	$2.07	$1.80	$2.13

See notes to consolidated financial statements.

Consolidated Balance Sheet

(Thousands of dollars)	December 31	1984	1983
Assets			
	Current Assets		
	Cash	$ 721	$ 5,166
	Certificates of deposit	22,669	5,600
	Receivables:		
	Trade, less allowances ($2,698 in 1984 and $2,374 in 1983)	65,991	67,131
	Other	12,738	5,511
	Due from affiliates	3,174	3,755
	Inventories	30,303	32,741
	Prepaid expenses and deposits	4,805	2,186
		140,401	122,090
	Other Assets	38,890	23,687
	Property, Plant and Equipment—at cost	631,423	586,931
	Less accumulated depreciation	(260,893)	(232,135)
		370,530	354,796
	Goodwill	35,002	34,988
		$584,823	$535,561

(Thousands of dollars)	December 31	1984	1983
LIABILITIES AND SHAREHOLDERS' EQUITY			
	Current Liabilities		
	Bank indebtedness	$ 4,764	$ 8,827
	Accounts payable	50,529	45,344
	Accrued interest	2,065	1,971
	Accrued taxes, other than income taxes	3,742	3,627
	Due to parent and other affiliates	4,024	1,724
	Income taxes	3,724	10,980
	Current maturities of long-term debt	5,946	5,540
		74,794	78,013
	Long-term Debt, exclusive of current maturities	170,969	128,360
	Deferred Income Taxes	57,391	49,351
	Redeemable Preferred Stock, convertible, par value $100: Authorized and issued 240,000 shares	24,000	24,000
	Common Stock, no par value: Authorized 20,000,000 shares Issued 12,562,796 shares at stated value	40	40
	Other Shareholders' Equity		
	Capital surplus	170,377	167,249
	Retained earnings	105,973	100,089
	Cumulative translation adjustment	(18,721)	(11,541)
		$584,823	$535,561

See notes to consolidated financial statements.

Consolidated Statement of Changes in Funds

(Thousands of dollars)	Years ended December 31	1984	1983	1982
Source of Funds	From operations:			
	Net earnings	$ 27,304	$ 23,902	$ 27,512
	Expenses not affecting working capital:			
	Depreciation and amortization	39,322	37,148	32,847
	Deferred income taxes	8,040	1,014	11,536
	Total from operations	74,666	62,064	71,895
	Common stock issued			19,498
	Additional long-term debt	89,638	57,238	64,410
	Sales of property, plant and equipment	1,752	2,288	1,331
	Decrease in certificates of deposit			14,228
	Decrease in noncash working capital		6,510	
	Total source of funds	166,056	128,100	171,362
Disposition of Funds	Additions to property, plant and equipment	62,461	41,620	58,657
	Noncurrent assets and liabilities of business acquired:			
	Property, plant and equipment			47,000
	Long-term debt			(6,850)
	Repayment of long-term debt	46,384	68,248	30,745
	Cash dividends	21,420	21,420	21,006
	Increase in goodwill	1,043	1,600	15,500
	Increase in other assets	15,940	1,608	4,375
	Down payment for purchase of common stock	(3,128)	3,128	
	Increase in noncash working capital, including working capital of $4,737 acquired in 1982	9,312		17,458
	Total disposition of funds	153,432	137,624	187,891
	Increase (decrease) in cash and certificates of deposit	12,624	(9,524)	(16,529)
	Cash and certificates of deposit at beginning of year	10,766	20,290	36,819
	Cash and certificates of deposit at end of year	$ 23,390	$ 10,766	$ 20,290
Changes in Components of Noncash Working Capital	Increase (decrease) in current assets:			
	Receivables	$ 6,087	$ 3,204	$ 547
	Due from affiliates	(581)	1,194	547
	Inventories	(2,438)	1,246	(5,530)
	Prepaid expenses and deposits	2,619	(1,665)	430
		5,687	3,979	(4,006)
	Increase (decrease) in current liabilities:			
	Bank indebtedness	(4,063)	2,058	(2,863)
	Accounts payable and accrued expenses	5,394	706	(4,240)
	Due to parent and other affiliates	2,300	(363)	(400)
	Income taxes	(7,256)	8,088	(13,961)
		(3,625)	10,489	(21,464)
	Increase (decrease) in noncash working capital	$ 9,312	$ (6,510)	$ 17,458

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, 1984, 1983 and 1982	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Cumulative Translation Adjustment
Balance December 31, 1981	11,627,176	$37	$150,882	$ 91,101	$ (7,065)
					(3,066)
Net earnings				27,512	
Stocks issued	935,620	3	19,945		
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)
Current year's translation adjustment					(1,410)
Net earnings				23,902	
Cash dividends:					
Common ($1.60 per share)				(20,100)	
Preferred ($5.50 per share)				(1,320)	
Down payment for purchase of common stock			(3,128)		
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 ($5.50 per share)				(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)

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1984

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 Georges Claude (L'Air Liquide) owns directly or through affiliates approximately 90% and 78% of the Company's common stock outstanding and all of its preferred stock outstanding as of December 31, 1984 and 1983.

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 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 in reporting income for financial statements and income tax purposes.

Consolidated retained earnings include $167,913,000 and $161,608,000 of retained earnings of foreign subsidiaries at December 31, 1984 and 1983, 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 $9,631,000, $8,187,000 and $6,948,000 in 1984, 1983 and 1982. These amounts include royalties of $4,859,000, $3,654,000 and $3,690,000 in 1984, 1983 and 1982 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 $1,781,000 in 1984, $1,709,000 in 1983 and $2,314,000 in 1982 has been included in the costs of newly constructed manufacturing facilities.

Foreign Currency Translation: The financial statements of foreign entities for the year ended December 31, 1984, 1983 and 1982 have been translated to U.S. dollars. For a certain foreign operation, all balance sheet accounts are translated at the current exchange rate and income and expense items are translated at the average exchange rate for the year. Resulting translation adjustments are made directly to a separate component of shareholders' equity. For all other foreign operations, certain balance sheet accounts, principally property, plant and equipment, and related income and expense items, are translated at historical exchange rates, and all translation adjustments are made directly to income.

Reclassification: Certain minor reclassifications have been made to prior years' financial statements, including the segment data, to conform to the presentation in the 1984 financial statements.

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. for approximately $61,600,000. The allocation of the purchase price to the individual assets acquired less the liabilities assumed resulted in goodwill of $17,100,000 being recognized.

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 $4,672,000 at December 31, 1984 and $4,228,000 at December 31, 1983.

	1984	1983
Finished goods	$18,497,000	$18,058,000
Work in progress	2,404,000	2,588,000
Materials and supplies	9,402,000	12,095,000
	$30,303,000	$32,741,000

D—Property, Plant and Equipment

Property, plant and equipment (including assets purchased from affiliates of approximately $104,930,000 and $94,713,000 at December 31, 1984 and 1983) are summarized as follows:

	1984	1983
Land	$ 13,470,000	$ 13,392,000
Buildings	55,716,000	51,850,000
Cylinders	109,638,000	107,450,000
Machinery and equipment	431,215,000	384,762,000
Construction in progress	21,384,000	29,477,000
	$631,423,000	$586,931,000

Cost to complete construction in progress at December 31, 1984 is estimated at $49,502,000.

E—Credit Arrangements

The Company has both short-term and long-term lines of credit as follows at December 31, 1984:

	Short-Term	Long-Term
Total available	$24,731,000	$170,000,000
Amount unused	19,967,000	93,679,000
Amount used	$4,764,000	$76,321,000

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.

F—LONG-TERM DEBT

	1984	1983
11.91% note payable to a bank due 1990, payable in varying annual installments	$ 9,000,000	$ 10,000,000
11.875% note payable to an insurance company due April 1, 1990	20,000,000	20,000,000
9% note payable to an insurance company, due April 1, 1993, payable in annual installments of $1,000,000	9,000,000	10,000,000
8.75% note payable to an insurance company, due February 1, 1996, payable in annual installments of $2,000,000	24,000,000	26,000,000
Prime rate or less, revolving loans to a maximum of $155,000,000, due in 1989	65,321,000	35,551,000
Prime rate or less, revolving loans to a maximum of $15,000,000, due in 1991	11,000,000	10,000,000
Industrial Revenue Bonds at rates from 6.5% to 8%, payable in varying maturities through 2004	15,800,000	12,950,000
Notes payable to affiliates at rates from 7.9% to 12%, payable through 1986	17,081,000	2,790,000
Various long-term indebtedness at rates from 6% to 13% payable in varying maturities through 1994	5,713,000	6,609,000
	176,915,000	133,900,000
Less current maturities	5,946,000	5,540,000
	$170,969,000	$128,360,000

Long-term debt includes the U.S. dollar equivalent (approximately $3,406,000 and $4,100,000 at December 31, 1984 and 1983) of loans repayable in foreign currencies.

The principal payments required on long-term debt at December 31, 1984, during the succeeding five years, are as follows:

1985	$ 5,946,000
1986	10,121,000
1987	9,419,000
1988	5,654,000
1989	85,038,000

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, 1984. Approximately $60,957,000 and $58,077,000 of consolidated retained earnings were unrestricted under these agreements as to the payment of dividends at December 31, 1984 and 1983.

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.

H—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 105,472 shares at an average exercise price of $22.68 per share.

I—PENSIONS

The Company and its significant subsidiaries have pension plans for eligible employees, including eligible 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 15 to 40 years. Total pension expense amounted to $1,837,000, $1,781,000 and $1,775,000 in 1984, 1983 and 1982, and were determined by licensed actuaries on a going concern basis.

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

Domestic Plans—January 1	1984	1983
Actuarial present value of accumulated benefits on a termination basis:		
Vested	$21,632,000	$17,722,000
Nonvested	2,104,000	1,786,000
	$23,736,000	$19,508,000
Net assets available for pension benefits	$26,902,000	$24,191,000

The assumed rate of return used in determining the actuarial value of accumulated plan benefits approximates 7%. The Company's foreign pension plan is not required to report to domestic governmental agencies pursuant to ERISA. For that plan, the value of the plan assets exceeds the actuarially computed value of vested benefits.

J—LEASES

The Company leases certain real property and equipment. Rental expense was $15,394,000, $13,866,000 and $13,774,000 for 1984, 1983 and 1982.

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

1985	1986	1987	1988	1989	Thereafter	Total
$9,346,000	$7,518,000	$5,447,000	$3,814,000	$2,543,000	$4,921,000	$33,589,000

K—INCOME TAXES

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

	1984	1983	1982
Domestic	$ 13,852,000	$12,594,000	$ 11,139,000
Foreign	32,573,000	26,038,000	32,626,000
	$46,425,000	$38,632,000	$43,765,000

The provision for income taxes consists of:

	1984	1983	1982
Federal and State			
Current	$3,470,000	$1,660,000	$1,909,000
Deferred	1,606,000	2,106,000	3,505,000
Foreign			
Current	7,611,000	12,056,000	2,808,000
Deferred	6,434,000	(1,092,000)	8,031,000
Total			
Current	11,081,000	13,716,000	4,717,000
Deferred	8,040,000	1,014,000	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:

	1984	1983	1982
Statutory federal rate	46.0%	46.0%	46.0%
Investment tax credit	(5.7)	(7.2)	(6.3)
Effective foreign rates	.6	2.2	(2.8)
Other	.2	(2.9)	.2
Effective tax rate	41.1%	38.1%	37.1%

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

	1984	1983	1982
Accelerated depreciation for tax purposes	$10,579,000	$4,311,000	$10,533,000
Capitalization of interest costs	413,000	57,000	839,000
Vacation pay accrual			578,000
Sale of assets		(664,000)	(825,000)
Acquisition costs		423,000	834,000
Investment tax credits	(1,930,000)	(2,530,000)	(675,000)
Reversal of deferred tax on undistributed earnings of Domestic International Sales Corporation	(375,000)		
Other	(647,000)	(583,000)	252,000
	$8,040,000	$1,014,000	$11,536,000

L—Earnings Per Share

Earnings per share are computed by dividing net earnings, less preferred stock dividends, by the weighted average number of outstanding common shares (12,562,796, 12,562,796 and 12,289,114 in 1984, 1983 and 1982). 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.

M—Segments of Business and Foreign Operations

Summaries of operations and assets by geographic location and by operating group are contained on pages 14 and 15. Business segment information for 1984, 1983 and 1982 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 1984, 1983 and 1982 of $17,800,000, $16,500,000 and

$15,900,000 to industrial gases and $8,700,000, $8,700,000 and $9,000,000 to welding products. Included in these expenses are $2,000,000, $1,600,000 and $1,500,000 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 $18,528,000, $15,074,000 and $21,787,000 for 1984, 1983 and 1982. The consolidated balance sheet includes total assets of the foreign subsidiaries of $215,600,000 and $192,200,000 and net assets of $125,000,000 and $101,200,000 for 1984 and 1983, respectively.

Included in other income are losses on foreign currency translations of $2,451,000, $1,668,000 and $1,150,000 in 1984, 1983 and 1982.

N—SUPPLEMENTAL INFORMATION ON THE EFFECTS OF CHANGING PRICES (UNAUDITED)

Current reporting requirements under generally accepted accounting principles have been extended to require that the Company provide historical financial information converted to current cost. 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 1984 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 years ending after December 31, 1980. 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 $50,859,000 at December 31, 1984.

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.

STATEMENTS OF EARNINGS ADJUSTED FOR CHANGING PRICES

(In millions of dollars)	As Reported	Current Costs
Sales	$ 501.7	$ 501.7
Costs of products sold	244.0	244.0
Operating expenses	164.4	164.4
Depreciation and amortization	39.3	52.9
Other income	(1.4)	(1.4)
Interest expense—net	9.0	9.0
Earnings before income taxes	46.4	32.8
Income taxes	19.1	19.1
Net earnings	$ 27.3	$ 13.7
Purchasing power gain from holding net monetary liabilities during the year		$ 3.9
Increase in current costs of inventory and property, plant and equipment held during the year		$ 5.3
Effect of increase in general price level		19.0
Excess of increase in the general price level over increase in current costs		$ 13.7

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR CHANGING PRICES*

(In millions of dollars, except per share data and Consumer Price Index)	1984	1983	1982	1981	1980
Sales					
As reported	$501.7	$459.4	$449.0	$428.0	$408.2
In average 1984 dollars	501.7	479.0	483.1	488.6	514.7
Operating Profit**					
As reported	$ 54.0	$ 47.4	$ 48.9	$ 51.2	$ 51.3
Current cost	40.4	35.6	37.7	42.0	48.0
Net Earnings					
As reported	$ 27.3	$ 23.9	$ 27.5	$ 31.5	$ 29.4
Current cost	13.7	11.1	14.7	19.5	20.5
Earnings Per Common Share					
As reported	$ 2.07	$ 1.80	$ 2.13	$ 2.86	$ 2.76
Current cost	.99	.77	1.08	1.71	1.85
Excess of increase in general price level over increase in current costs and excess of increase in current costs over increase in the general price level in 1980	$ 13.7	$ 8.1	$ 2.2	$ 2.4	$ (2.4)
Translation Adjustment	$ 9.9	$ .7	$ 1.5	$ 2.8	
Net Assets at Year End					
As reported	$281.6	$279.8	$281.9	$259.0	$222.3
Current cost	420.6	431.1	447.9	443.7	439.3
Purchasing power gain from holding net monetary liabilities during the year	$ 3.9	$ 3.1	$ 1.2	$ 3.8	$ 10.8
Cash Dividends Declared Per Common Share					
As reported	$ 1.60	$ 1.60	$ 1.60	$ 1.55	$ 1.40
In average 1984 dollars	1.60	1.67	1.72	1.77	1.77
Market Price Per Common Share At Year End					
As reported	$20.75	$22.00	$18.75	$17.50	$29.75
In average 1984 dollars	20.46	22.55	19.94	19.34	35.80
Average Consumer Price Index	311.1	298.4	289.1	272.4	246.8

*Current cost amounts are stated in average 1984 dollars.

**Operating Profit is before interest expense, other income and income taxes.

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	1984	1983	1984	1983	1984	1983	1984	1983	1984	1983
Sales	$120.1	$111.3	$126.5	$116.7	$128.7	$117.6	$126.4	$113.8	$501.7	$459.4
Industrial gases	100.9	94.6	106.6	97.6	110.3	101.0	108.3	96.5	426.1	389.7
Welding products	11.0	10.4	11.9	10.8	11.1	10.0	11.2	9.8	45.2	41.0
U.S.D. Corp*	8.2	6.3	8.0	8.3	7.3	6.6	6.9	7.5	30.4	28.7
Operating Profit	$ 13.1	$ 11.4	$ 15.6	$ 13.9	$ 13.3	$ 11.6	$ 12.0	$ 10.5	$ 54.0	$ 47.4
Industrial gases	12.8	12.4	13.8	14.1	13.0	12.9	12.4	9.9	52.0	49.3
Welding products	(.4)	(.8)	.3	(.6)	(.1)	(.6)	(.2)	.2	(.4)	(1.8)
U.S.D. Corp*	.7	(.2)	1.5	.4	.4	(.7)	(.2)	.4	2.4	(.1)
Net Earnings	$ 6.8	$ 6.0	$ 7.4	$ 6.6	$ 6.2	$ 5.4	$ 6.9	$ 5.9	$ 27.3	$ 23.9
Per Share Information										
Earnings	$ .51	$ .46	$ .56	$ .50	$ .47	$ .40	$ .53	$ .44	$ 2.07	$ 1.80
Dividends paid	$ .40	$ .40	$ .40	$ .40	$ .40	$ .40	$ .40	$ .40	$ 1.60	$ 1.60
Common Stock Price										
High bid	22½	23	23	25	22¼	26¼	20¾	24½		
Low bid	19	18½	19¼	21½	18¾	22½	18½	21¾		

*Underwater diving and life support equipment.

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, 1984 and 1983, 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, 1984. 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, 1984 and 1983, 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, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

San Francisco, California
March 1, 1985

Directors

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

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

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

Mike V. Breber*
President and Chief Executive Officer of the Company and Vice President, L'Air Liquide S.A.

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

Raymond S. Fries
Consultant

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

Wilburn Ray Hines
President, SCOBOCO, Inc.

Alain Joly†
Vice President, L'Air Liquide S.A.

Jacques G. Maisonrouge‡
Vice Chairman of the Company

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

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

Clayton A. Sweeney†
Vice Chairman and Chief Administrative Officer, Allegheny International, Inc.

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

* Executive Committee
† Audit Committee
‡ Compensation Committee

Officers

Jean Henri Delorme
Chairman of the Board

Pierre A. Salbaing
Vice Chairman

Jacques G. Maisonrouge
Vice Chairman

Mike V. Breber
President and Chief Executive Officer

Thomas E. Slattery
Executive Vice President and Chief Operating Officer

Richard A. Johnson
Executive Vice President

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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Jersey City,
New Jersey 07303

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Morgan Guaranty Trust
Company of New York
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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,
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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
One Embarcadero Center
San Francisco,
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