

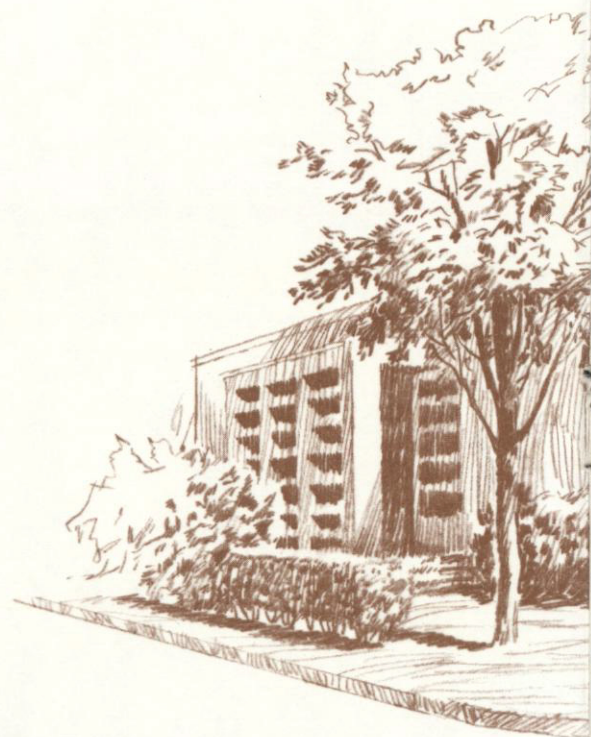
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**ANNUAL REPORT**  
**1971**

**THE LUBRIZOL CORPORATION**

## CONTENTS

Message to Shareholders .....	2
Financial Highlights .....	3
Review of Operations .....	4
Financial .....	10
Consolidated Financial Statements .....	11
Ten Year Summary .....	16
Directors and Officers .....	18
Subsidiaries and Affiliates .....	19
Offices, Plants and Laboratories .....	20



### GENERAL OFFICES

29400 Lakeland Boulevard, Wickliffe, Ohio 44092

### MAIL ADDRESS

Box 3057, Cleveland, Ohio 44117

### TELEPHONE

(216) 943-4200

### LISTING

Common Shares of The Lubrizol Corporation are listed on the New York Stock Exchange under the symbol LZ.

### ANNUAL MEETING

The annual meeting of shareholders will be held in the Lewis Room of the Sheraton-Cleveland Hotel, Public Square and Superior Avenue, Cleveland, Ohio, at 10:15 a.m. on Monday, April 24, 1972.



*The Administration Building at Wickliffe, Ohio is a familiar sight to visitors from many countries.*

## **THE COMPANY**

Lubrizol, founded in 1928, now serves the petroleum industry from 50 locations — offices, plants and laboratories — in 30 different countries.

## **ITS PRODUCTS**

Lubrizol is a leading developer and manufacturer of chemicals used to improve the performance of lubricants and fuels for cars, trucks, buses and off-the-road equipment.

## **ITS PROGRESS**

Gains in both revenues and net income were achieved in 1971. Today, Lubrizol employs more than 3,000 people and has over 7,800 shareholders.

## MESSAGE TO SHAREHOLDERS

In 1971, Lubrizol supplied more than 750 different chemical formulations to the petroleum industry in over 75 countries. For the eleventh consecutive year, records were set in both revenues and net income, but growth was tempered by higher costs and unsettled economic conditions.

The effect of these factors appeared in the last half of the year. Net income for the third quarter was substantially the same as the third quarter of 1970 on somewhat higher revenues. In the fourth quarter, revenues were \$46.5 million compared with revenues of \$47.3 million in the fourth quarter of 1970, while net income was \$5.1 million compared with \$5.4 million in the same period a year earlier.

General business conditions in the United States, and several other countries were soft during most of 1971 and weakened late in the year due in part to uncertainties as to foreign exchange relationships and import duties. Continued growth in a number of markets during the entire year, however, produced revenues which exceeded the \$200 million mark for the first time.

The higher costs experienced in 1971 were principally due to increased testing activities, operation of additional facilities to control environmental pollution and low volume at the Bayport, Texas plant. The Bayport plant went into production in 1969 and manufacture at that location, while increasing, is still of a limited nature.

Testing expenditures to qualify motor oils, gear oils, and automatic transmission fluids under various specifications nearly doubled those of a year earlier. Issuance of new, more severe motor oil specifications for passenger cars was a major factor.

Although it has had a long-term program to prevent environmental pollution, Lubrizol, like many businesses, is finding it essential to add or improve facilities of this type to meet increasingly rigorous standards. Capital expenditures for such facilities totaled \$5.3 million for the past two years and, once installations are

completed, operating costs are a continuing factor. For example, operating costs for the extensive, waste-water treatment facility completed in 1970 at the Deer Park, Texas plant were more than \$700,000 in 1971.

While international monetary developments adversely affected the economies of a number of countries, Lubrizol realized a gain rather than a loss as a result of currency adjustments. The devaluation of the U.S. dollar and the revaluation upward of certain major currencies resulted in the net assets of several overseas companies being translated into a greater number of U.S. dollars.

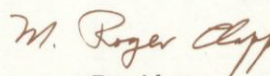
The return of relative stability to monetary transactions should benefit Lubrizol with its substantial international operations. During 1971, shipments to customers outside the United States and Canada, accounted for 59% of the sales total, of which about 45% was of U.S. manufacture.

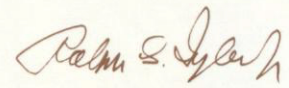
The Corporation notes with deep regret the death of Henri P. Junod on October 6, 1971. Mr. Junod retired as a director in April 1971, having ably served in that capacity for five years.

During 1971, Kelvin Smith, a founder, former President, Chairman and Chief Executive Officer, retired as a Director. Mr. Smith was named Honorary Chairman of the Board in 1966 and continues in that capacity.

Harry T. Marks and Robert K. Williams were elected Directors of the Corporation. Mr. Marks is President of Ferro Corporation. Mr. Williams is Vice President - Corporate Planning and Development of the Corporation.

In changes relating to officers, Harry Kaye was elected Vice President - International Operations and continues as Treasurer.

  
President

  
Chairman of the Board

March 10, 1972

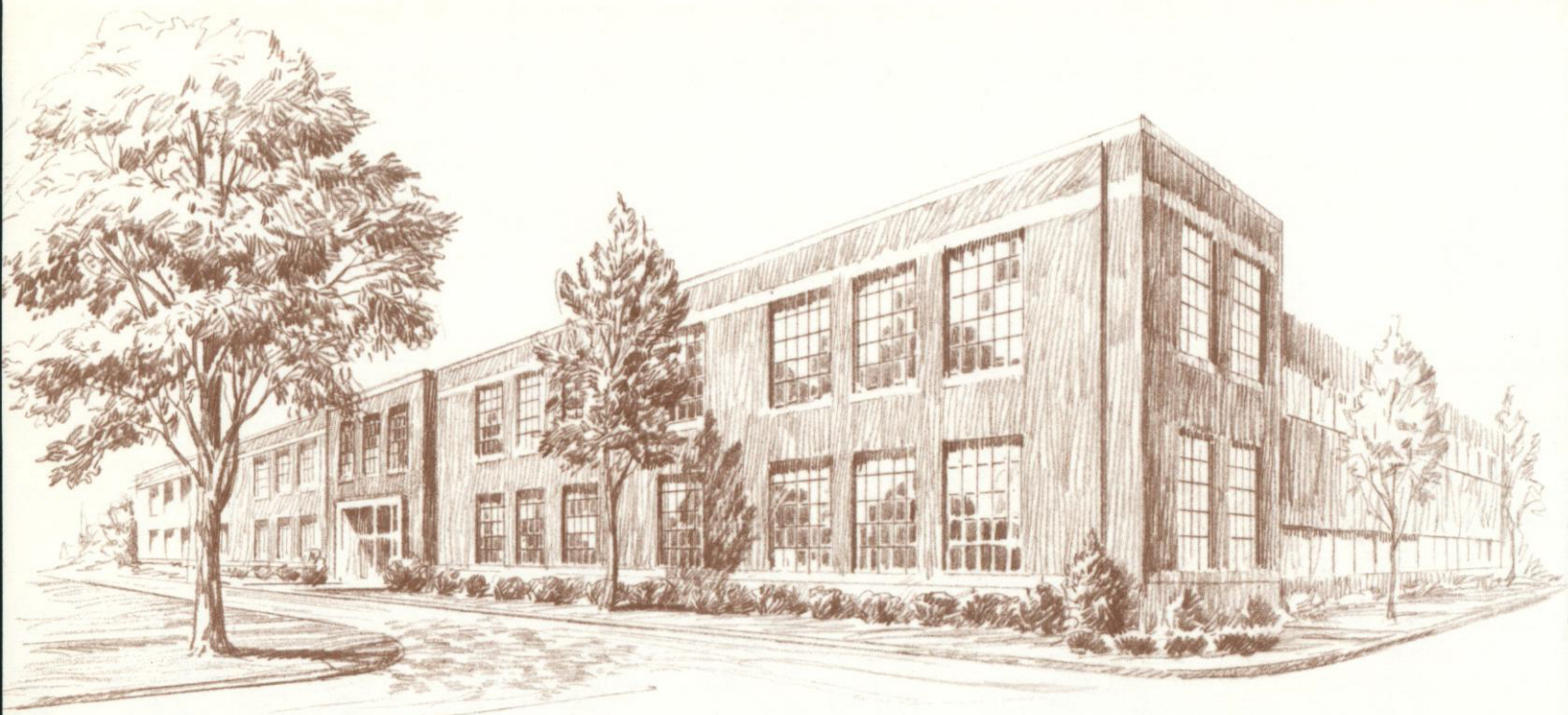
## FINANCIAL HIGHLIGHTS

	<u>1971</u>	<u>1970</u>	<u>% Increase</u>
Total revenues .....	\$200,872,700	\$186,842,376	7.5
Net income .....	23,400,177	21,849,992	7.1
Net income per share .....	1.16	1.09	6.4
Dividends per share .....	.37½	.32½	15.4
Capital expenditures .....	14,516,931	14,006,802	3.6
Depreciation .....	8,099,830	7,316,742	10.7
Research and development expenditures .....	9,857,503	9,021,404	9.3
Shareholders' equity .....	125,028,236	108,963,801	14.7



M. ROGER CLAPP

RALPH S. TYLER, JR.



*Performance chemicals for lubricants and fuels are developed in Lubrizol's chemical research laboratories at Wickliffe, Ohio.*

## REVIEW OF OPERATIONS

Lubrizol is a leading developer and manufacturer of chemicals for motor oils, gear oils, automatic transmission fluids, and gasoline and diesel fuels. These products, which are supplied to petroleum refiners and marketers throughout the world, may appropriately be described as performance chemicals. They are used in lubricant and fuel formulations to improve performance and their sale is dependent upon demonstrated results.

These chemicals are supplied from four Lubrizol plants in the United States and nine plants in other countries. The international nature of Lubrizol's operations is derived from the petroleum industry which it serves. Principal customers include major international oil companies as well as oil refiners and compounders serving regional markets. Sales to petroleum industry customers, representing approximately 1,300 accounts, contributed over 95% of the sales total in 1971.

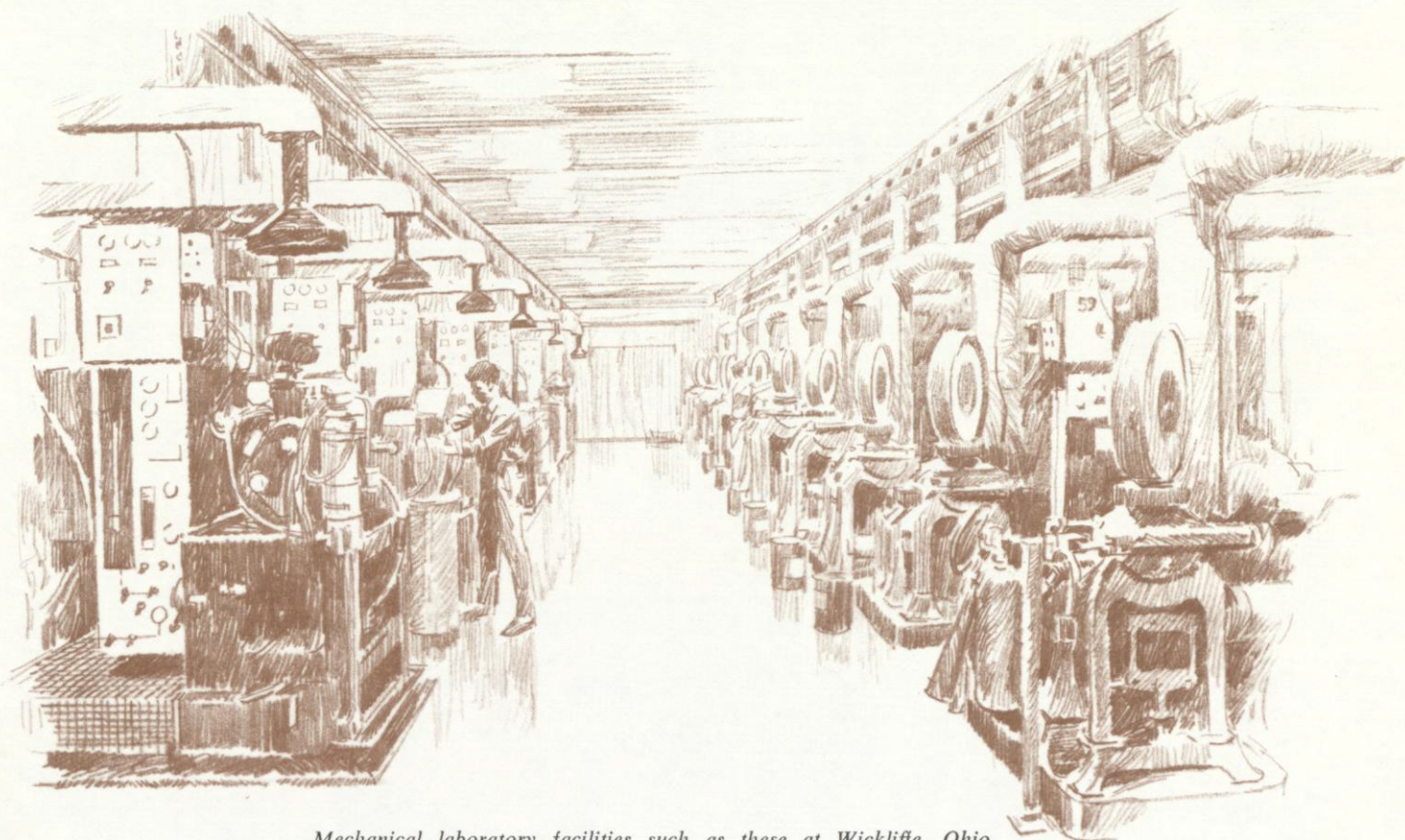
### **Performance Chemicals for Lubricants and Fuels**

Improving performance of lubricants and fuels by chemical means has been Lubrizol's special concern since its inception 43 years ago. Strength and quality in research and development are essential to this concept. Expenditures for research and development amounted to \$9.8 million in 1971 and the total invested in those activities in the past five years is \$41 million.

The principal purpose of this research is to develop new and improved chemicals to meet increasingly stringent standards for lubricants and fuels. Modifications to the exterior sheet metal can be readily seen with each new car. More subtle, technological changes which affect the engine, transmission or other operative parts not only of passenger cars, but also of trucks, buses and other automotive equipment, are also made. These changes frequently place new demands on the lubricant or fuel. A series of these developments since the automobile first appeared has led to a level of requirements beyond that supplied by petroleum itself. Performance chemicals are formulated with lubricants and fuels to fill the need.

### **New Motor Oil Specifications**

In anticipation of the more demanding lubricating oil requirements of late model cars, the American Petroleum Institute in January 1971 published service classification SE, applicable to top line service station motor oils. This classification calls for more protection against oil oxidation, high temperature engine deposits, rust and corrosion. As a prelude to the SE classification, car manufacturers had developed revised test procedures and minimum performance criteria applicable to service station oils suitable for labeling SE.



*Mechanical laboratory facilities such as these at Wickliffe, Ohio evaluate performance of lubricants and fuels containing Lubrizol chemicals.*

In addition, in late 1970, the U.S. Government issued a new motor oil specification for passenger cars and light trucks for military service and an additional, upgraded motor oil specification for heavy duty vehicles.

Once the particular combination of chemicals has been determined, Lubrizol conducts the chemical and mechanical laboratory tests and processes the documentation needed to obtain approval of customers' products under applicable specifications. In mechanical laboratory testing involving motor oils, the engine is carefully set up and operated under specified conditions throughout a run. Following completion of the test, engine parts are inspected and rated against specific standards and, where necessary, presented to government or industry committees to obtain formal approvals. Test requirements are usually well above actual service needs and laboratory work provides the close control needed for accurate evaluation.

Tests in several gasoline engines are required for SE qualification and an additional test in a diesel engine is needed for military approval. As a result of the increased complexity of formulating and testing to meet the new specifications, testing expenditures in 1971 nearly doubled those of the prior year.

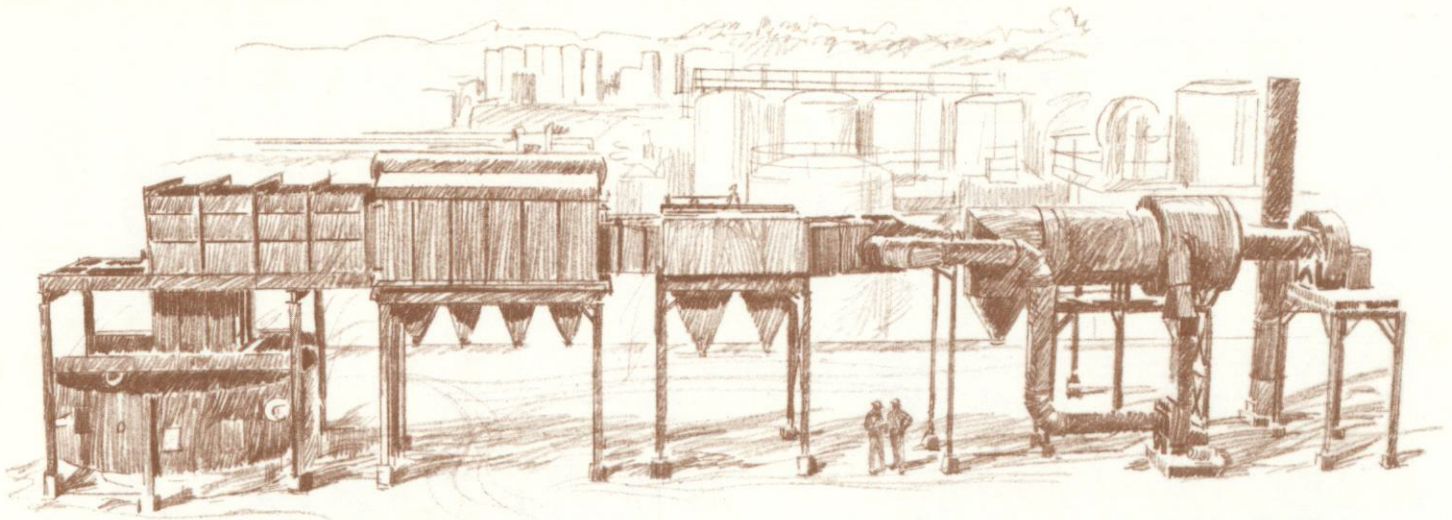
Product testing of this type assures high standards of

performance and quality in the lubricant and fuel products offered to the public. In addition to its important function of qualifying a customer's formulation with Lubrizol chemicals, testing is a vital part of research and development. Approximately one-half of Lubrizol's mechanical testing activities during 1971 were for product qualification work and one-half for development of new and improved performance chemicals.

Lubrizol's mechanical testing laboratory at Wickliffe, Ohio is one of the leading facilities devoted to testing of this type. An eight lane road-test simulator at Wickliffe supplements these activities and a mechanical



*After the test run, engine parts are rated by an experienced inspector.*



*This new facility at Painesville, Ohio destroys wastes and, in the process, generates additional steam for plant operations.*

laboratory specializing in test work for the European market is maintained by Lubrizol International Laboratories at Hazelwood, England. An additional mechanical laboratory to be located in Japan is now in the design stage.

#### **Product Development**

To meet additional needs, facilities at the Bayport, Texas plant to manufacture a new viscosity index improver were enlarged during 1971. First adopted for use as a component for automatic transmission fluids, the new viscosity index improver is now also being used in multigrade motor oil formulations. In motor oils, this product has demonstrated excellent ability to withstand mechanical sheering forces generated during operation of the engine, an important feature since it means the product will continue to provide viscosity control over an extended period of time.

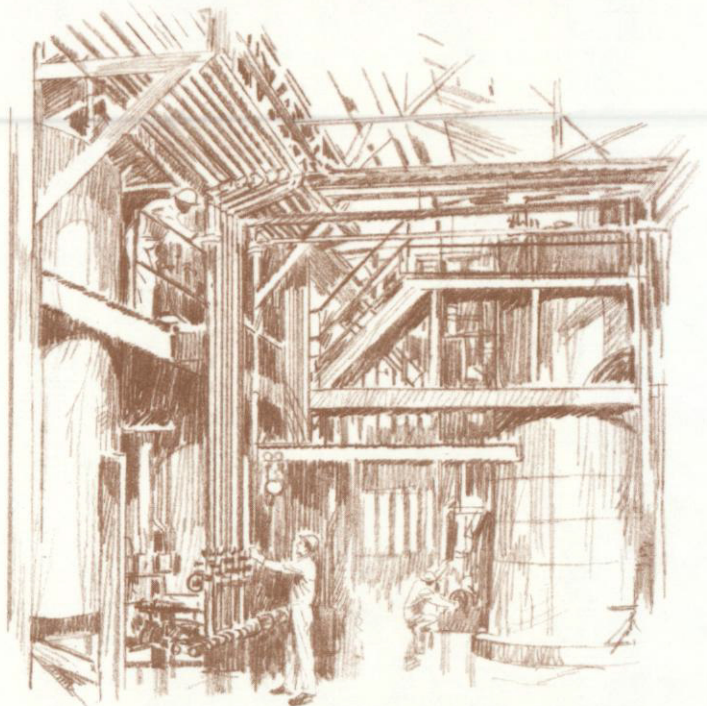
Sales of chemicals for use in automatic transmission fluids were increased by availability of a new viscosity control component. By reason of its unusual compatibility, this viscosity index improver is readily combined with other chemicals used in these fluids thereby permitting Lubrizol to supply a single, multi-functional product. In addition to viscosity control chemicals, oxidation inhibitors and friction modifiers are needed in these fluids and Lubrizol pioneered development of these products. More than 90% of the cars produced in the United States have automatic transmissions and further opportunities in this field are presented by the growing use of such transmissions overseas.

#### **Expansion in the United States**

Capital expenditures of \$14.5 million brought about expansion and improvement at most Lubrizol plants

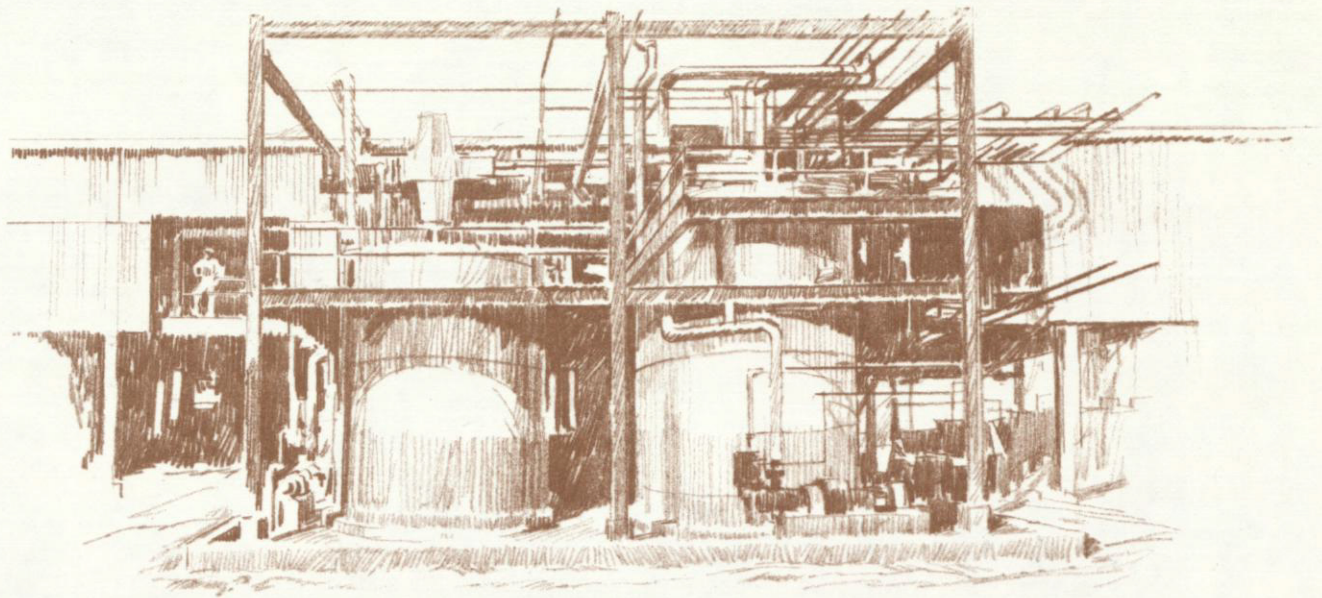
during 1971. Approximately two-thirds of the total was invested in domestic facilities. In the United States, Lubrizol has manufacturing plants at Bayport and Deer Park, Texas, both of which are in the greater Houston area, and at Painesville and Wickliffe, Ohio, both of which are suburban cities outside Cleveland.

Major projects during 1971 included an investment of \$4.2 million for improvements at the Deer Park plant, Lubrizol's largest production facility. Production of dispersants for motor oils and of an impor-



*Manufacture of performance chemicals necessitates an array of pipe lines.*





*Viscosity control chemicals are manufactured in facilities such as these at the Bayport, Texas plant.*

tant component for gear oils was expanded. A portion of the total was spent for supporting units to increase plant efficiency. Among the projects of this type, drumming facilities were added and programs to increase steam-generating capacity and to expedite rail shipments are under way.

An investment of \$2.7 million was made at the Painesville plant. Production of a gear oil component and of an inhibitor used in motor oils was increased and, again, improvement of supporting facilities was a factor. A special facility to destroy industrial wastes — liquids as well as solids — was installed. Built at a cost of \$1.5 million, this installation includes a boiler section which uses heat produced by combustion of waste material to generate steam. Recycling of the waste in this manner will produce 30,000 pounds of steam per hour for use in plant operation.

This unit will go into operation in the first quarter of 1972. Special care has been taken to install equipment and controls needed to eliminate atmospheric pollution. The only by-product will be a small amount of clean, sterile ash which is collected for land fill.

Production at Painesville has increased in recent years, in part by reason of transfer to that location of certain equipment from the nearby Wickliffe plant. Centralization of these installations at Painesville has improved efficiency and, meanwhile, at Wickliffe, created space for additional administrative offices which are now being completed.

An additional 22 acres of land were acquired adjacent to the Painesville plant. This makes a total of 85 acres at that location, which is now approximately the same in land size as the Deer Park plant. The additional land will be used to accommodate future

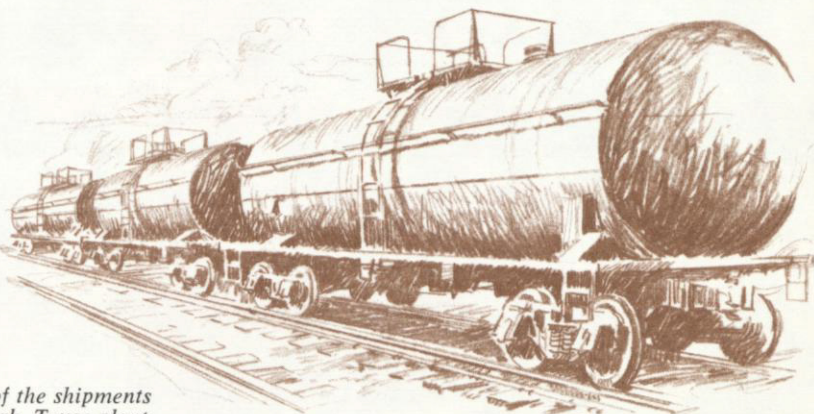
expansion and one of the initial projects will be to install more rail sidings.

#### **Overseas Expansion**

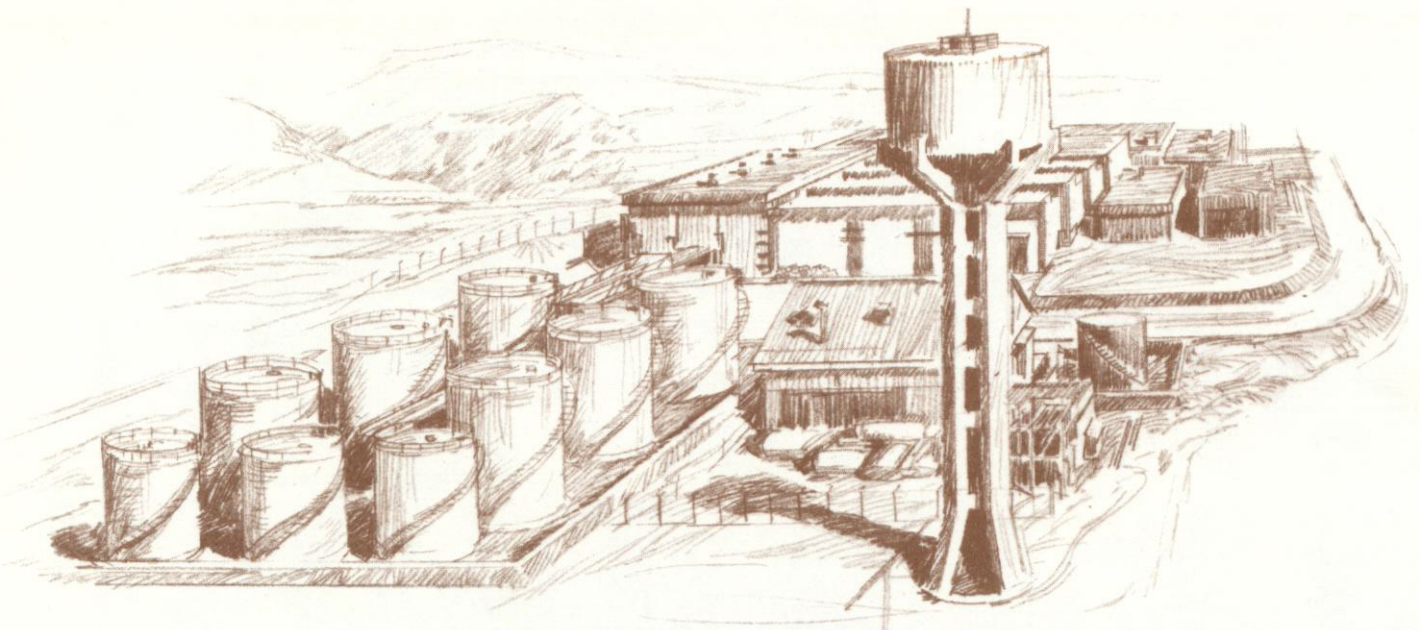
Lubrizol's most rapid growth in recent years has been achieved in international markets. Sales to customers outside the United States and Canada amounted to \$116 million in 1971, or 59% of the sales total, compared with \$60 million, or 56% of the total, five years ago. Factors contributing to this growth are the substantial increase in the number of vehicles in use and the higher level of chemical treatment being used to improve lubricants and fuels.

Lubrizol's international markets are supplied by products made in the United States and the output of nine plants in other countries. Five of the overseas plants are relatively new having started operations in the last seven years.

The Bromborough, England plant of Lubrizol Limited was opened in 1965 and volume of shipments in 1971 was more than two and one-half times that of the first year of operations. Principal expansion in 1971 was the addition of another unit to manufacture motor oil detergents.



*More than 70% of the shipments from the Deer Park, Texas plant are by tank car.*



*The plant of Lubrizol India Limited, near Bombay, opened in 1968.*

The Nippon-Lubrizol Industries, Inc. plant at Take-toyo, Japan also started production in 1965. Sales have consistently increased, but gains in 1971 were tempered by a slowing of business growth in Japan generally. During 1971, the harbor property acquired near the Taketoyo plant was improved with the addition of warehouses and a wharf.

The plant of Lubrizol India Limited, near Bombay, commenced operations in 1968. Lubrizol India Limited is jointly owned with the Government of India. Growth has necessitated expansion and, during 1971, a program to install new and more basic production units was started. The first of these, scheduled for completion in 1973, will produce an inhibitor chemical used in many lubricant formulations. The program includes detergent and dispersant units to be added subsequently.

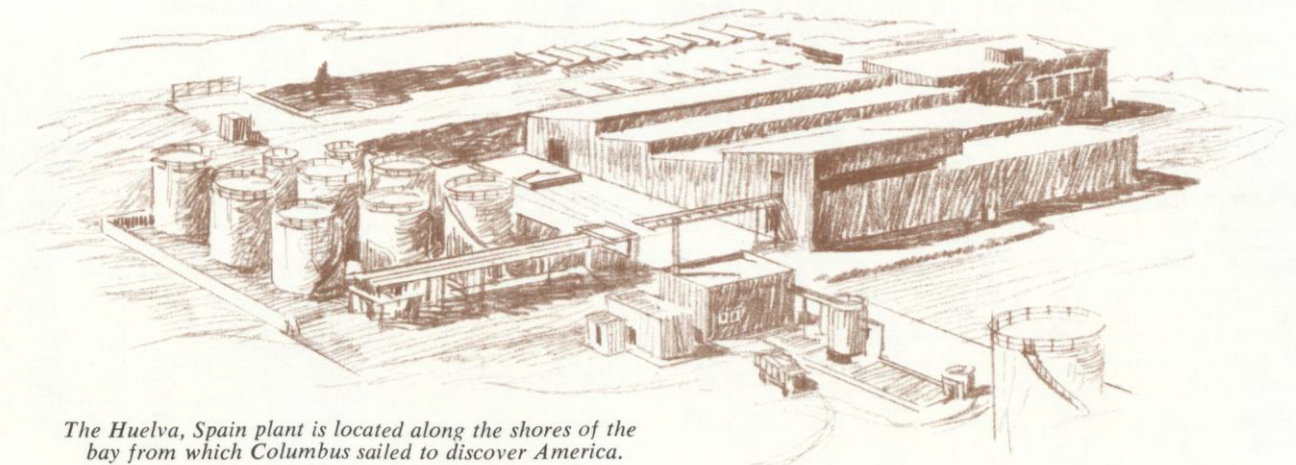
The LeHavre plant of Lubrizol France began production in 1969. Manufacture at that location supplements that of the Rouen plant of Lubrizol France in serving the Common Market and Europe generally. Lubrizol France has been a continuing success since start up in 1955. At LeHavre, a major installation to produce

polybutene, an important starting material used in the manufacture of motor oil dispersants, was completed during 1971. A similar unit was installed at Lubrizol's Deer Park, Texas plant several years ago. In each case, the desired material is extracted from a petrochemical stream brought over by pipe line from a nearby refinery.

The Huelva, Spain plant, which opened in 1969, is located along the shores of the bay from which Columbus sailed to discover America. Growth was achieved in the Spanish market during 1971 and storage is currently being increased to handle a greater variety of products.

#### **Developments Regarding Common Shares**

On March 4, 1971, a public offering of 428,249 outstanding Common Shares was made by a group of the Corporation's shareholders. The offering was at \$77 per share for a total of \$32,975,173, and represented approximately 4.25% of the outstanding shares. This was the third such offering of the Corporation's Common Shares. The first was in April 1964 with an offer-



*The Huelva, Spain plant is located along the shores of the bay from which Columbus sailed to discover America.*



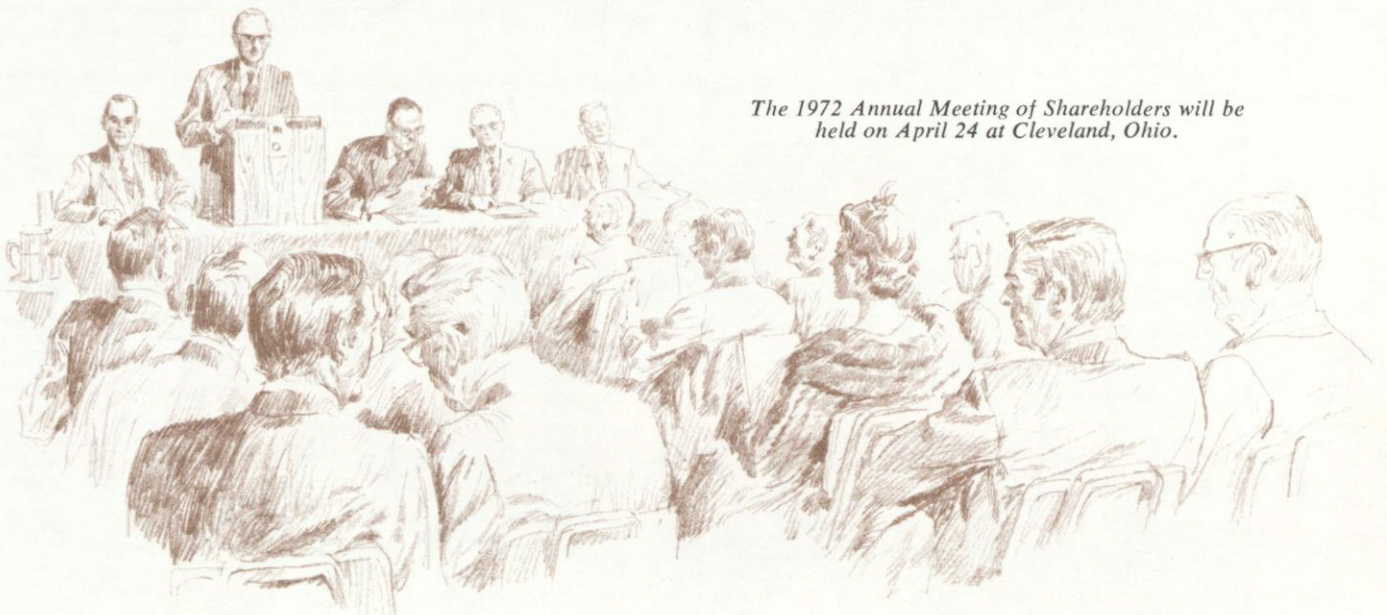
*Polybutene, an important starting material for motor oil dispersants, is produced in this new facility at LeHavre, France.*

ing of approximately 9.7% of the outstanding shares for a total offering price of \$11,899,320, and the second was in June 1966, with an offering of approximately 5.8% of the outstanding shares, for a total offering price of \$10,468,558. These offerings have been a substantial factor in increasing the number of shareholders from about 1,000 of record prior to the first offering, to more than 7,800 of record at December 31, 1971.

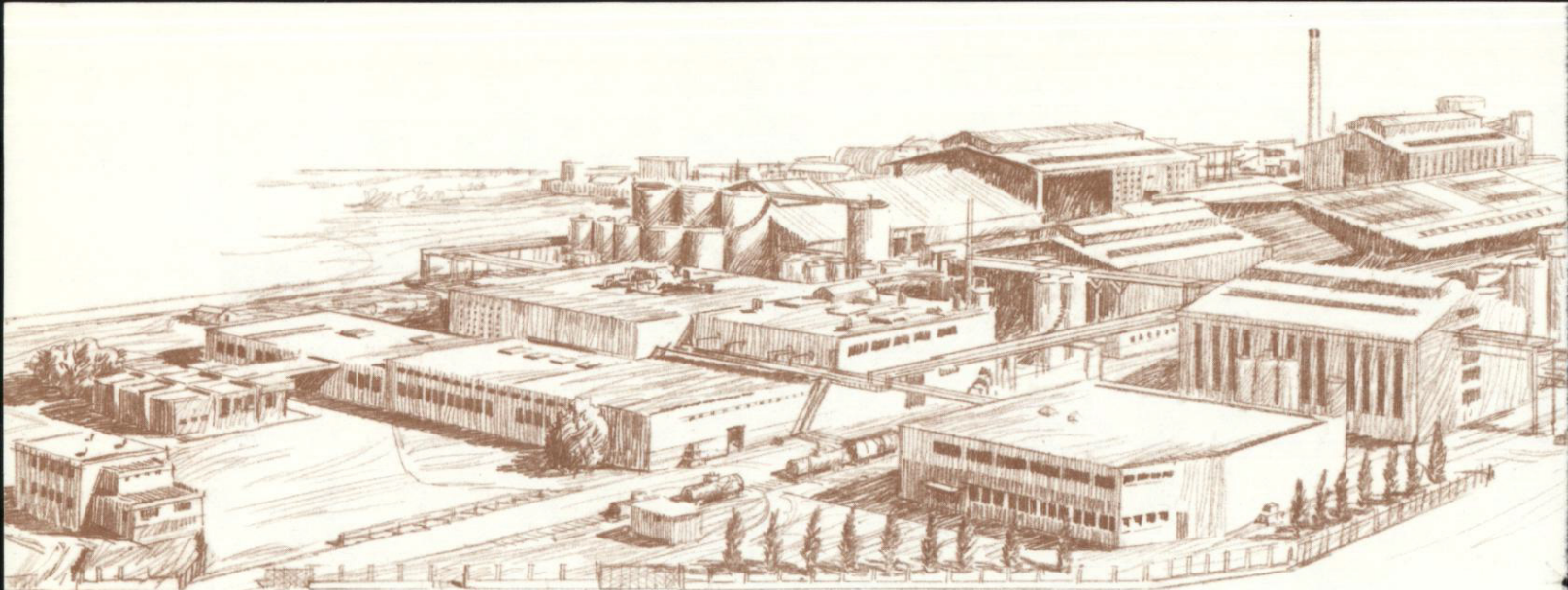
In July 1971, the Directors authorized a two-for-one split in the Common Shares by declaring a 100%

stock distribution. The record date was August 13, and distribution was made September 3. At the same time the quarterly cash dividend was increased from 17½ cents to 20 cents per share on the pre-split shares, making the ninth consecutive year in which dividend payments per share have been increased.

Total dividends for the year were \$7,557,602. Lubrizol has paid cash dividends each year since 1935, and quarterly cash dividends since 1946, a period of more than 25 years. The December 10 dividend was the 104th consecutive quarterly payment.



*The 1972 Annual Meeting of Shareholders will be held on April 24 at Cleveland, Ohio.*



*The Rouen plant of Lubrizol France went into operation in 1955.*

## FINANCIAL

Revenues from worldwide Lubrizol operations amounted to \$200,872,700 last year, an increase of \$14,030,324, or 7.5% over 1970. Net income was \$23,400,177, an increase of \$1,550,185, or 7.1% over 1970, representing \$1.16 per share compared with \$1.09 for the prior year.

In 1971, Lubrizol's financial position was further strengthened. Working capital at December 31, 1971 was \$50,237,764 compared with \$43,563,374 a year prior. Cash and short-term investments increased from \$9,393,289 to \$11,060,304.

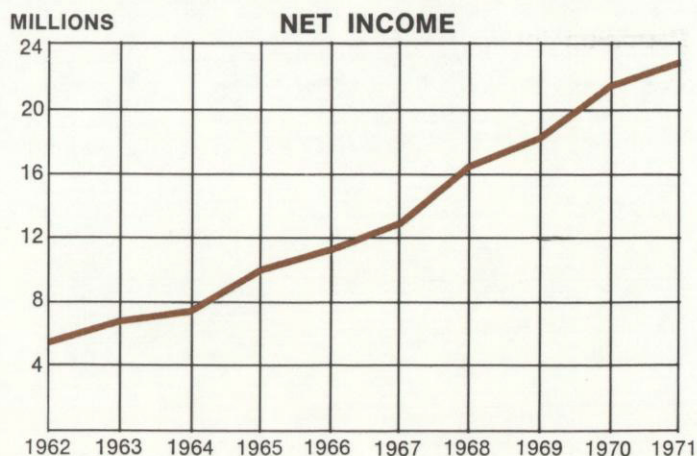
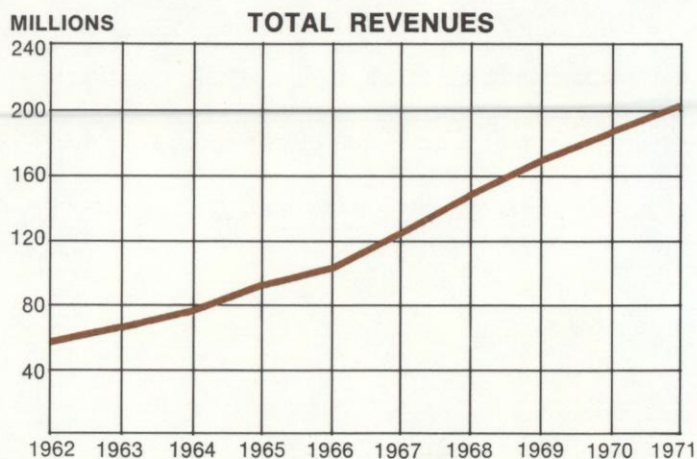
At year end, Lubrizol had no funded debt. Prior to September 30, the Corporation prepaid the balance of \$3,000,000 on term bank loans, which originated in 1967 and reached a peak of \$11,700,000 in 1968. At December 31, 1971, the only liability for borrowed money was represented by \$485,382 of short-term bank loans to overseas subsidiaries.

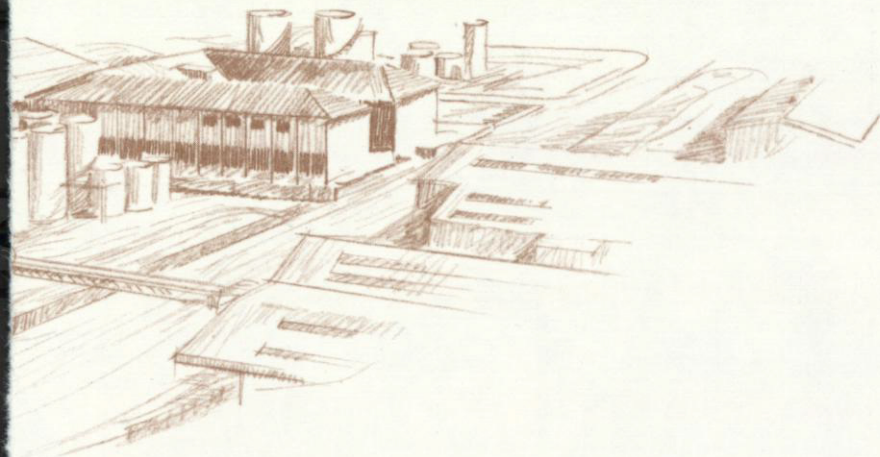
Three events occurred in the latter part of the year which are reflected in consolidated income for the last quarter of 1971:

- (1) In December, the United States investment tax credit for certain U.S. capital expenditures was re-enacted, retroactive to April 1, 1971. The credit in 1971 of \$190,621 was applied as a reduction of provision for income taxes, thereby increasing net income by that amount.
- (2) In December, the Ohio Corporate Franchise Tax was amended effective January 1, 1972. Since the revised and increased franchise tax is computed on the basis of 1971 income, it was accrued as an expense for that year. As a result the provision for income taxes for 1971 was increased (and net income decreased) in the net amount of \$251,000.
- (3) The devaluation of the dollar and the revaluation of certain other currencies resulted in a translation gain of \$617,931 which was credited to other income. After

provision for income taxes, net income was increased by \$466,790.

For 1971, the aggregate flow of Lubrizol funds into the United States from exports, dividends, royalties, fees, interest and other remittances exceeded the out-flow of funds by approximately \$58.2 million, an increase of \$4.7 million over 1970 and the highest in the Corporation's history.





## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year ended December 31	
	<u>1971</u>	<u>1970</u>
Revenues:		
Net sales .....	\$197,587,420	\$183,639,824
Royalties and fees .....	3,285,280	3,202,552
Total .....	<u>200,872,700</u>	<u>186,842,376</u>
Cost and expenses:		
Cost of sales .....	132,031,304	121,089,265
Selling, administrative and research expenses .....	29,534,754	26,053,363
Total .....	<u>161,566,058</u>	<u>147,142,628</u>
Income from operations .....	39,306,642	39,699,748
Other income (expense):		
Equity in earnings of affiliated companies .....	1,179,540	919,897
Interest:		
Income .....	542,369	693,560
Expense .....	(243,969)	(622,117)
Other items — net .....	936,595	331,904
Income before provision for income taxes .....	<u>41,721,177</u>	<u>41,022,992</u>
Provision for income taxes .....	18,321,000	19,173,000
Net income .....	<u>23,400,177</u>	<u>21,849,992</u>
Retained earnings, January 1 .....	87,585,424	72,271,963
Total .....	<u>110,985,601</u>	<u>94,121,955</u>
Less dividends (per share: 1971 — \$.37½; 1970 — \$.32½) .....	7,557,602	6,536,531
Retained earnings, December 31 .....	<u>\$103,427,999</u>	<u>\$ 87,585,424</u>
Net income per share .....	<u>\$1.16</u>	<u>\$1.09</u>

The accompanying notes to financial statements are an integral part of this statement.

# CONSOLIDATED BALANCE SHEET

December 31

## ASSETS

### Current assets:

	<u>1971</u>	<u>1970</u>
Cash .....	\$ 6,053,433	\$ 7,905,289
Short-term cash investments — at cost which approximates market .....	5,006,871	1,488,000
Receivables:		
Customers .....	27,208,328	26,925,266
Affiliated companies .....	2,928,173	3,044,602
Other .....	2,416,991	2,587,116
Inventories — at cost (first-in first-out method) not in excess of market:		
Finished products .....	9,541,370	7,222,985
Products in process .....	11,754,492	10,729,009
Raw material and supplies .....	10,272,843	9,684,104
Prepaid expenses .....	2,702,190	2,459,539
Total current assets .....	<u>77,884,691</u>	<u>72,045,910</u>

### Plant property — at cost:

Land and improvements .....	10,656,955	9,627,751
Buildings and improvements .....	23,119,390	21,786,022
Machinery and equipment .....	78,117,086	70,876,271
Construction in progress .....	7,617,044	4,243,270
Total .....	<u>119,510,475</u>	<u>106,533,314</u>
Less accumulated depreciation .....	46,469,262	39,852,127
Plant property — net .....	<u>73,041,213</u>	<u>66,681,187</u>
Patents — at cost less accumulated amortization .....	<u>517,399</u>	<u>579,034</u>

### Other assets:

Investments in affiliated companies — at equity .....	4,252,190	3,212,895
Loan to affiliated company .....	440,000	660,000
Miscellaneous .....	213,603	257,097
Total other assets .....	<u>4,905,793</u>	<u>4,129,992</u>
TOTAL .....	<u>\$156,349,096</u>	<u>\$143,436,123</u>

December 31

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:

Loans payable by overseas subsidiaries to banks ..... \$ 485,382 \$ 1,272,947

Accounts payable:

Trade ..... 9,621,231 9,106,657

Affiliated companies ..... 4,304,218 4,633,331

Other ..... 898,379 1,172,495

Accrued expenses:

Income taxes ..... 5,745,887 6,889,159

Other taxes ..... 1,647,863 1,125,461

Employee compensation ..... 3,794,152 3,333,652

Other ..... 1,149,815 948,834

Total current liabilities ..... 27,646,927 28,482,536

Long-term debt ..... 3,000,000

Deferred cash grants from a foreign government (being  
amortized over the lives of the related assets acquired) ..... 1,375,337 1,453,477

Deferred income taxes — Note 2 ..... 2,298,596 1,536,309

Shareholders' equity — Notes 3 and 4:

Serial preferred stock without par value —  
Authorized and unissued — 2,000,000 shares

Common shares without par value:

Authorized — 25,000,000 shares

Outstanding — 20,161,486 shares in 1971 and 20,146,824 shares  
in 1970 (after deducting 45,726 treasury shares in both years) ..... 21,600,237 21,378,377

Retained earnings ..... 103,427,999 87,585,424

Total shareholders' equity ..... 125,028,236 108,963,801

TOTAL ..... \$156,349,096 \$143,436,123

The accompanying notes to financial statements are an integral part of this statement.

## NOTES TO FINANCIAL STATEMENTS—1971

### 1. Consolidation

All subsidiaries are wholly-owned and consolidated.

The accounts of the subsidiaries located outside the United States have been translated into United States dollars as follows: property, related depreciation and inventories at rates in effect at the time of acquisition; other assets and liabilities at appropriate rates in effect; other income accounts at average rates for the year. No significant gains or losses resulted from translation of foreign currencies.

A summary of net assets of subsidiaries located outside the United States and Canada at December 31, 1971 follows:

	(In thousands of dollars)				
	England and Europe	Central and South America	Asia and Australia	Other	Total
Current assets .....	\$25,566	\$ 5,820	\$ 6,173	\$ 6,577	\$44,136
Current liabilities .....	9,547	1,952	2,896	644	15,039
Working capital .....	16,019	3,868	3,277	5,933	29,097
Fixed assets .....	18,741	199	1,180	513	20,633
Other assets .....	76	7	57	449	589
Deferred income and taxes .....	(3,482)				(3,482)
Net assets .....	<u>\$31,354</u>	<u>\$ 4,074</u>	<u>\$ 4,514</u>	<u>\$ 6,895</u>	<u>\$46,837</u>

### 2. Depreciation

Depreciation of \$8,099,830 was computed using the straight-line, sum of the years-digits and declining-balance methods, at rates based on the useful lives of the assets. Different methods and rates were used for income tax purposes in certain instances. The income taxes related to these differences have been deferred to future years.

### 3. Common Shares

A two-for-one split in the common shares was made in the form of a 100% stock distribution paid September 3, 1971. Retroactive effect has been given in the financial statements and these notes.

### 4. Employee Stock Options

At the beginning of the year, options were outstanding to purchase 74,952 shares. During the year no options were granted and options for 14,662 shares were exercised for a total consideration of \$221,860 which was credited to the common shares capital account. At December 31, 1971, options were outstanding for 60,290 shares and options for 780,700 shares were available for grant. The option prices are the fair market values on the dates the options were granted.

### 5. Retirement Plans

The company and certain subsidiaries have retirement plans for hourly and salaried employees. The cost of these plans charged to 1971 operations was \$2,123,364. The practice is to fund accrued costs of the plans. There was no unfunded past service cost and pension fund assets exceeded the actuarially computed value of vested benefits.



# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31

	<u>1971</u>	<u>1970</u>
<b>SOURCE OF FUNDS</b>		
Operations:		
Net income .....	\$23,400,177	\$21,849,992
Charges to operations not requiring funds:		
Depreciation .....	8,099,830	7,316,742
Other — net .....	664,201	76,222
Total .....	<u>32,164,208</u>	<u>29,242,956</u>
Increase (decrease) in accounts payable .....	(88,655)	3,235,677
Increase in accrued expenses .....	40,611	2,054,239
Proceeds from stock options exercised .....	221,860	418,230
Other — net .....	159,499	351,884
Total .....	<u>\$32,497,523</u>	<u>\$35,302,986</u>
<b>APPLICATION OF FUNDS</b>		
Capital expenditures .....	\$14,516,931	\$14,006,802
Dividends on common shares .....	7,557,602	6,536,531
Repayment of bank borrowings .....	3,787,565	2,876,998
Increase (decrease) in receivables .....	(3,492)	3,488,179
Increase in inventories .....	3,932,607	5,242,214
Increase in investments in affiliated companies .....	1,039,295	1,055,821
Increase in cash and short-term cash investments .....	1,667,015	2,096,441
Total .....	<u>\$32,497,523</u>	<u>\$35,302,986</u>

## ACCOUNTANTS' OPINION

To the Shareholders and Board of Directors of The Lubrizol Corporation:

We have examined the consolidated balance sheet of The Lubrizol Corporation and its subsidiaries as of December 31, 1971 and the related consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was 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 accompanying consolidated statements present fairly the financial position of the companies at December 31, 1971 and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cleveland, Ohio  
February 28, 1972

*Haskins & Sells*

## TEN YEAR SUMMARY

### CONSOLIDATED STATEMENT OF INCOME

#### Revenues:

	1971	1970	1969
Net sales .....	\$197,587,420	\$183,639,824	\$162,530,305
Royalties and fees .....	3,285,280	3,202,552	3,131,330
Total .....	<u>200,872,700</u>	<u>186,842,376</u>	<u>165,661,635</u>
Cost and expenses less other income .....	159,151,523	145,819,384	131,481,903
Income before provision for income taxes .....	41,721,177	41,022,992	34,179,732
Provision for income taxes .....	18,321,000	19,173,000	16,321,000
Income before deduction of minority interest .....	23,400,177	21,849,992	17,858,732
Less minority interest .....	—	—	—
Net income .....	<u>\$ 23,400,177</u>	<u>\$ 21,849,992</u>	<u>\$ 17,858,732</u>

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

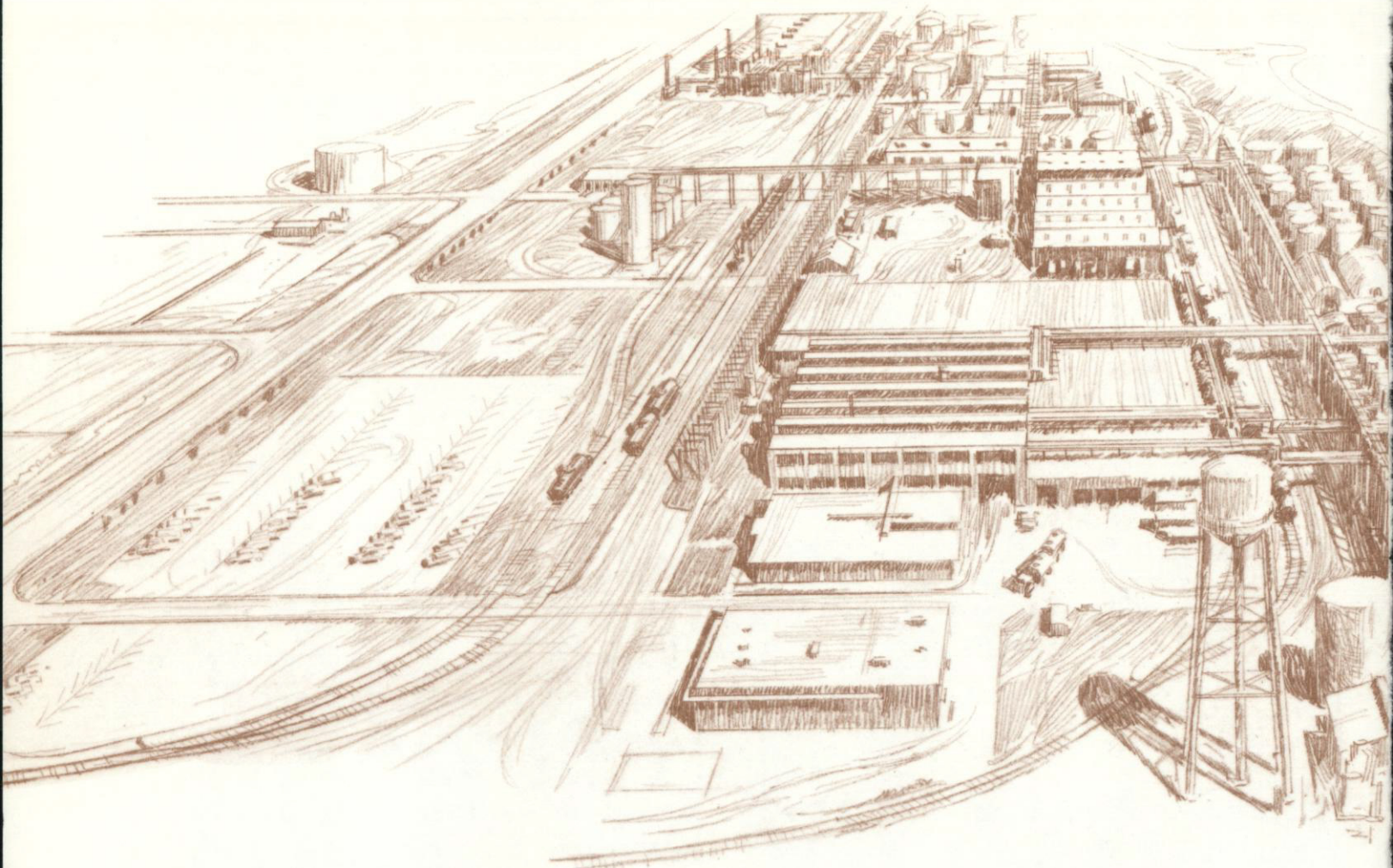
Current assets .....	\$ 77,884,691	\$ 72,045,910	\$ 60,891,665
Current liabilities .....	27,646,927	28,482,536	23,669,618
Working capital .....	<u>50,237,764</u>	<u>43,563,374</u>	<u>37,222,047</u>
Plant property — at cost .....	119,510,475	106,533,314	94,573,703
Accumulated depreciation .....	(46,469,262)	(39,852,127)	(34,270,858)
Other assets .....	5,423,192	4,709,026	3,947,443
Total .....	<u>128,702,169</u>	<u>114,953,587</u>	<u>101,472,335</u>
Less:			
Long-term debt .....	—	3,000,000	5,400,000
Deferred cash grants .....	1,375,337	1,453,477	1,471,228
Deferred income taxes .....	2,298,596	1,536,309	1,368,997
Net assets — Shareholders' equity .....	<u>\$125,028,236</u>	<u>\$108,963,801</u>	<u>\$ 93,232,110</u>

### OTHER DATA

Capital expenditures .....	\$ 14,516,931	\$ 14,006,802	\$ 13,172,709
Depreciation .....	8,099,830	7,316,742	6,150,700
Number of employees at end of year .....	3,037	2,906	2,799
Number of shareholders at end of year .....	7,815	6,995	6,752
Common shares outstanding at end of year .....	20,161,486	20,146,824	20,080,104
Shareholders' equity per share at end of year .....	\$6.20	\$5.41	\$4.64
Return on average shareholders' equity .....	20%	22%	21%
Net income per share .....	\$1.16	\$1.09	\$ .89
Dividends per share .....	.37½	.32½	.28¾

NOTE: The number of shares and per share amounts have been adjusted to give retroactive effect to stock splits, 6 for 1 in 1964, 3 for 2 in 1966, 2 for 1 in 1968 and 2 for 1 in 1971.

1968	1967	1966	1965	1964	1963	1962
\$149,391,177	\$119,223,314	\$106,101,731	\$92,019,801	\$78,713,525	\$71,687,103	\$65,601,605
1,173,896	958,125	1,096,329	490,458	27,483	7,740	—
150,565,073	120,181,439	107,198,060	92,510,259	78,741,008	71,694,843	65,601,605
117,705,376	98,713,259	87,867,164	75,890,016	65,883,799	59,763,071	55,343,159
32,859,697	21,468,180	19,330,896	16,620,243	12,857,209	11,931,772	10,258,446
16,307,000	9,077,000	8,185,000	7,020,000	5,795,765	5,291,559	4,518,584
16,552,697	12,391,180	11,145,896	9,600,243	7,061,444	6,640,213	5,739,862
—	—	—	—	—	55,982	243,524
<u>\$ 16,552,697</u>	<u>\$ 12,391,180</u>	<u>\$ 11,145,896</u>	<u>\$ 9,600,243</u>	<u>\$ 7,061,444</u>	<u>\$ 6,584,231</u>	<u>\$ 5,496,338</u>
\$ 58,003,826	\$ 45,897,012	\$ 39,447,590	\$37,791,020	\$33,362,430	\$29,592,317	\$25,011,148
24,498,099	17,187,161	15,775,499	13,392,247	10,910,607	10,554,765	8,047,575
33,505,727	28,709,851	23,672,091	24,398,773	22,451,823	19,037,552	16,963,573
82,431,043	71,404,651	55,989,722	44,684,728	39,079,092	34,174,913	30,328,143
(28,949,686)	(24,589,551)	(21,050,299)	(18,625,433)	(16,788,472)	(14,720,247)	(12,864,755)
3,509,785	2,631,815	1,687,236	1,521,698	2,027,329	2,230,218	1,786,317
90,496,869	78,156,766	60,298,750	51,979,766	46,769,772	40,722,436	36,213,278
7,950,000	8,250,000	750,000	1,000,000	2,000,000	—	—
1,441,262	1,398,625	—	—	—	—	—
1,280,975	1,128,968	978,341	—	—	—	—
<u>\$ 79,824,632</u>	<u>\$ 67,379,173</u>	<u>\$ 58,570,409</u>	<u>\$50,979,766</u>	<u>\$44,769,772</u>	<u>\$40,722,436</u>	<u>\$36,213,278</u>
\$ 12,289,764	\$ 16,118,287	\$ 12,134,232	\$ 6,712,924	\$ 5,301,575	\$ 4,399,363	\$ 2,887,310
5,193,074	4,149,871	3,133,510	2,717,407	2,391,836	2,333,629	2,249,923
2,646	2,472	2,252	2,066	1,899	1,730	1,628
6,230	5,469	5,228	4,385	3,968	1,014	718
19,832,044	19,691,932	19,536,184	19,430,392	19,384,072	19,403,280	19,403,280
\$4.03	\$3.42	\$3.00	\$2.62	\$2.31	\$2.10	\$1.87
22%	20%	20%	20%	17%	17%	16%
\$.84	\$.63	\$.57	\$.49	\$.36	\$.34	\$.28
.23¾	.21¼	.20	.17½	.13¾	.10¾	.09



## DIRECTORS

RAYMOND Q. ARMINGTON  
Chairman of the Board  
The TRIAX Company

M. ROGER CLAPP  
President and  
Chief Executive Officer

HARRY T. MARKS  
President  
Ferro Corporation

T. W. MASTIN  
Executive Vice President

JOHN L. PALMER  
Vice President - Engineering

KARL H. RUDOLPH  
President  
The Cleveland Electric  
Illuminating Company

HUBERT H. SCHNEIDER  
Partner  
Schneider, Smeltz, Huston &  
Bissell

RENOLD D. THOMPSON  
Senior Vice President  
Oglebay Norton Company

RALPH S. TYLER, JR.  
Chairman of the Board

A. O. WILLEY  
Former Chairman of the Board

ROBERT K. WILLIAMS  
Vice President - Corporate  
Planning and Development

J. M. ZLATOPER  
Vice President - Finance

F. ALEX NASON  
Honorary Director  
Founder of the Company

KELVIN SMITH  
Honorary Chairman of the Board  
Founder of the Company

KENT H. SMITH  
Honorary Director  
Founder of the Company

VINCENT K. SMITH  
Honorary Director  
Founder of the Company

## OFFICERS

RALPH S. TYLER, JR.  
Chairman of the Board

M. ROGER CLAPP  
President and  
Chief Executive Officer

T. W. MASTIN  
Executive Vice President

PAUL L. CARLL  
Vice President - Manufacturing

JAMES B. IRWIN  
Vice President - Marketing

HARRY KAYE  
Vice President - International  
Operations and Treasurer

W. M. LESUER  
Vice President - Research and  
Development

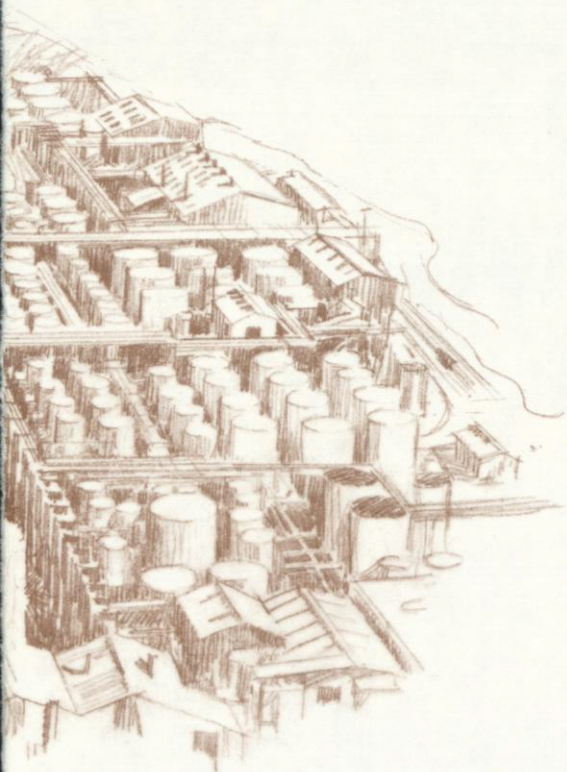
JOHN L. PALMER  
Vice President - Engineering

J. R. STITT  
Vice President - Sales

ROBERT K. WILLIAMS  
Vice President - Corporate  
Planning and Development

J. M. ZLATOPER  
Vice President - Finance

DOUGLAS W. RICHARDSON  
Secretary



*The Deer Park, Texas plant is Lubrizol's largest production facility.*

## **SUBSIDIARIES**

Lubrizol Management, Inc.  
Lubrizol A.G. - (Switzerland)  
Lubrizol do Brasil, Limitada  
Lubrizol of Canada, Ltd.  
Lubrizol Espanola S.A.  
Lubrizol Far East, Inc. - (Philippines)  
Lubrizol France  
Lubrizol G.m.b.H. - (West Germany)  
Lubrizol Great Britain Limited  
Lubrizol International S.A. - (Bahamas)  
    Lubrizol Australia (a branch)  
Lubrizol Italiana S.p.A.  
Lubrizol Japan, Ltd.  
Lubrizol Limited - (England)  
Lubrizol de Mexico, S. de R. L.  
Lubrizol Scandinavia AB  
Lubrizol Servicios Tecnicos, S. de R. L.  
Lubrizol South Africa (Pty.) Limited

## **AFFILIATES**

Industrias Lubrizol, S.A. de C.V. -  
    (Mexico)  
Lubrizol India Limited  
Nippon-Lubrizol Industries, Inc. -  
    (Japan)

## **TRANSFER AGENTS**

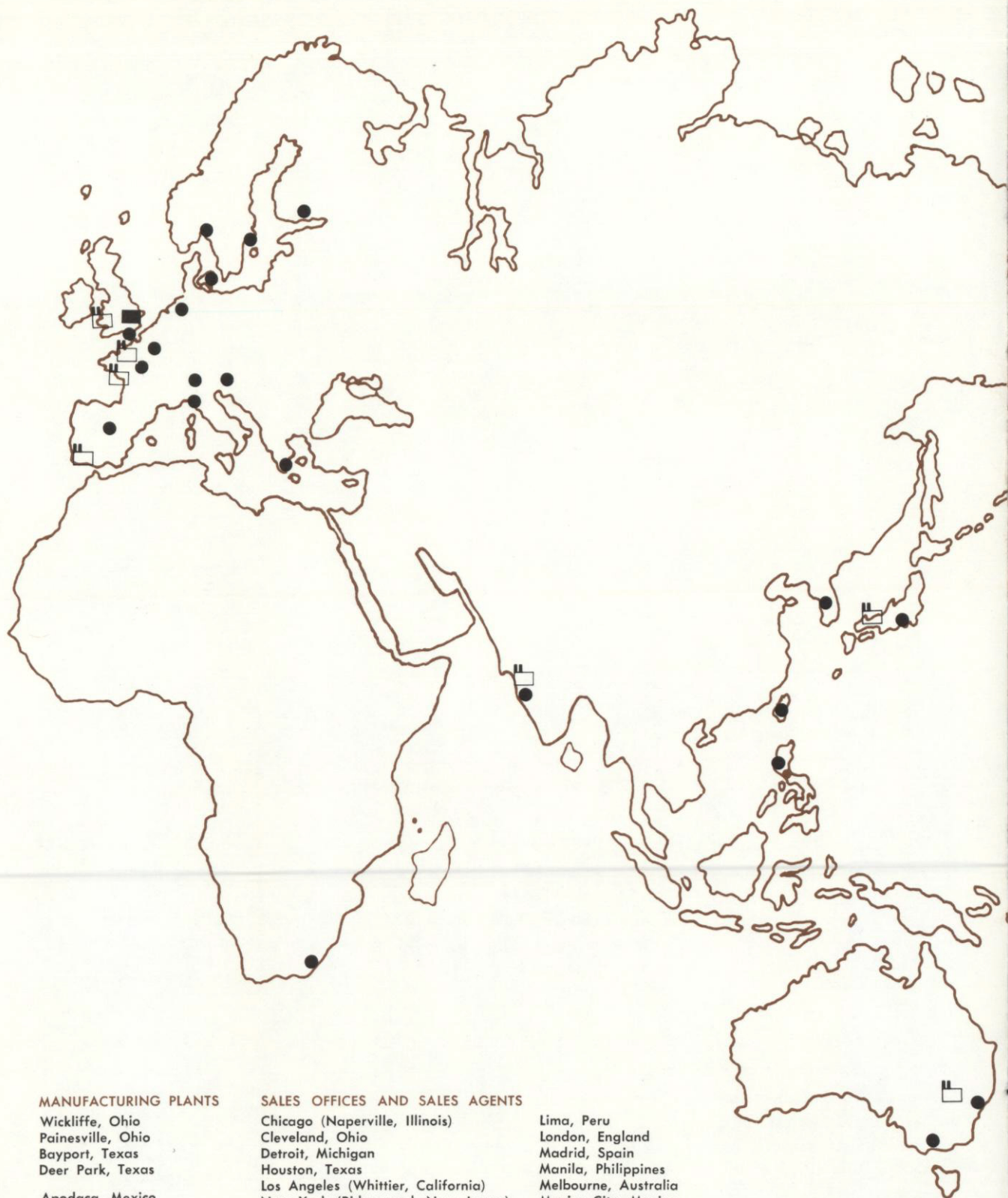
THE NATIONAL CITY BANK OF CLEVELAND  
623 Euclid Avenue  
Cleveland, Ohio 44114  
FIRST NATIONAL CITY BANK  
111 Wall Street  
New York, New York 10015

## **REGISTRARS**

THE CLEVELAND TRUST COMPANY  
916 Euclid Avenue  
Cleveland, Ohio 44101  
CHEMICAL BANK  
20 Pine Street  
New York, New York 10015

## **DIVIDEND DISBURSING AGENT**

THE NATIONAL CITY BANK OF CLEVELAND  
623 Euclid Avenue  
Cleveland, Ohio 44114



**GENERAL OFFICES**

Wickliffe, Ohio

**LABORATORIES**

Wickliffe, Ohio

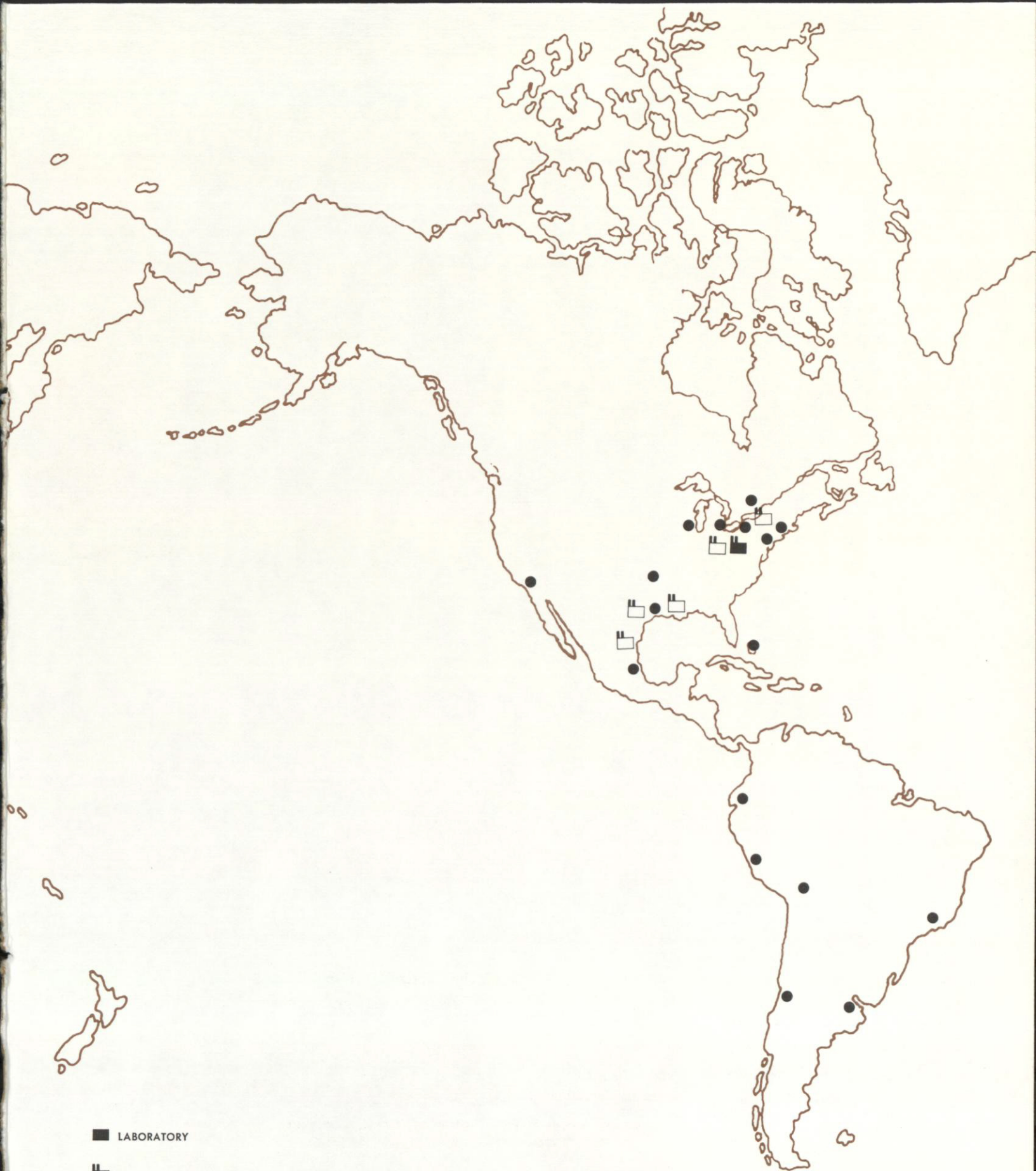
Chemical Research  
Polymer Research  
Mechanical Testing  
Hazelwood, England  
Mechanical Testing

**MANUFACTURING PLANTS**

Wickliffe, Ohio  
Painesville, Ohio  
Bayport, Texas  
Deer Park, Texas  
  
Apodaca, Mexico  
Bombay, India  
Bromborough, England  
Huelva, Spain  
LeHavre, France  
Niagara Falls, Canada  
Rouen, France  
Sydney, Australia  
Taketoyo, Japan

**SALES OFFICES AND SALES AGENTS**

Chicago (Naperville, Illinois)  
Cleveland, Ohio  
Detroit, Michigan  
Houston, Texas  
Los Angeles (Whittier, California)  
New York (Ridgewood, New Jersey)  
Tulsa, Oklahoma  
Wilmington, Delaware  
  
Athens, Greece  
Bombay, India  
Brussels, Belgium  
Buenos Aires, Argentina  
Cham-Zug, Switzerland  
Copenhagen, Denmark  
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Guyaquil, Ecuador  
Hamburg, West Germany  
Helsinki, Finland  
La Paz, Bolivia  
  
Lima, Peru  
London, England  
Madrid, Spain  
Manila, Philippines  
Melbourne, Australia  
Mexico City, Mexico  
Milan, Italy  
Oslo, Norway  
Paris, France  
Rio de Janeiro, Brazil  
Santiago, Chile  
Seoul, South Korea  
Stockholm, Sweden  
Sydney, Australia  
Taipei, Taiwan  
Tokyo, Japan  
Toronto, Canada  
Vienna, Austria



- LABORATORY
- MANUFACTURING PLANT
- PLANT AND LABORATORIES
- SALES OFFICES, AGENTS

