

# Lubrizol

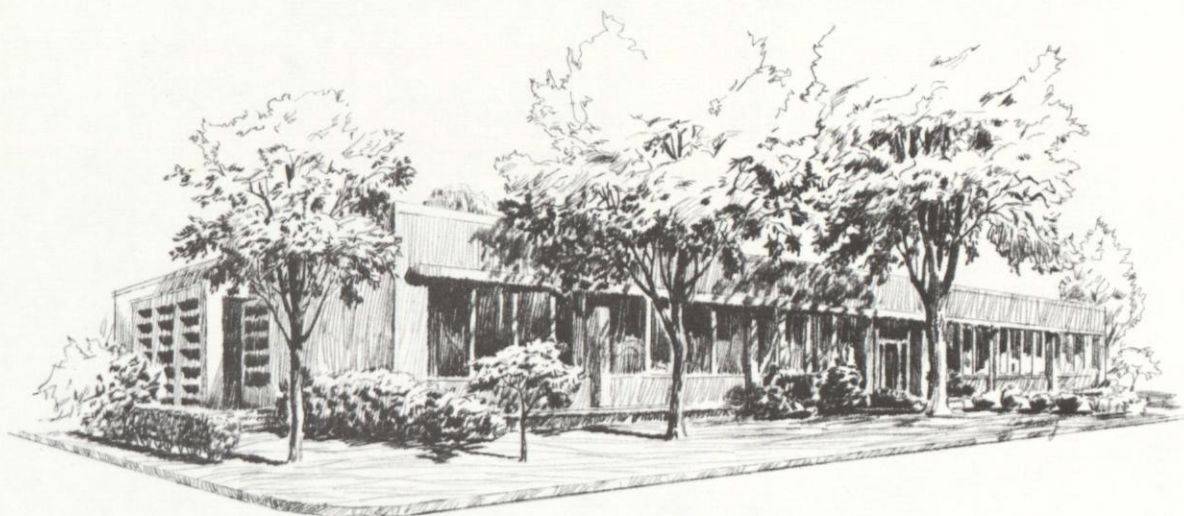
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THE LUBRIZOL CORPORATION

1973 ANNUAL REPORT

OXFORD

# THE LUBRIZOL CORPORATION



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## 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 22, 1974.

## FINANCIAL HIGHLIGHTS

	<u>1973</u>	<u>1972</u>	<u>% Increase</u>
Total revenues .....	\$279,111,289	\$221,449,913	26.0
Net income .....	36,737,608	26,243,001	40.0
Net income per share .....	1.81	1.30	39.2
Dividends per share .....	.53½	.41%	27.9
Capital expenditures .....	12,743,652	11,255,145	13.2
Depreciation .....	9,621,588	8,934,767	7.7
Research and development expenditures .....	12,668,922	10,889,890	16.3
Shareholders' equity .....	169,842,667	142,148,782	19.5



T. W. Mastin

M. Roger Clapp

## TO OUR SHAREHOLDERS

We are pleased to report that 1973 was a year of substantial accomplishment.

Revenues increased 26% and net income, 40%. Both were new highs for the thirteenth consecutive year.

For the ninth year in a row, a return on shareholders' equity of 20% or more was achieved, with a return in 1973 of 24%.

Dividends, including the payment made in January 1974, totaled \$10,777,797, or \$.53½ per share compared with \$.41½ per share in the prior year. Since December 1945, 114 consecutive, quarterly dividends have been paid.

Sales were particularly strong throughout 1973 and increased \$56.9 million over 1972. While a portion of the gain was due to currency realignments, the increase in quantity shipped was one of the highest in recent years. Virtually all of the company's product lines and areas of its world market contributed to the growth.

To keep pace with the increase in sales, manufacturing plants operated at a high level of volume and efficiency. In keeping with Lubrizol's policy of maintaining sufficient reserve capacity to meet customers' growing needs, plant expansion programs were accelerated and several projects to increase production were initiated.

Capital expenditures for 1973 were \$12.7 million compared with \$11.3 million in 1972.

Research and development activities were strengthened with the completion of the \$2.5 million addition to the company's additive research laboratories at Wickliffe, Ohio. Product testing was given further dimension with the opening of Lubrizol Japan's new technical center, near Tokyo.

The successful partnership with Nippon Oils and Fats Co., Limited under which Nippon-Lubrizol Industries, Inc. was established to manufacture

additives in Japan has been renewed for an additional ten years.

Lubrizol's activities outside the petroleum field were expanded by the acquisition of The R. O. Hull & Company, Inc., a developer of processes and manufacturer of chemicals for electroplating. The merger was completed in July with an exchange of 142,857 Common Shares of Lubrizol for the outstanding shares of Hull.

In 1973, Paul L. Carll, Vice President - Manufacturing, and W. M. LeSuer, Vice President - Research and Development, were elected directors. J. M. Zlatoper, former Vice President - Finance, retired as a director.

In changes relating to officers, Harry Kaye was elected Vice President - Finance, W. T. Beargie, Treasurer, and Roger Y. K. Hsu, Vice President and General Counsel.

In January 1974, L. E. Coleman was elected Executive Vice President. Dr. Coleman was formerly Vice President - International Operations and Assistant to the President.

Our belief, expressed last year at this time, in the need for more efficient use of petroleum and the increased utilization of chemical additives to help achieve this, is unchanged. Shipments in 1974 have continued at a high level, but a shortage of some raw materials has held down production and prevented filling all orders for certain products. In the past several months, raw material costs have moved sharply higher and, in February, Lubrizol increased its prices in the United States and abroad. Barring any added difficulty as to supply, we are expecting further improvement in revenues and net income in 1974.

*M. Roger Clapp*

Chairman of the Board

*T. W. Mastin*

President

March 15, 1974

## REVIEW OF OPERATIONS

### More Efficient Use of Petroleum

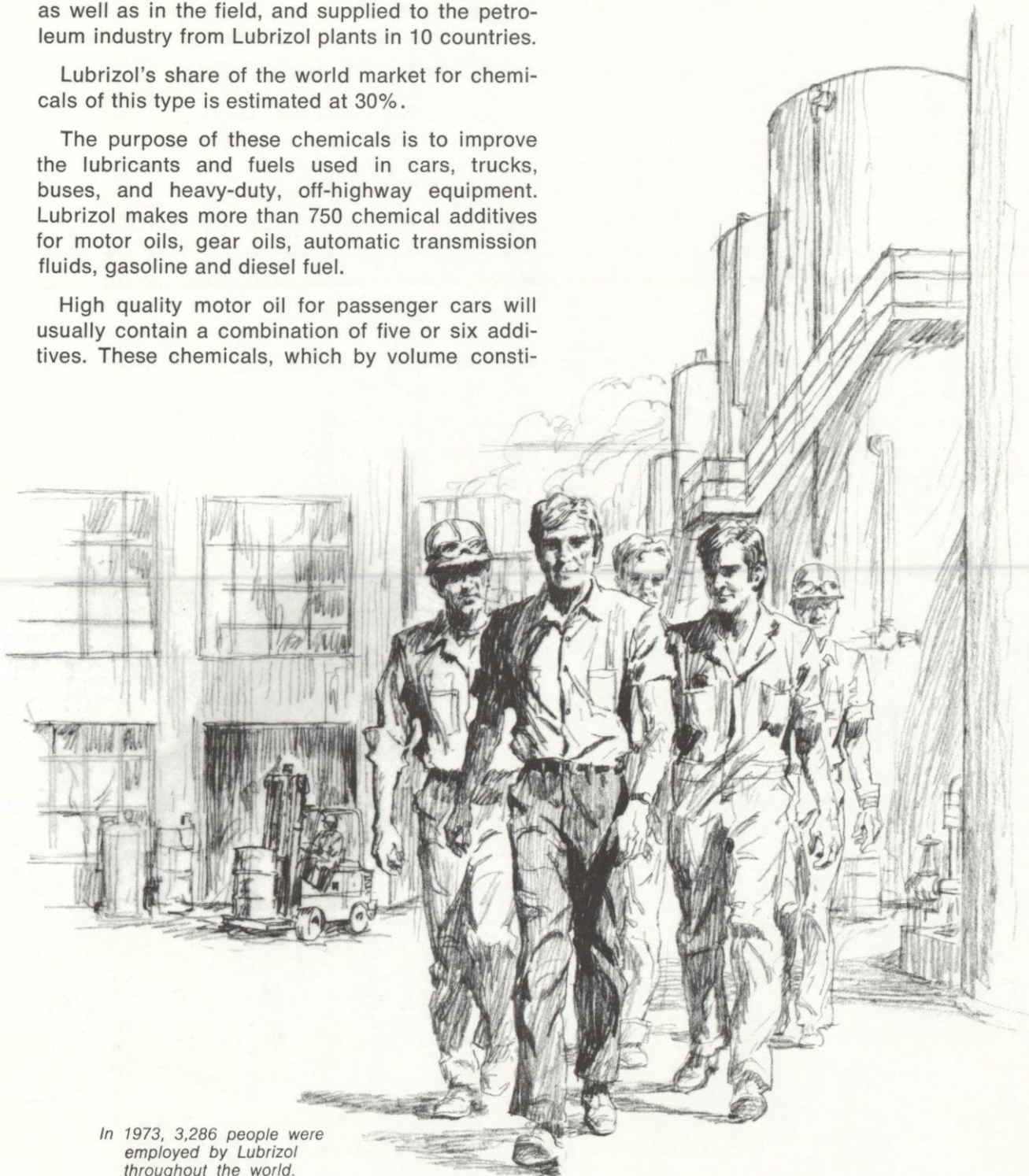
Lubrizol is a leading supplier to the petroleum industry of chemical additives for lubricants and fuels. These products are developed in its research laboratories, tested in laboratory engines as well as in the field, and supplied to the petroleum industry from Lubrizol plants in 10 countries.

Lubrizol's share of the world market for chemicals of this type is estimated at 30%.

The purpose of these chemicals is to improve the lubricants and fuels used in cars, trucks, buses, and heavy-duty, off-highway equipment. Lubrizol makes more than 750 chemical additives for motor oils, gear oils, automatic transmission fluids, gasoline and diesel fuel.

High quality motor oil for passenger cars will usually contain a combination of five or six additives. These chemicals, which by volume consti-

tute up to 12% of the content, will generally include a detergent, a dispersant, one or more inhibitors, a pour point depressant and a viscosity index improver. They enable the lubricant to with-



*In 1973, 3,286 people were employed by Lubrizol throughout the world.*

stand a broader range of temperature, limit the build-up of sludge and varnish, reduce wear, and inhibit the formation of rust and oxidation breakdown of the oil itself. Together, they permit the lubricant to function more effectively — and perform a greater variety of functions — over a longer period of time.

Heavy-duty motor oils for trucks and off-highway equipment require different chemical combinations and their additive content is in the range of 20%. Other chemicals are needed in formulations for gear oils, automatic transmission fluids, gasoline and diesel fuels to obtain the properties desired.

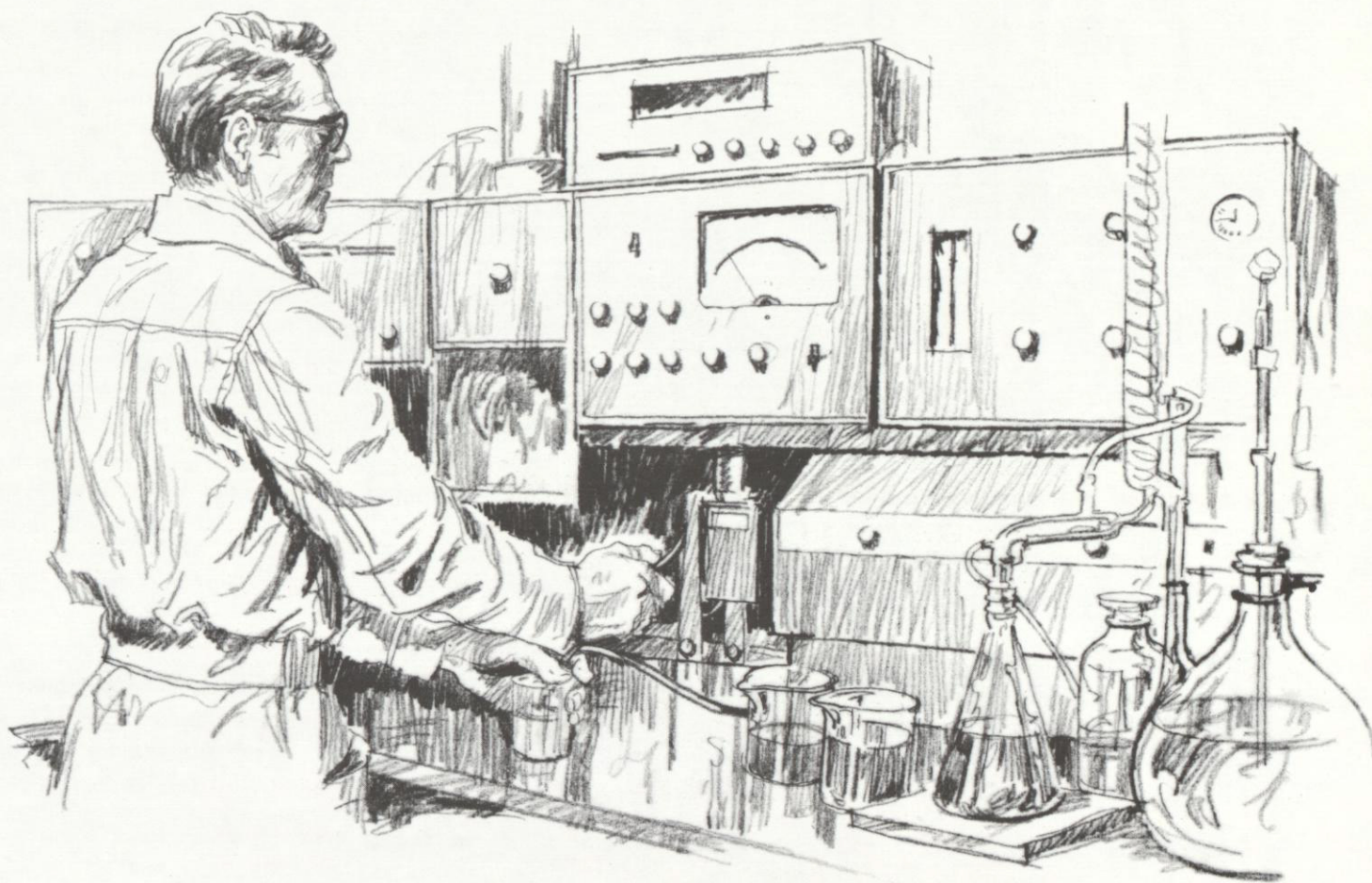
During 1973, Lubrizol observed its 45th anniversary. It was a pioneer in the field of additive

chemicals and has maintained a leadership position through continued emphasis on the development and application of products of this type. Approximately one of every four people at Lubrizol in the United States is engaged in research and development.

The need for more efficient use of petroleum has become apparent. Chemical additives made by Lubrizol are in current use throughout the world to improve lubricants and fuels and challenging new opportunities are presented in this field.

#### **Worldwide Sales Increase**

Worldwide sales set a new high in 1973, more than doubling the sales of six years ago. Customers in 81 countries purchased Lubrizol prod-



*Modern analytical techniques are used in research.*

ucts, with shipments to customers outside the United States and Canada accounting for 60% of total sales. The acceptance of new products, more effective sales representation and improved technical service contributed to the development of a larger share of the market.

Sales in the United States continued to improve and showed the highest gain in recent years.

Lubrizol's activities in the field of metal finishing chemicals were strengthened by the acquisition of The R. O. Hull & Company, Inc. Hull, whose

full line of these products, which are used in providing rust-resistant finishes on appliances, automotive components and other metal parts, is currently supplied by Lubrizol's Metal Finishing Chemicals Department. These activities and those of Hull complement one another and permit the offering of a broader range of metal finishing chemicals both in the United States and abroad.

The sale of these products continued to improve in 1973 and revenues include the results of Hull's operations for the full year, on a pooling of interests basis.

In a related area, in recent years Lubrizol has been offering a line of special, organic chemicals which provide superior rust protection for automobile bodies. During 1973, sale of these products enjoyed unusual growth.

#### **Expansion of Research and Development**

Research and development expenditures for 1973 were \$12.7 million. This brought total spending for research and development during the past five years to \$50.8, representing an average of 4.8% of revenues.

The \$2.5 million expansion of the company's additive research laboratories at Wickliffe, Ohio was completed last fall. The new facilities represent a 50% increase in available space. Additions to staff are currently being made and by the end of this year will bring the total strength of the Research and Development Division to about 525 people.

Since its inception, Lubrizol has emphasized research, with the result that a high percentage of the products it manufactures and sells were originated by the company. Its ability to develop products equated to the customers' needs in a field of changing technology has been a key factor in its success.

While cost and availability of raw materials are invariably taken into account prior to releasing a product for production, world demand for certain petrochemicals has exceeded capacity. Shortages



*Hull & Company's  
general offices are  
in Cleveland, Ohio.*

plant is in Cleveland, Ohio, manufactures brighteners, plating chemicals and conversion coatings used on automotive and appliance parts to provide decorative trim and improved resistance to corrosion. It will continue to operate under the same name as a wholly-owned subsidiary. The acquisition was completed July 13, 1973, with an exchange of 142,857 Common Shares of Lubrizol for the outstanding shares of Hull.

Lubrizol entered the field of chemicals for metal finishing in 1957 by acquiring a manufacturer of phosphate coatings which chemically bond to metal to provide a non-metallic surface for paint. A



and sharp increases in price have resulted. Resourcefulness in research helped temper these adverse economic factors in 1973, and, in a number of instances, alternate processes were developed, or alternate, equivalent materials were employed to meet the required specifications and quality in the finished products.

### Plant Additions in the United States

The growing need for Lubrizol products required extra attention to plant capacities, raw material supply, and distribution facilities in 1973. Capital expenditures were \$12.7 million, with two-thirds of the total spent for plant additions in the United States.

Much of the recent development at the Painesville, Ohio plant has been related to the transfer of all manufacturing from the Wickliffe location. This transfer is scheduled for completion by the end of 1974.

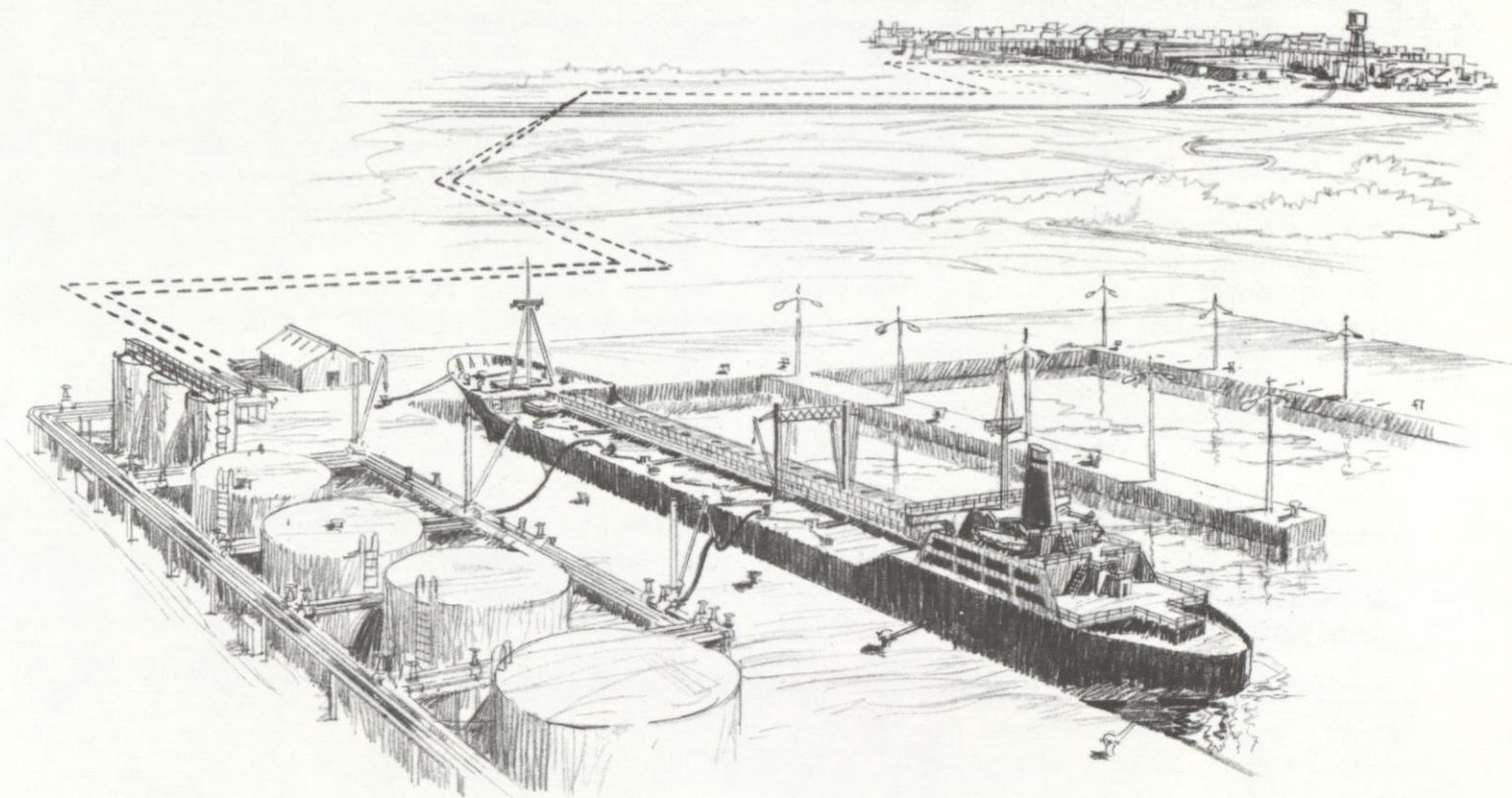
Phasing out the manufacturing operations at Wickliffe marks the end of a long period in which this plant played a key role in the development of the company. From 1931 until 1951, it was Lubrizol's only plant.

Space freed by this shift will be used for administrative and research activities and Wickliffe will continue to be the center of Lubrizol's worldwide operations.

At Painesville, an addition to house further production units is under construction and bulk storage facilities are being increased.

The Deer Park, Texas plant continues to be the company's largest production facility as well as its principal export center. To facilitate transfer of bulk products for export, a pipeline delivery system is under construction. The system consists of four lines which extend some 3.5 miles from the Deer Park plant to a marine terminal on the Houston Ship Channel. The project, which will permit direct delivery from the plant to ship, will be completed next year.

To alleviate congestion at Deer Park, construction of a drum distribution system was started in 1972 and completed this last year. The heart of the system is a mechanical conveyor which runs from the plant production areas to warehouse and shipping facilities on the other side of a public high-



*A pipeline from the Deer Park plant to a marine terminal is under construction.*

way, through an underground tunnel. The conveyor, which is 2,500 feet long, can handle up to 1,200 drums per hour.

At Deer Park, capacity to manufacture motor oil dispersants was increased and additions were made to the plant's electrical and water supply systems to keep pace with production needs.

Four years ago at the Bayport, Texas plant, a unit to produce a new viscosity index improver was completed. Two years later, capacity of the unit was doubled and, during 1973, a project was initiated to again double the output of this unit. Market reception of this product, which has unique properties for use in automatic transmission fluids as well as in motor oils, has been excellent.

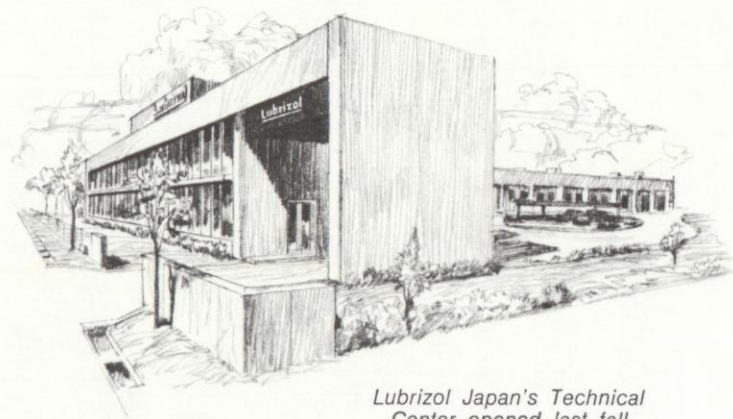
#### **Renewal of Joint Venture in Japan**

In July 1964, Lubrizol joined with Nippon Oils and Fats Co., Limited and formed Nippon-Lubrizol Industries, Inc. to manufacture additives in Japan. A contract for the construction of a plant at Take-toyo, Japan was let shortly thereafter, and approximately one year later, the first shipment was made from the new plant.

Plant additions were made in the next few years, and by 1970, with the original five-acre site fully utilized, additional land was required. A 17-acre site at the nearby harbor was acquired and in the last several years has been developed with an

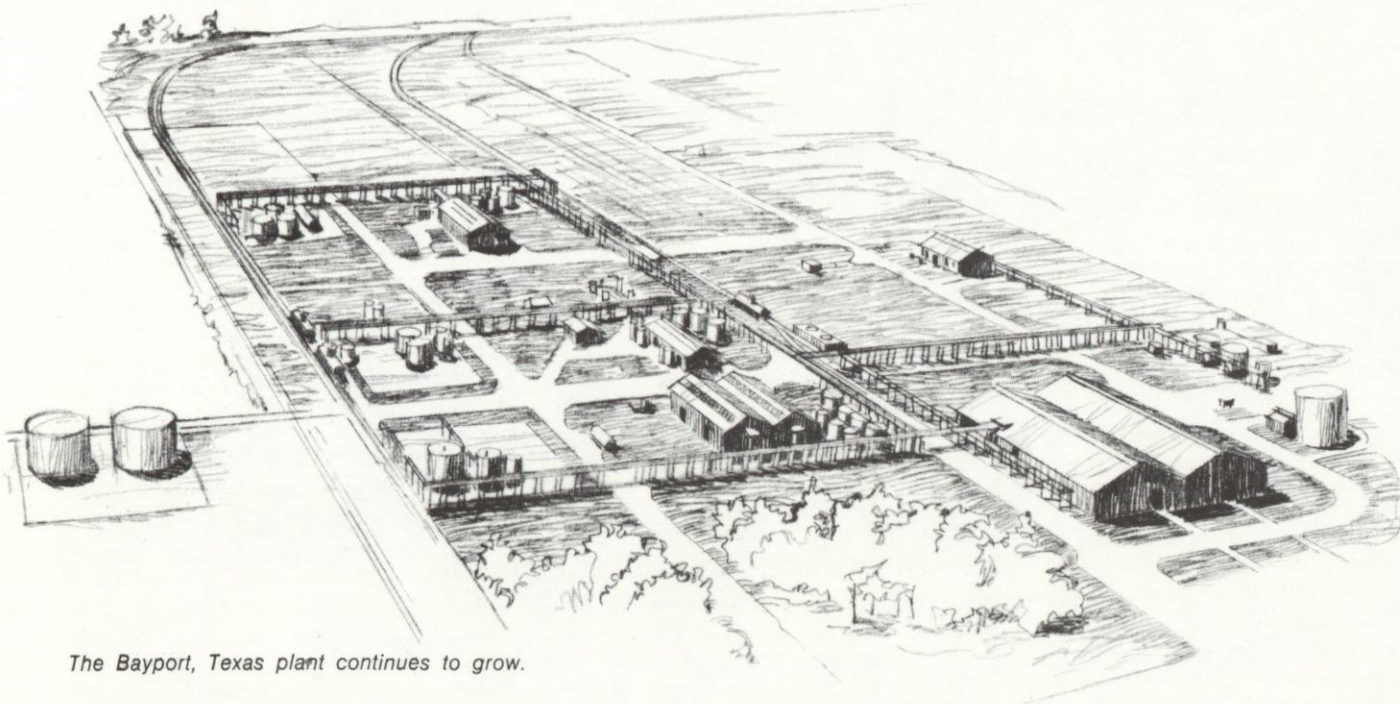
access road, and warehousing and off-loading facilities.

In view of the success of this joint venture, Nippon Oils and Fats Co., Limited and Lubrizol have recently renewed their partnership in Nippon-Lubrizol Industries, Inc. for an additional ten years with a 50%-50% division of ownership.



*Lubrizol Japan's Technical Center opened last fall.*

To further develop the market in Japan, Lubrizol Japan, Ltd., the sales company for the joint venture, has completed construction of a technical center near Tokyo. The center, which opened last fall with a staff of 20, will be utilized to demonstrate performance of Lubrizol additives in engines and other automotive equipment of Japanese manufacture, using local lubricants and fuels.

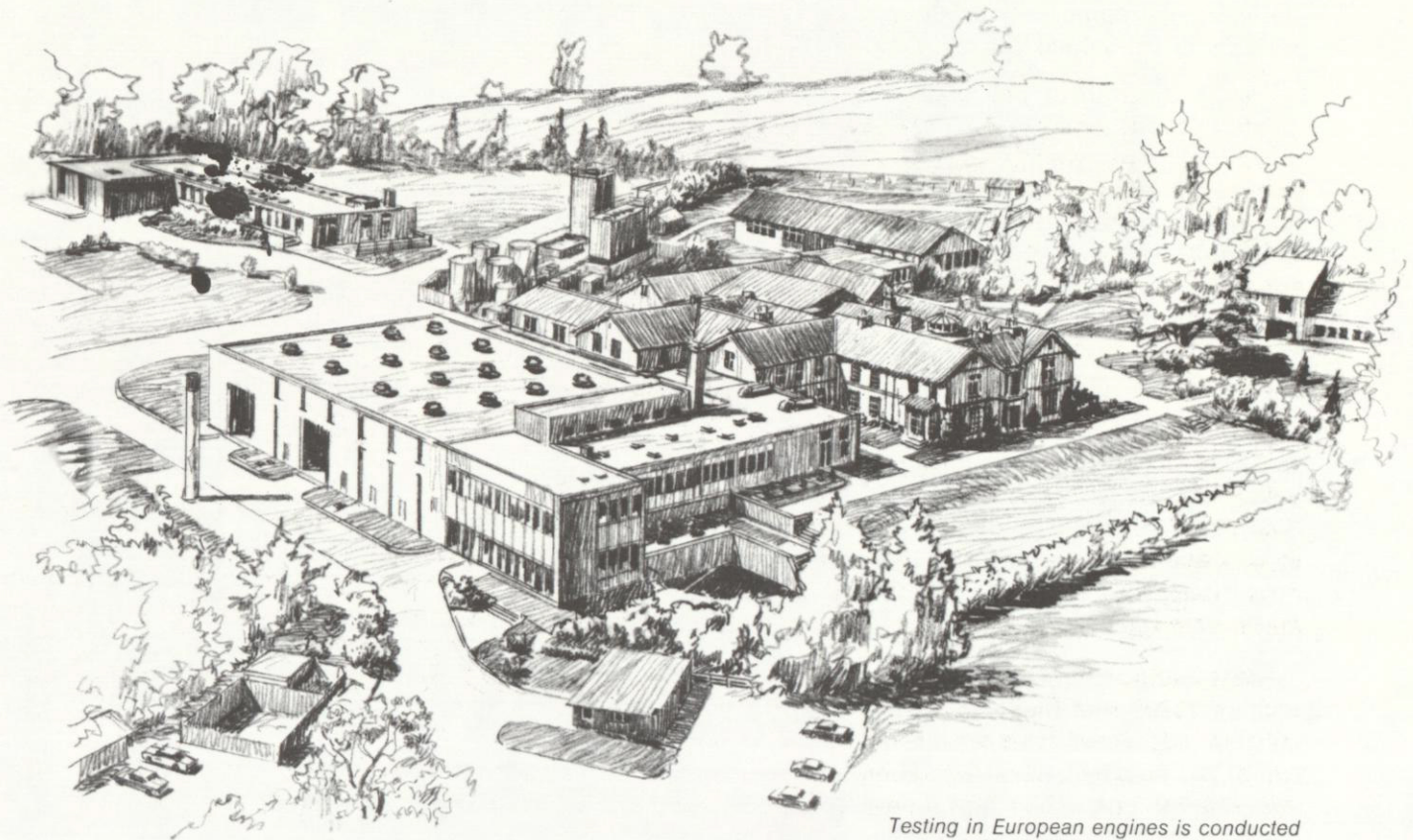


*The Bayport, Texas plant continues to grow.*

### Developments in France, England and India

The European area is one of Lubrizol's principal markets. Chemical additives for this market are supplied by the Rouen and LeHavre plants of

additive performance in car and truck engines and other automotive equipment manufactured in the United Kingdom and Europe. The laboratory, now in its 26th year of operation, has a staff of 160



*Testing in European engines is conducted at Lubrizol International Laboratories.*

Lubrizol France, the Lubrizol Limited plant at Bromborough, England and the Lubrizol Espanola S.A. plant at Huelva, Spain. Sales representation and technical service are provided by Lubrizol companies and offices located in major cities throughout the European area.

Lubrizol France is increasing production at both Rouen and LeHavre. At Rouen, which commenced operations in 1955, an extensive program is in progress to upgrade distribution and enlarge capacity. At LeHavre, the newer facility started in 1969, a major unit to produce dispersants for motor oils is under construction.

Lubrizol International Laboratories at Hazelwood, England is a principal center for testing

people. A new section was completed in 1971 and test equipment is being added as needed. Last year, additional stands for testing additives in automotive engines, including two of the rotary type, were installed and another stand for automatic transmission fluid tests was added.

In 1967, Lubrizol joined with the Government of India to initiate additive manufacture in that nation. Lubrizol India Limited, the joint venture company formed for this purpose, has continued to improve its plant near Bombay. A unit to manufacture an inhibitor for motor oils was finished in 1973 and engineering has been completed for other, more basic units, with construction to start in the near future.



## FINANCIAL

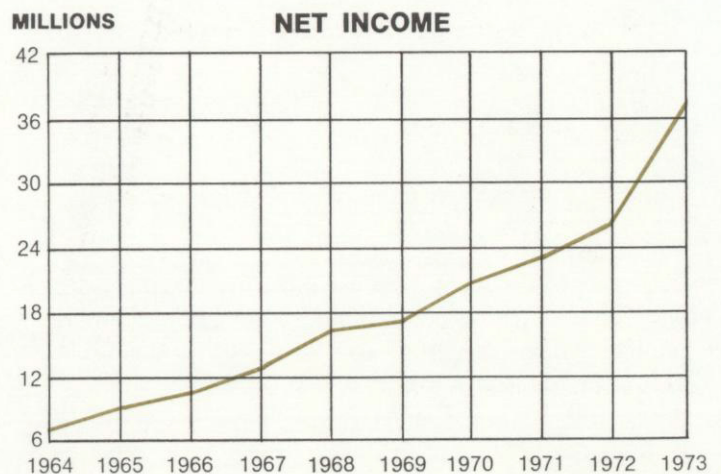
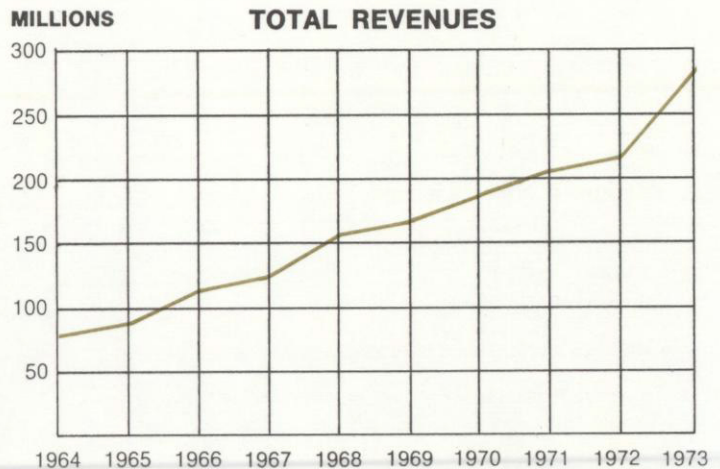
Worldwide revenues reached \$279,111,289, an increase of 26% over 1972. Net income of \$36,737,608 rose 40% from the previous year and represents \$1.81 per share compared with \$1.30 for 1972.

The company's financial position was further strengthened in 1973. Cash and short-term investments totaled \$50,775,673 at year-end. Short-term investments increased from \$21,015,617 to \$47,519,309, an increase of \$26,503,692. Interest earned from investments amounted to \$2,988,466.

Capital expenditures for the year were \$12,743,652, compared with \$11,255,145 for 1972. The U.S. investment tax credit applicable to certain expenditures was \$350,943 and was applied as a reduction of the current income tax expense.

During the year, the relative position of the U.S. dollar to world currencies underwent a considerable change from its devaluation in February to its sharp improvement in the last two months of the year. However, these changes had little effect on the net income for the year. A translation loss of \$1,172,000 in the fourth quarter was virtually offset by a translation gain of \$1,098,000 in the first nine months of the year.

For 1973, the aggregate flow of funds into the United States from exports, dividends, royalties, fees, interest and other remittances exceeded the outflow of funds by approximately \$80.7 million, an increase of \$21.1 million over 1972 and the highest in the company's history.



## CONSOLIDATED STATEMENT OF INCOME

Year ended December 31

	<u>1973</u>	<u>1972</u>
Revenues:		
Net sales .....	\$274,263,231	\$217,409,665
Royalties and fees .....	4,848,058	4,040,248
Total .....	<u>279,111,289</u>	<u>221,449,913</u>
Cost and expenses:		
Cost of sales .....	181,302,357	146,086,249
Selling, administrative and research expenses .....	36,673,385	31,550,372
Total .....	<u>217,975,742</u>	<u>177,636,621</u>
Income from operations .....	61,135,547	43,813,292
Other income:		
Equity in earnings of affiliated companies .....	2,030,388	1,398,483
Interest income .....	2,988,466	847,657
Other items — net .....	62,207	191,569
Income before provision for income taxes .....	<u>66,216,608</u>	<u>46,251,001</u>
Provision for income taxes .....	29,479,000	20,008,000
Net income .....	<u>\$ 36,737,608</u>	<u>\$ 26,243,001</u>
Net income per share .....	<u>\$1.81</u>	<u>\$1.30</u>

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

## CONSOLIDATED BALANCE SHEET

December 31

	<u>1973</u>	<u>1972</u>
<b>ASSETS</b>		
Current assets:		
Cash .....	\$ 3,256,364	\$ 4,087,257
Short-term investments — at cost which approximates market:		
Cash investments .....	33,082,495	21,015,617
State, municipal and other government securities .....	14,436,814	—
Receivables:		
Customers .....	43,064,649	32,931,798
Affiliated companies .....	1,834,810	3,346,750
Other .....	2,684,803	2,259,958
Inventories — at cost (first-in first-out method) not in excess of market:		
Finished products .....	10,414,715	9,387,233
Products in process .....	13,896,631	11,871,989
Raw material and supplies .....	12,775,371	10,098,940
Prepaid expenses .....	2,953,867	2,353,939
Total current assets .....	<u>138,400,519</u>	<u>97,353,481</u>
Plant property — at cost:		
Land and improvements .....	12,534,430	11,839,580
Buildings and improvements .....	28,368,736	24,702,456
Machinery and equipment .....	93,222,610	87,803,179
Construction in progress .....	5,025,677	3,390,186
Total .....	<u>139,151,453</u>	<u>127,735,401</u>
Less accumulated depreciation .....	61,382,589	52,942,155
Plant property — net .....	<u>77,768,864</u>	<u>74,793,246</u>
Other assets:		
Investments in affiliated companies — at equity .....	7,588,965	5,733,359
Patents — at cost less accumulated amortization .....	394,150	455,766
Miscellaneous .....	394,649	303,881
Total other assets .....	<u>8,377,764</u>	<u>6,493,006</u>
TOTAL .....	<u>\$224,547,147</u>	<u>\$178,639,733</u>

December 31

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:

	<u>1973</u>	<u>1972</u>
Loans payable by foreign subsidiaries to banks .....	\$ 559,058	\$ 348,077
Accounts payable:		
Trade .....	16,260,016	10,800,751
Affiliated companies .....	6,220,169	5,581,560
Other .....	1,815,141	1,412,287
Dividend payable .....	2,031,968	—
Accrued expenses:		
Income taxes .....	12,665,791	6,898,357
Other taxes .....	2,174,948	1,566,349
Employee compensation .....	5,242,003	4,128,491
Other .....	1,927,463	1,044,043
Total current liabilities .....	<u>48,896,557</u>	<u>31,779,915</u>
Deferred cash grants from a foreign government (being amortized over the lives of the related assets acquired) .....	1,311,896	1,371,208
Deferred income taxes .....	<u>4,496,027</u>	<u>3,339,828</u>
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 — 20,314,443 shares in 1973 and 20,158,176 shares in 1972 (after deducting 61,066 treasury shares in 1973 and 68,526 in 1972) .....	22,667,830	21,857,217
Retained earnings .....	147,174,837	120,291,565
Total shareholders' equity .....	<u>169,842,667</u>	<u>142,148,782</u>
TOTAL .....	<u>\$224,547,147</u>	<u>\$178,639,733</u>

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

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

YEAR 1973	Common Shares		Retained Earnings
	Shares Outstanding	Amount	
Balance January 1 .....	20,158,176	\$21,857,217	\$120,291,565
Pooling of interests — Note 4 .....	142,857	236,300	1,426,696
Net income .....			36,737,608
Common Shares:			
Treasury shares purchased:			
Stated value .....	(14,100)	(16,351)	
Excess of cost over stated value .....			(503,235)
Exercise of stock options (including 19,550 treasury shares) .....	25,500	520,193	
Distribution of treasury shares to employees .....	2,010	70,471	
Dividends (\$.53½ per share) .....			(10,777,797)
Balance December 31 .....	20,314,443	\$22,667,830	\$147,174,837
<b>YEAR 1972</b>			
Balance January 1 .....	20,161,486	\$21,600,237	\$103,427,999
Net income .....			26,243,001
Common Shares:			
Treasury shares purchased:			
Stated value .....	(25,000)	(27,051)	
Excess of cost over stated value .....			(988,855)
Exercise of stock options (including 2,200 treasury shares) .....	21,690	284,031	
Dividends (\$.41½ per share) .....			(8,390,580)
Balance December 31 .....	20,158,176	\$21,857,217	\$120,291,565

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



## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31

	1973	1972
<b>SOURCE OF FUNDS</b>		
Operations:		
Net income .....	\$36,737,608	\$26,243,001
Charges to operations not requiring funds:		
Depreciation .....	9,621,588	8,934,767
Other — net .....	1,127,458	950,090
Total .....	47,486,654	36,127,858
Increase in accounts payable .....	6,500,728	2,970,770
Increase in accrued expenses .....	8,372,965	1,299,523
Increase in dividend payable .....	2,031,968	—
Net assets acquired in pooling of interests .....	1,662,996	—
Proceeds from stock options exercised .....	520,193	284,031
Other — net .....	(231,753)	1,277,659
Total .....	\$66,343,751	\$41,959,841
<b>APPLICATION OF FUNDS</b>		
Capital expenditures .....	\$12,743,652	\$11,255,145
Dividends on Common Shares .....	10,777,797	8,390,580
Increase in receivables .....	9,045,756	5,985,014
Increase (decrease) in inventories .....	5,728,555	(210,543)
Increase in investments in affiliated companies .....	1,855,606	1,481,169
Purchase of Common Shares .....	519,586	1,015,906
Increase in cash and short-term investments .....	25,672,799	14,042,570
Total .....	\$66,343,751	\$41,959,841

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

## NOTES TO FINANCIAL STATEMENTS

### 1. Accounting Policies

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. All exchange adjustments are included in net income currently. 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, 1973 and 1972 follows:

	(In thousands of dollars)					December 31, 1972
	December 31, 1973					
	England and Europe	Central and South America	Asia and Australia	Other	Total	
Current assets .....	\$31,590	\$ 7,707	\$ 8,948	\$18,047	\$66,292	\$50,639
Current liabilities .....	12,108	3,605	4,669	941	21,323	16,161
Working capital .....	19,482	4,102	4,279	17,106	44,969	34,478
Fixed assets .....	19,074	138	2,590	1,695	23,497	22,443
Other assets .....	145	7	112	29	293	238
Deferred income and taxes ....	(4,448)		(19)	(41)	(4,508)	(4,044)
Net assets .....	<u>\$34,253</u>	<u>\$ 4,247</u>	<u>\$ 6,962</u>	<u>\$18,789</u>	<u>\$64,251</u>	<u>\$53,115</u>

Undistributed earnings of subsidiaries and affiliates outside the United States of approximately \$56,000,000 at December 31, 1973 have been reinvested indefinitely in foreign operations, principally for working capital, plant and equipment. No provision has been made for additional taxes which might result if at some future time such earnings were distributed to the company.

Depreciation — Depreciation of \$9,621,588 in 1973 and \$8,934,767 in 1972 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 are used for income tax purposes in certain instances. The income taxes related to these differences have been deferred to future years.

Retirement Plans — The company and certain subsidiaries have retirement plans for hourly and salaried employees. The cost of these plans charged to operations was \$3,245,196 in 1973 and \$2,380,455 in 1972. 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.

Research and Development — Research and development costs are charged to current operations as incurred.

### 2. Income Taxes

The effective income tax rate differs from the United States statutory tax rate as a result of (a) the lower tax rates applicable to certain foreign income, (b) the flow-through method of recording investment tax credit as a reduction of the provision for income taxes, and (c) the inclusion of equity in affiliates on an after-tax basis.

### 3. Employee Stock Options

In 1965, shareholders approved a plan under which options to purchase Common Shares of the company may be granted to key employees. Such plan expires March 15, 1975. An earlier plan, also approved by shareholders, expired in 1972 and the last option exercised under such plan was in June of that year.

The price for options granted under such plans was, in every case, the fair market value of the Common Shares on the date of the grant. Further information as to the options under these plans is provided by the following table:

	Number of Shares	
	1973	1972
Outstanding at beginning of year .....	49,250	60,290
Granted:		
at \$34.25 per share .....	13,850	
at \$43.125 per share .....		10,650
Surrendered .....	(1,200)	
Exercised:		
at \$17.56 to \$27.03 per share .....	(25,500)	
at \$2.41 to \$27.03 per share .....		(21,690)
Outstanding at end of year .....	<u>36,400</u>	<u>49,250</u>
Exercisable at end of year:		
at \$27.03 per share .....	8,150	
at \$17.56 to \$27.03 per share .....		25,550
Available for grant at end of year .....	757,400	770,550

### 4. Acquisition

During the year, the company exchanged 142,857 of its Common Shares for all of the outstanding shares of The R. O. Hull & Company, Inc. in an acquisition accounted for as a pooling of interests. The accompanying financial statements for 1973 include the operations of the pooled company from January 1, 1973. The 1972 statements have not been restated since the effect thereon would not be material.

### 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, 1973 and 1972 and the related consolidated statements of income, shareholders' equity and changes in financial position for the years 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 financial statements present fairly the financial position of the companies at December 31, 1973 and 1972 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Cleveland, Ohio  
February 22, 1974

*Haskins + Sells*

## TEN YEAR SUMMARY

### CONSOLIDATED STATEMENT OF INCOME

#### Revenues:

	<u>1973</u>	<u>1972</u>	<u>1971</u>
Net sales .....	\$274,263,231	\$217,409,665	\$197,587,420
Royalties and fees .....	4,848,058	4,040,248	3,285,280
Total .....	<u>279,111,289</u>	<u>221,449,913</u>	<u>200,872,700</u>
Cost and expenses less other income .....	212,894,681	175,198,912	159,151,523
Income before provision for income taxes .....	66,216,608	46,251,001	41,721,177
Provision for income taxes .....	29,479,000	20,008,000	18,321,000
Net income .....	<u>\$ 36,737,608</u>	<u>\$ 26,243,001</u>	<u>\$ 23,400,177</u>

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

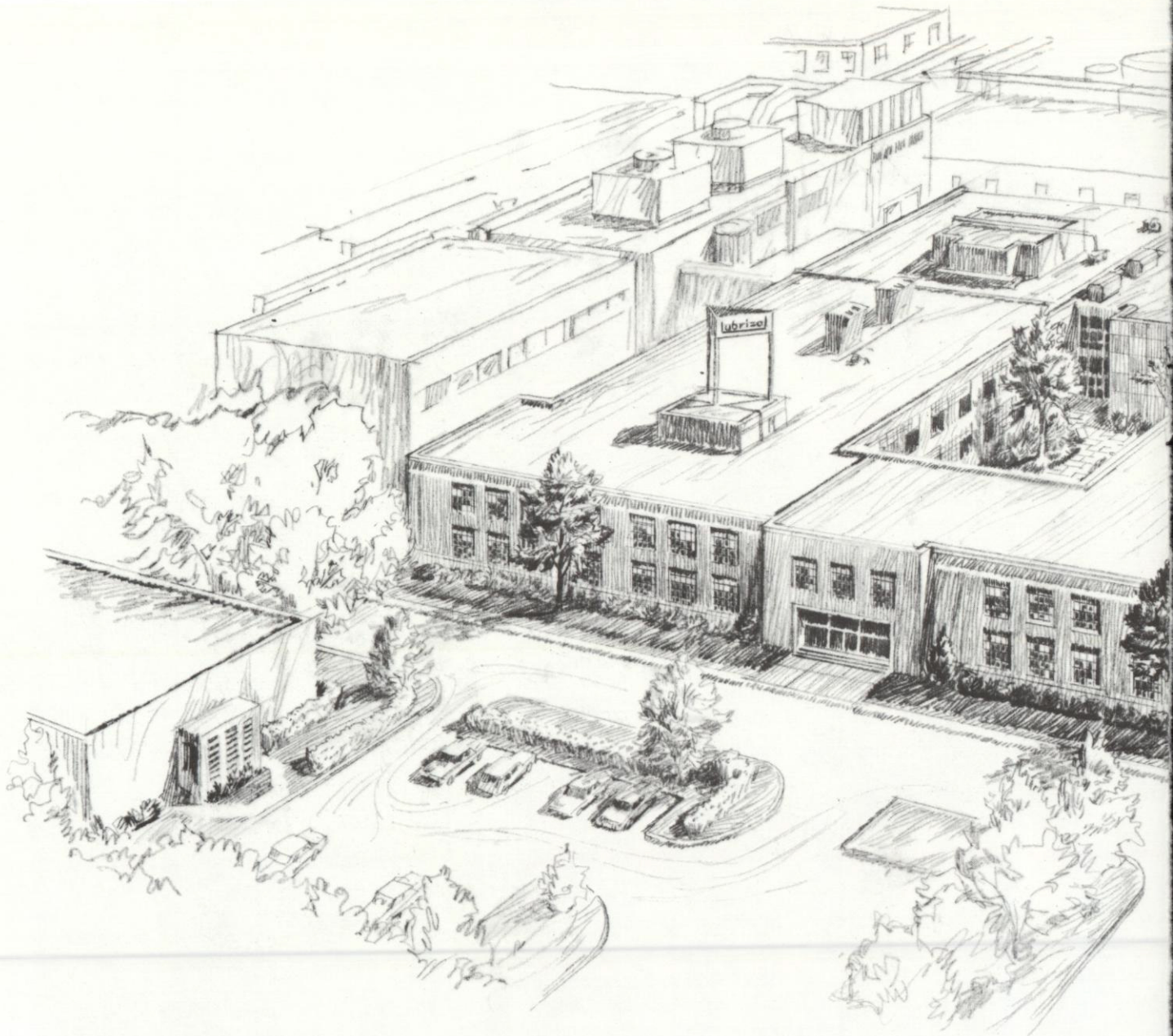
Current assets .....	\$138,400,519	\$ 97,353,481	\$ 77,884,691
Current liabilities .....	48,896,557	31,779,915	27,646,927
Working capital .....	<u>89,503,962</u>	<u>65,573,566</u>	<u>50,237,764</u>
Plant property — at cost .....	139,151,453	127,735,401	119,510,475
Accumulated depreciation .....	(61,382,589)	(52,942,155)	(46,469,262)
Other assets .....	8,377,764	6,493,006	5,423,192
Total .....	<u>175,650,590</u>	<u>146,859,818</u>	<u>128,702,169</u>
Less:			
Long-term debt .....	—	—	—
Deferred cash grants .....	1,311,896	1,371,208	1,375,337
Deferred income taxes .....	4,496,027	3,339,828	2,298,596
Net assets — Shareholders' equity .....	<u>\$169,842,667</u>	<u>\$142,148,782</u>	<u>\$125,028,236</u>

### OTHER DATA

Capital expenditures .....	\$ 12,743,652	\$ 11,255,145	\$ 14,516,931
Depreciation .....	9,621,588	8,934,767	8,099,830
Number of employees at end of year .....	3,286	3,037	3,037
Number of shareholders at end of year .....	7,944	7,972	7,815
Common Shares outstanding at end of year .....	20,314,443	20,158,176	20,161,486
Shareholders' equity per share at end of year ....	\$8.36	\$7.05	\$6.20
Return on average shareholders' equity .....	24%	20%	20%
Net income per share .....	\$1.81	\$1.30	\$1.16
Dividends per share .....	.53½	.41¾	.37½

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

<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>
\$183,639,824	\$162,530,305	\$149,391,177	\$119,223,314	\$106,101,731	\$92,019,801	\$78,713,525
3,202,552	3,131,330	1,173,896	958,125	1,096,329	490,458	27,483
186,842,376	165,661,635	150,565,073	120,181,439	107,198,060	92,510,259	78,741,008
145,819,384	131,481,903	117,705,376	98,713,259	87,867,164	75,890,016	65,883,799
41,022,992	34,179,732	32,859,697	21,468,180	19,330,896	16,620,243	12,857,209
19,173,000	16,321,000	16,307,000	9,077,000	8,185,000	7,020,000	5,795,765
<u>\$ 21,849,992</u>	<u>\$ 17,858,732</u>	<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>
\$ 72,045,910	\$ 60,891,665	\$ 58,003,826	\$ 45,897,012	\$ 39,447,590	\$37,791,020	\$33,362,430
28,482,536	23,669,618	24,498,099	17,187,161	15,775,499	13,392,247	10,910,607
43,563,374	37,222,047	33,505,727	28,709,851	23,672,091	24,398,773	22,451,823
106,533,314	94,573,703	82,431,043	71,404,651	55,989,722	44,684,728	39,079,092
(39,852,127)	(34,270,858)	(28,949,686)	(24,589,551)	(21,050,299)	(18,625,433)	(16,788,472)
4,709,026	3,947,443	3,509,785	2,631,815	1,687,236	1,521,698	2,027,329
114,953,587	101,472,335	90,496,869	78,156,766	60,298,750	51,979,766	46,769,772
3,000,000	5,400,000	7,950,000	8,250,000	750,000	1,000,000	2,000,000
1,453,477	1,471,228	1,441,262	1,398,625	—	—	—
1,536,309	1,368,997	1,280,975	1,128,968	978,341	—	—
<u>\$108,963,801</u>	<u>\$ 93,232,110</u>	<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>
\$ 14,006,802	\$ 13,172,709	\$ 12,289,764	\$ 16,118,287	\$ 12,134,232	\$ 6,712,924	\$ 5,301,575
7,316,742	6,150,700	5,193,074	4,149,871	3,133,510	2,717,407	2,391,836
2,906	2,799	2,646	2,472	2,252	2,066	1,899
6,995	6,752	6,230	5,469	5,228	4,385	3,968
20,146,824	20,080,104	19,832,044	19,691,932	19,536,184	19,430,392	19,384,072
\$5.41	\$4.64	\$4.03	\$3.42	\$3.00	\$2.62	\$2.31
22%	21%	22%	20%	20%	20%	17%
\$1.09	\$ .89	\$ .84	\$ .63	\$ .57	\$ .49	\$ .36
.32½	.28¾	.23¾	.21¼	.20	.17½	.13¾



## **DIRECTORS**

**RAYMOND Q. ARMINGTON**  
Chairman of the Board  
The TRIAX Company

**PAUL L. CARLL**  
Vice President - Manufacturing

**M. ROGER CLAPP**  
Chairman of the Board

**HARRY KAYE**  
Vice President - Finance

**W. M. LeSUER**  
Vice President - Research  
and Development

**HARRY T. MARKS**  
Chairman of the Board and  
Chief Executive Officer  
Ferro Corporation

**T. W. MASTIN**  
President and  
Chief Executive Officer

**JOHN L. PALMER**  
Vice President -  
Technical Services

**KARL H. RUDOLPH**  
President and  
Chief Executive Officer  
The Cleveland Electric  
Illuminating Company

**H. JAMES SHEEDY**  
Partner  
Squire, Sanders & Dempsey

**J. R. STITT**  
Vice President - Sales

**RENOLD D. THOMPSON**  
Executive Vice President -  
Operations  
Oglebay Norton Company

**ROBERT K. WILLIAMS**  
Vice President - Corporate  
Planning and Development

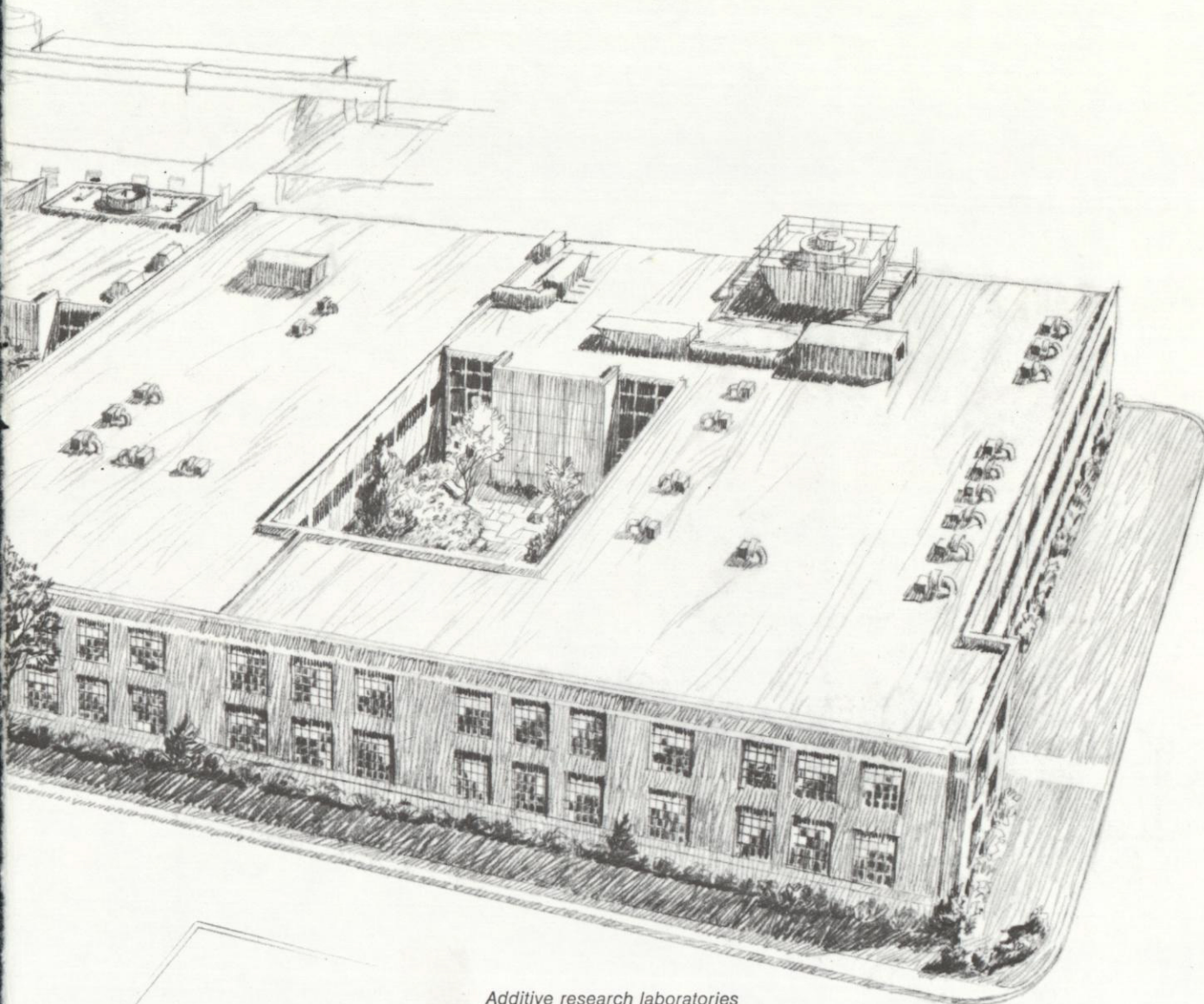
## **HONORARY DIRECTORS**

**F. ALEX NASON**  
Founder of the Company

**KELVIN SMITH**  
Honorary Chairman of the Board  
Founder of the Company

**KENT H. SMITH**  
Founder of the Company

**VINCENT K. SMITH**  
Founder of the Company



*Additive research laboratories  
at Wickliffe, Ohio*

**OFFICERS**

**M. ROGER CLAPP**  
Chairman of the Board

**T. W. MASTIN**  
President and  
Chief Executive Officer

**L. E. COLEMAN**  
Executive Vice President

**PAUL L. CARLL**  
Vice President - Manufacturing

**ROGER Y. K. HSU**  
Vice President and  
General Counsel

**HARRY KAYE**  
Vice President - Finance

**W. M. LeSUER**  
Vice President - Research  
and Development

**JOHN L. PALMER**  
Vice President -  
Technical Services

**DOUGLAS W. RICHARDSON**  
Vice President - Administration  
and Secretary

**J. R. STITT**  
Vice President - Sales

**ROBERT K. WILLIAMS**  
Vice President - Corporate  
Planning and Development

**W. T. BEARGIE**  
Treasurer

### **GENERAL OFFICES**

29400 Lakeland Boulevard, Wickliffe, Ohio 44092

### **MAIL ADDRESS**

P.O. 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.



### **TRANSFER AGENTS**

NATIONAL CITY BANK  
623 Euclid Avenue  
Cleveland, Ohio 44114

FIRST NATIONAL CITY BANK  
111 Wall Street  
New York, New York 10015

### **REGISTRARS**

THE CLEVELAND TRUST COMPANY  
900 Euclid Avenue  
Cleveland, Ohio 44101

CHEMICAL BANK  
20 Pine Street  
New York, New York 10015

### **DIVIDEND DISBURSING AGENT**

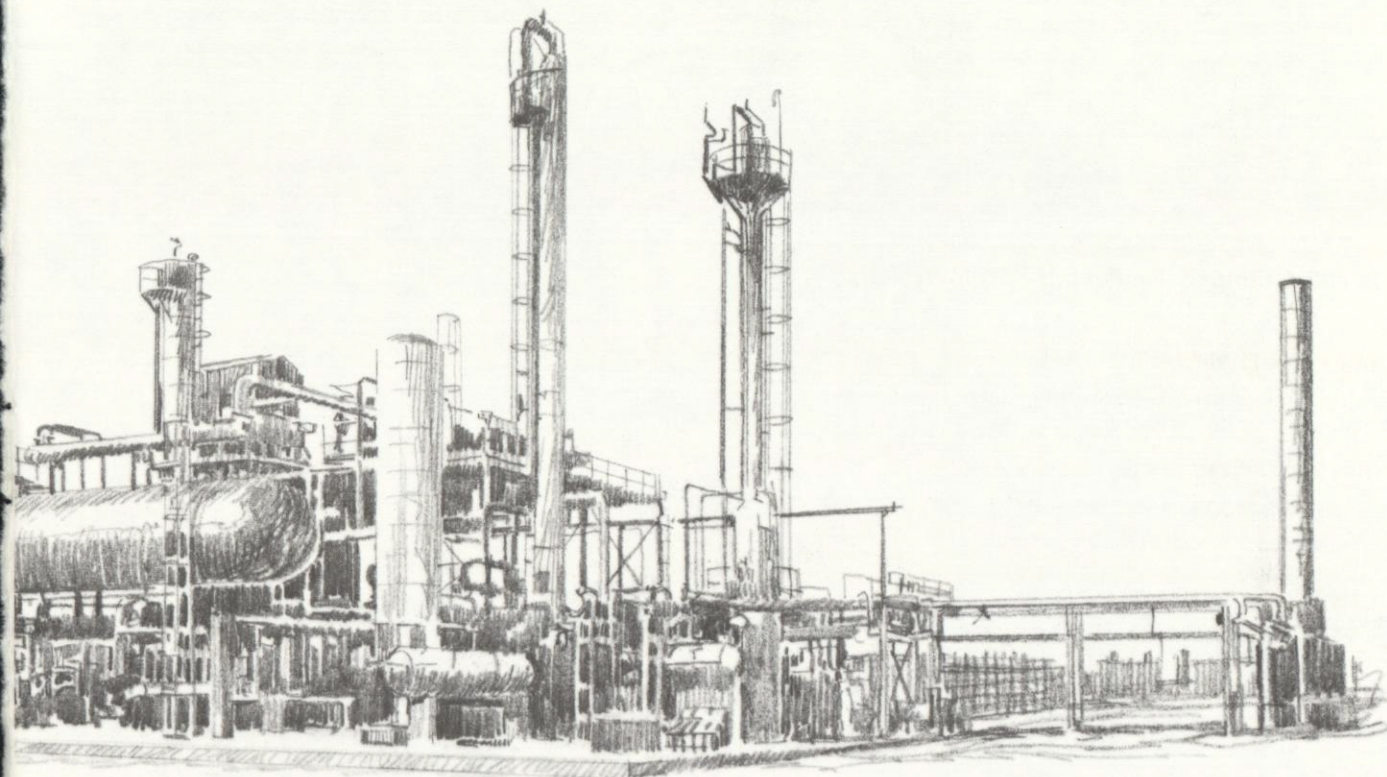
NATIONAL CITY BANK  
623 Euclid Avenue  
Cleveland, Ohio 44114



### **LABORATORIES**

Wickliffe, Ohio  
Chemical Research  
Polymer Research  
Mechanical Testing  
Hazelwood, England  
Mechanical Testing  
Atsugi, Japan  
Mechanical Testing





#### MANUFACTURING PLANTS

Cleveland, Ohio  
 Painesville, Ohio  
 Wickliffe, Ohio  
 Bayport, Texas  
 Deer Park, Texas

Apodaca, Mexico  
 Bombay, India  
 Bromborough, England  
 Durban, South Africa  
 Huelva, Spain

LeHavre, France  
 Niagara Falls, Canada  
 Rouen, France  
 Sydney, Australia  
 Taketoyo, Japan

#### SALES OFFICES AND SALES AGENTS

Cleveland, Ohio  
 Detroit, Michigan  
 Houston, Texas  
 Naperville, Illinois  
 Ridgewood, New Jersey  
 Tulsa, Oklahoma  
 Whittier, California  
 Wilmington, Delaware  
 Athens, Greece  
 Bogota, Colombia  
 Bombay, India  
 Brussels, Belgium  
 Buenos Aires, Argentina  
 Caracas, Venezuela  
 Cham-Zug, Switzerland  
 Copenhagen, Denmark  
 Durban, South Africa  
 Freeport, The Bahamas  
 Guayaquil, 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



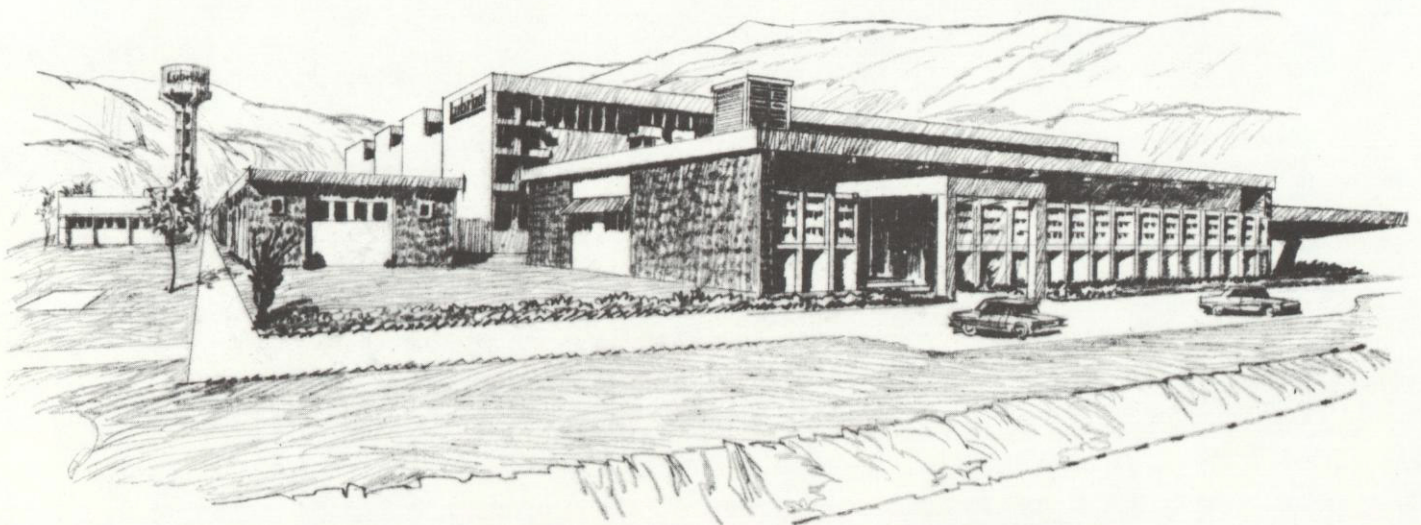
# THE LUBRIZOL CORPORATION

## 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 Singapore (branch)  
Lubrizol France  
Lubrizol G.m.b.H. - (West Germany)  
Lubrizol Great Britain Limited  
Lubrizol International S.A. - (Bahamas)  
Lubrizol Australia (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  
The R. O. Hull & Company, Inc.  
Rohco Chemicals Co., Ltd.

## AFFILIATES

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



*Lubrizol India Limited*

