The Lubrizol Corporation
1974 Annual Report

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GENERAL OFFICES

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TELEPHONE

(216) 943-4200

LISTING

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

TRANSFER AGENT AND REGISTRAR

National City Bank
P. O. Box 5756
Cleveland, Ohio 44101

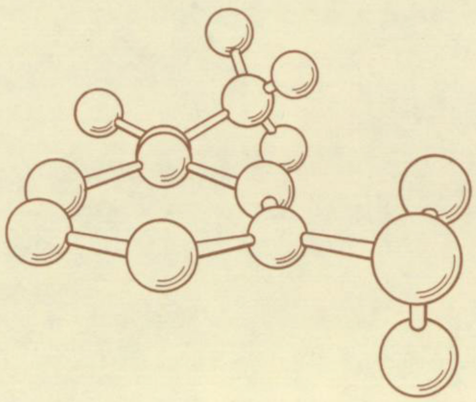
DIVIDEND DISBURSING AGENT

National City Bank
P. O. Box 5756
Cleveland, Ohio 44101

FORM 10-K

The Form 10-K Annual Report to the Securities and Exchange Commission will be available April 1. A copy may be obtained by shareholders upon written request to the Secretary of the Corporation.

LUBRIZOL



ANNUAL MEETING

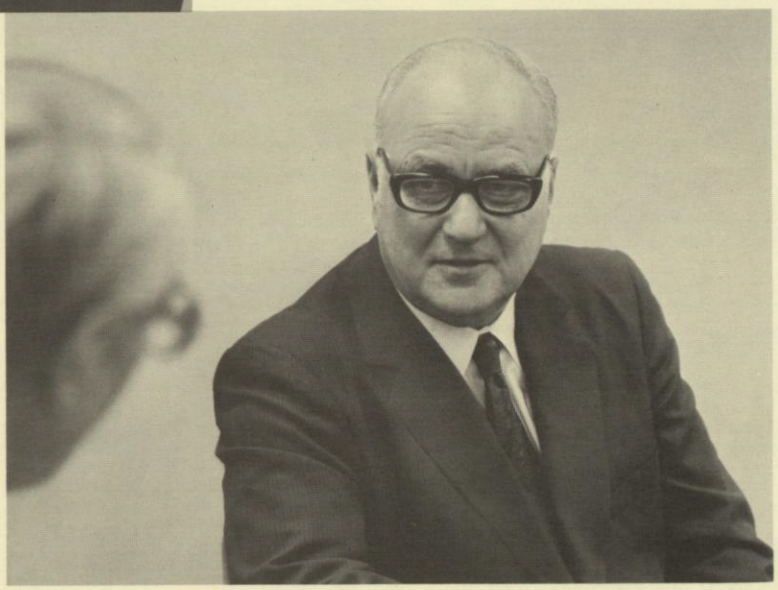
The Annual Meeting of Shareholders will be held in the Lewis Room of the Sheraton-Cleveland Hotel, Public Square and Superior Avenue, Cleveland, Ohio, at 10:15 a.m. on Monday, April 28, 1975.

FINANCIAL HIGHLIGHTS

	1974	1973	% Increase
Total revenues	$382,950,677	$279,111,289	37.2
Net income	50,457,546	36,737,608	37.3
Net income per share	2.49	1.81	37.6
Dividends declared per share	.71⅗	.53⅕	34.6
Capital expenditures	22,639,736	12,743,652	77.7
Depreciation	10,172,424	9,621,588	5.7
Research and development expenditures	14,847,662	12,668,922	17.2
Shareholders' equity	203,444,416	169,842,667	19.8

M. ROGER CLAPP
Chairman

T. W. MASTIN
President



TO OUR SHAREHOLDERS

Revenues and net income for 1974 increased 37% over the prior year. These were new highs for the fourteenth consecutive year.

Return on shareholders' equity was 27% in 1974, which was the tenth consecutive year in which a return of 20% or more was achieved.

The year was an unusual one in a number of respects. Inflationary pressures caused a sharp rise in material costs. Employee compensation, services and supplies and other operating expenses were also higher. Prices were increased to recover these higher costs while maintaining normal margin.

Certain basic materials were in short supply in 1974. In the United States alone, more than one billion pounds of raw materials are required each year. To achieve the levels of production needed, new channels and methods of supply were developed and part of the research effort was directed at optimizing use of available materials and at evaluating and selecting alternate materials of equivalent quality.

The year's success can readily be accounted for in terms of the achievements of Lubrizol personnel in all divisions of the company.

Capital expenditures for 1974 were $22.6 million, which was the highest in the company's history. While some of the increase was caused by inflation, the level shown is in keeping with the company's policy of maintaining sufficient capacity to meet customers' growing needs. With this objective in mind, plans call for further expansion of capacity in 1975.

Commencing with the September 10 payment, the quarterly dividend rate was increased from 10.8 cents to 25 cents per share. Dividends declared totaled $14,526,683 or 71.6 cents per share and 1974 was the twelfth consecutive year in which the amount per share was increased.

Lubrizol's financial position remains strong. Cash and short term investments, which totaled $50.8 million at December 31, 1973, provided the means of financing the higher level of operations without the necessity of borrowing in a tight money market. Total debt, carried on the books of certain overseas subsidiaries, amounted to $2.7 million at year-end. Cash and short-term investments had decreased to $37.7 million at December 31, 1974, thus further evidencing that certain consequences of inflation were inescapable.

On balance, 1974 was both an unusual and a successful year for Lubrizol. Raw material supply has improved. The rate of increase in material costs has diminished. The concept ot using chemically improved lubricants to prolong vehicle life and to achieve greater utility from petroleum products remains sound. Conservation measures aimed at achieving greater efficiency should present new opportunities.

In changes relating to management, in January 1974, Dr. L. E. Coleman was elected Executive Vice President and at the 1974 Annual Meeting was elected to the Board of Directors. In March, John L. Palmer, former Vice President - Technical Services, was elected Vice President - International Operations. Last fall, Gordon B. Cameron, former Division Head - Personnel, was elected Vice President - Personnel.

M. Roger Clapp — Chairman of the Board

T W Mastin — President

March 17, 1975

PROFILE OF THE COMPANY

Lubrizol is a leading supplier to the petroleum industry of chemical additives for lubricants and fuels.

Additives improve the lubricants and fuels used in cars, trucks, buses, off-highway equipment, marine engines and industrial applications. Lubrizol manufactures about 250 chemicals which are used to produce a product line of approximately 800 additive combinations for motor oils, gear oils, automatic transmission fluids, tractor fluids, industrial oils and gasoline and diesel fuels. These products are developed in Lubrizol's research, tested in the laboratory as well as in the field and supplied to the world market from plants in ten countries.

High quality motor oils for passenger cars contain a combination of five or six additives. This combination usually includes a detergent, a dispersant, one or more oxidation or wear inhibitors, a pour point depressant and a viscosity improver. Other chemical combinations are used in heavy duty motor oils for trucks and off-highway equipment and in formulations for gear oils, automatic transmission fluids, industrial oils and gasoline and diesel fuels.

Additives perform a variety of functions. They enable a lubricant to withstand a broader range of temperature, limit the build-up of sludge, varnish and deposits, reduce wear and inhibit the formation of rust and the oxidative breakdown of the oil. Additives in fuels help maintain efficient operation of the carburetor, reduce spark plug fouling, control corrosion and help prevent decomposition of the fuel during storage.

Lubrizol, which was founded in 1928, was a pioneer in the additive field and has maintained its leadership through continuous research. The company's research and development expenditures have averaged 4.5% of revenues for the past five years. Its chemical research laboratories are located at Wickliffe, Ohio. At that location and in England and Japan, Lubrizol has mechanical testing laboratories used in evaluating the performance of its additives in lubricants and fuels.

To serve its widely diversified geographic market, Lubrizol has four additive manufacturing plants in the United States and ten abroad and sales and technical service offices in 32 countries. In each of the years 1970 to 1974 inclusive, approximately 95% of the company's revenues and income were derived from the sale of chemical additives for petroleum products. The company is also engaged in the manufacture and development of specialty chemicals for metal finishing and for formulating and fabricating plastics.

REVIEW OF OPERATIONS

Research in Response to Automotive Change

Research and development expenditures for 1974 were $14.8 million. This includes mechanical testing for development purposes. Customer service activities, including mechanical testing for such purposes, totaled an additional $5.6 million.

With a number of raw materials in short supply in 1974, a research priority was given to modifications of manufacturing processes to obtain greater use of materials in limited supply and to evaluating and selecting alternate, equivalent materials. Success in these activities helped maintain production and quality.

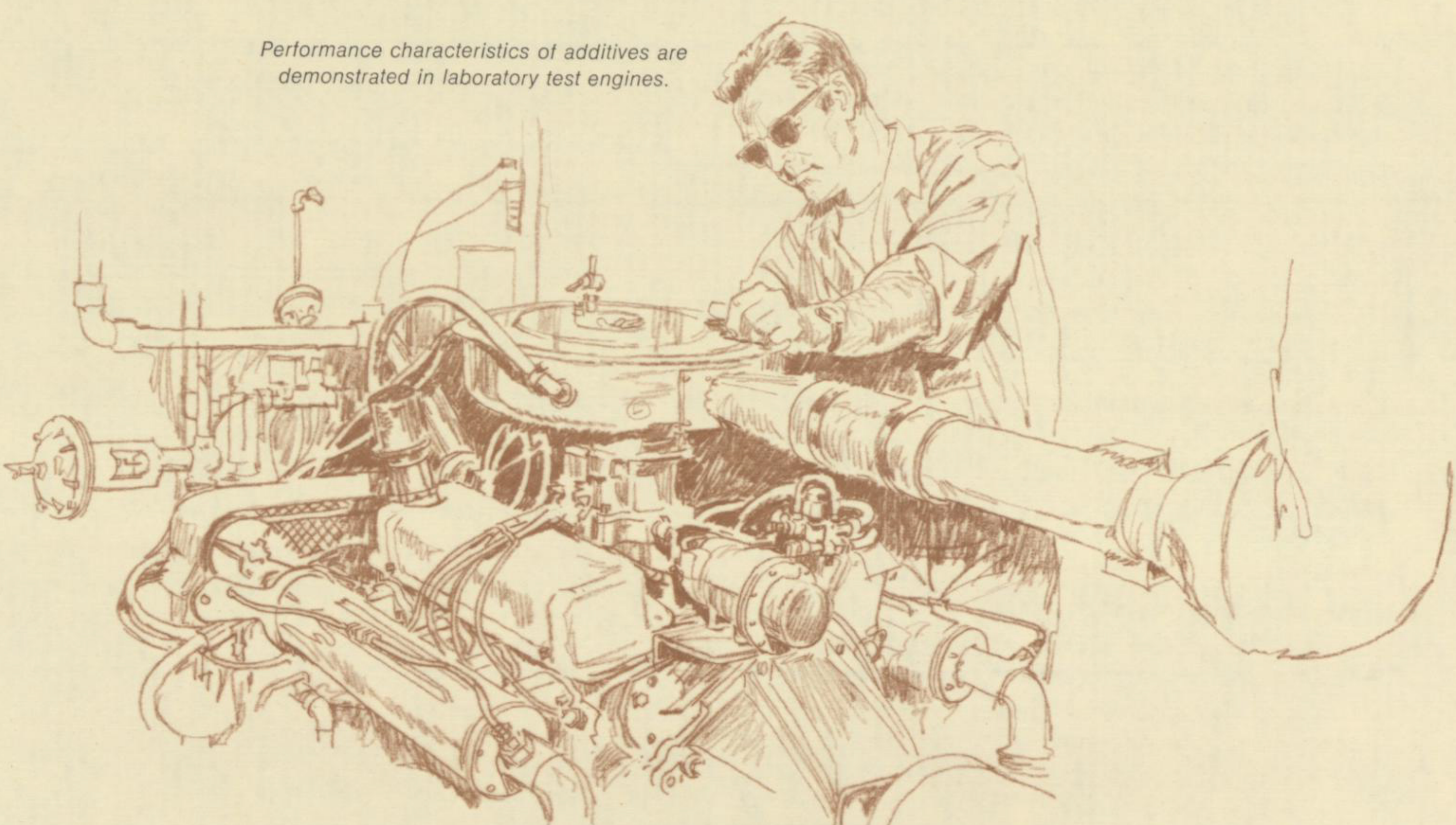
In recent years, many changes have taken place in the petroleum and transportation industries which Lubrizol serves. The success with which these challenges were met again demonstrates the value of emphasis placed on research.

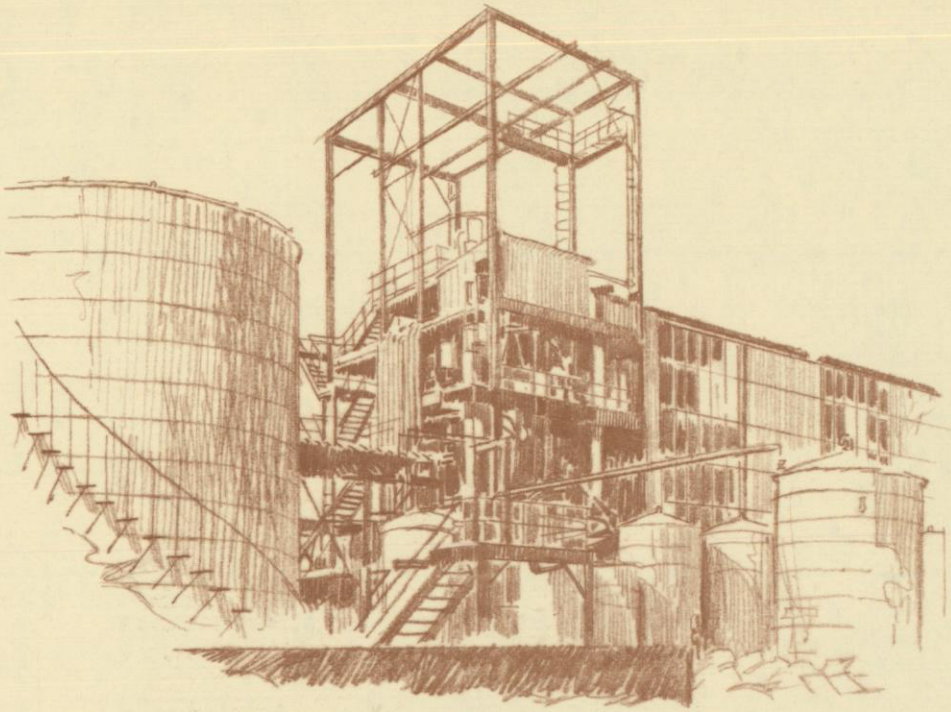
A series of design changes have been made in automotive engines for passenger cars sold in the United States with principal emphasis being given to emission control. This trend is continuing.

With the 1975 model year came the first general use of the catalytic converter. Since the catalyst is impaired by lead, use of lead-free gasoline is required. In anticipation of this change, research was carried out over several years to ascertain the new properties needed in motor oils and to rebalance the additive systems to achieve these properties.

Evidence accumulated over the past year continues to show that unleaded gasoline may cause some engine parts to develop unusual wear under certain driving conditions. While mechanical changes have been made to eliminate some areas of concern, it appears that the best solution will be to use improved engine oils containing new types of anti-wear additives or increased quantities of the types now used.

Performance characteristics of additives are demonstrated in laboratory test engines.





This facility at Bromborough, England produces Lubrizol's viscosity improver.

The internal combustion engine, modified for greater efficiency both from the standpoint of reducing emissions and of improving fuel economy, is likely to be the predominate power plant in automotive equipment for many years. These modifications are expected to result in closer tolerances, increased pressures, higher engine speeds, and a greater emphasis on durability, all of which will require improved lubricants.

More currently, fuel economy is of growing concern. In keeping with the need to conserve energy, auto manufacturers and the U. S. Government are seeking to achieve a substantial improvement in gasoline mileage. Since vehicle weight is such an important factor, greater emphasis on the smaller, lighter car is likely. Other avenues which offer potential improvements in fuel economy are also being explored. Engine oils and gear lubricants which have less frictional resistance, especially at lower temperatures, and oils with special friction reducing properties are now being evaluated.

Lubrizol, with a major portion of its market outside the United States in areas dominated by the small car, has gained extensive background as to the lubrication requirements of vehicles of this type. Tests undertaken at the company's laboratories in Hazelwood, England and in Wickliffe, Ohio show no significant relationship between engine size and oil consumption in passenger cars. Small engines in equivalent service work harder. They operate at higher rpm and at a greater percentage of full power than large engines.

With strong emphasis on design change for emission control, major reductions in automotive pollutants have been achieved in a relatively short time. Attention to fuel economy is just under way and rapid advancement in technology for that purpose is to be expected.

The stratified charge engine is a promising design in that it meets strict emission standards without the use of catalytic devices. However, construction of this type of engine is complex and costly. The design involves either a precombustion chamber and an additional valve for each cylinder or a sophisticated fuel injection system. The complexity of the engine and potentially higher operating temperatures may require increased additive levels in crankcase oils.

While developments in connection with passenger car engines are receiving major attention, a substantial portion of Lubrizol's business relates to the chemical improvement of lubricants for other applications. As a result, part of the company's research continues to focus on these areas. In 1974, following several years of development and testing, a new additive system for tractor hydraulic fluids was introduced. These products, known as the 6100 series, give outstanding performance in the gear train and hydraulic systems in farm tractors.

A line of products for Dexron® II automatic transmission fluids was also introduced. These products, known as the 6700 series of additives, were developed to meet manufacturer's requirements in the latest passenger car transmissions operating under high load, high temperature conditions.

For many years, Lubrizol has been a leader in the development of additives for automotive gear lubricants. A number of specification changes relating to this field both by equipment manufacturers and by governmental agencies have either occurred or are in the proposal stage. New additive systems aimed at meeting these upgraded requirements were introduced in the past year.

Research continues on the program to reclaim and reuse lubricating oil. The effort centers on two areas: first, to develop processes which are economically feasible and second, to develop additive combinations to upgrade the reprocessed material to high quality industrial and crankcase oils.

Development of synthetic lubricants is also continuing, should national or technical needs be directed at products of that type. The company is currently marketing additive components designed specifically for synthetic fluids and, to gain greater insight in that area, expects to test market a fully synthetic product in the near future.

Additive Sales in the World Market

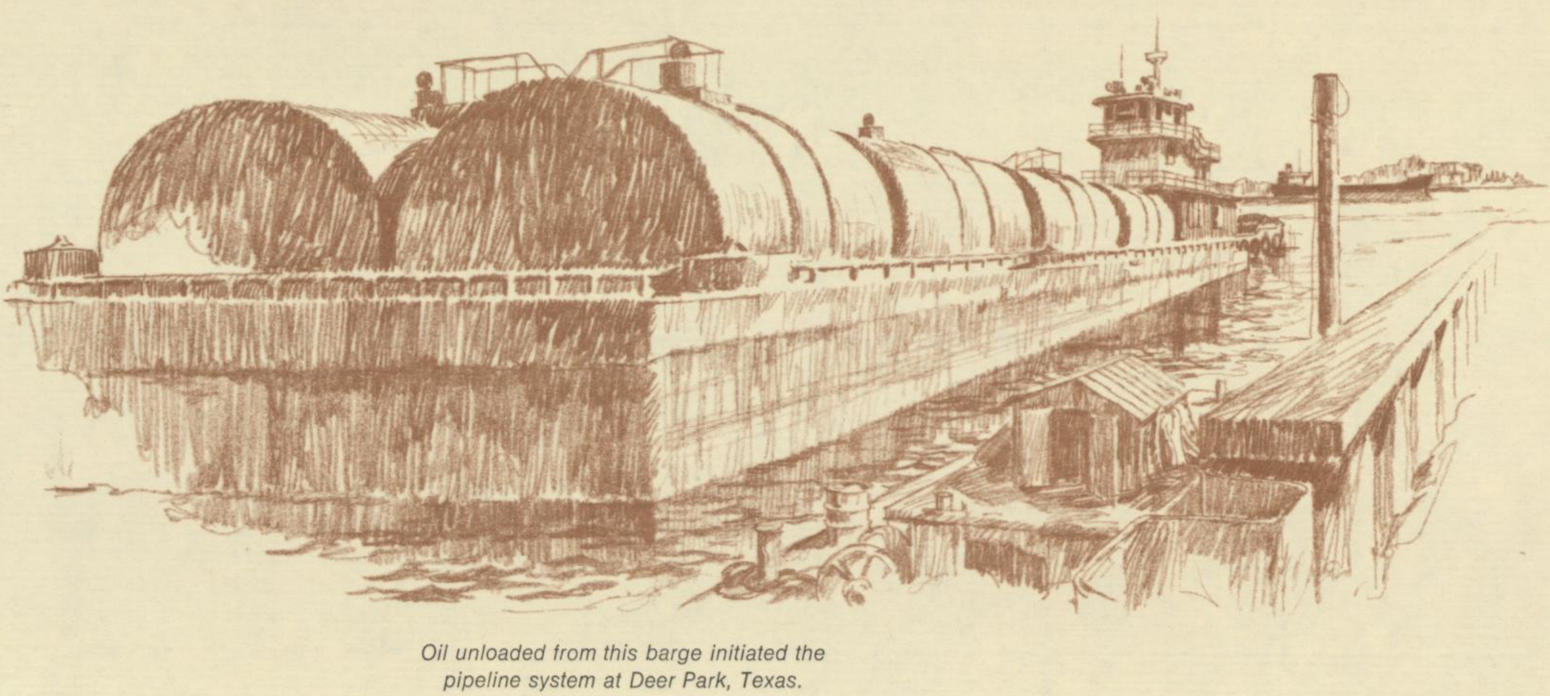
During 1974, worldwide sales again set a new high, more than doubling the dollar volume of five years ago. Shipments were made to petroleum industry customers in 87 countries, and in spite of adverse circumstances, tonnage improved over the prior year.

The world market for additives was influenced by unusual factors in 1974. Shipment of crude oil was embargoed to the United States and certain other countries from some of the major producing countries during the first four months of the year. Gasoline shortages, first evident in 1973, reappeared and driving was curtailed. Car and truck sales were down. Consumption of gasoline for the full year decreased in a number of major markets.

Several raw materials were available only in limited quantities during 1974. This delayed some shipments in the first half of the year and prevented the filling of some orders for certain products.

In spite of these factors, additive sales were at a record level and shipments for 1974 improved over the prior year. As a result of severe inflation, raw material prices moved sharply higher and operating expenses increased. Selling prices were increased to recover these costs while maintaining margins at the same level as in 1973.

A lack of the high volume of oil needed resulted in the temporary suspension of the manufacture of one product and discontinuance by a supplier eliminated sale of another. The loss in tonnage



Oil unloaded from this barge initiated the pipeline system at Deer Park, Texas.

was offset by gains in other lines, however, and, through careful utilization of available materials, product mix was improved. For example, gains were made in the sale of additive systems for motor oils for cars, heavy duty motor oils for trucks, automotive gear oils, and cylinder lubricants for marine engines.

Shipments to the U. S. and Canadian markets accounted for 39% of additive sales. These markets are served by five plants in North America and sales representation in Canada as well as in a number of cities throughout the United States.

Shipments to the European area, also a major market, represented 34% of sales. This market is served by a zone office in London, which during 1974, moved into a new headquarters, and by sales and technical service groups throughout Europe. The European area is supplied principally by plants at Bromborough, England, LeHavre and Rouen, France and Huelva, Spain.

The market in Asia is supplied for the most part by manufacturing facilities in Japan and India. In 1974, this market area accounted for 9% of Lubrizol's additive sales. The Latin American market also accounts for 9% of additive sales and the remainder is attributable to other areas.

Expanding Production Facilities

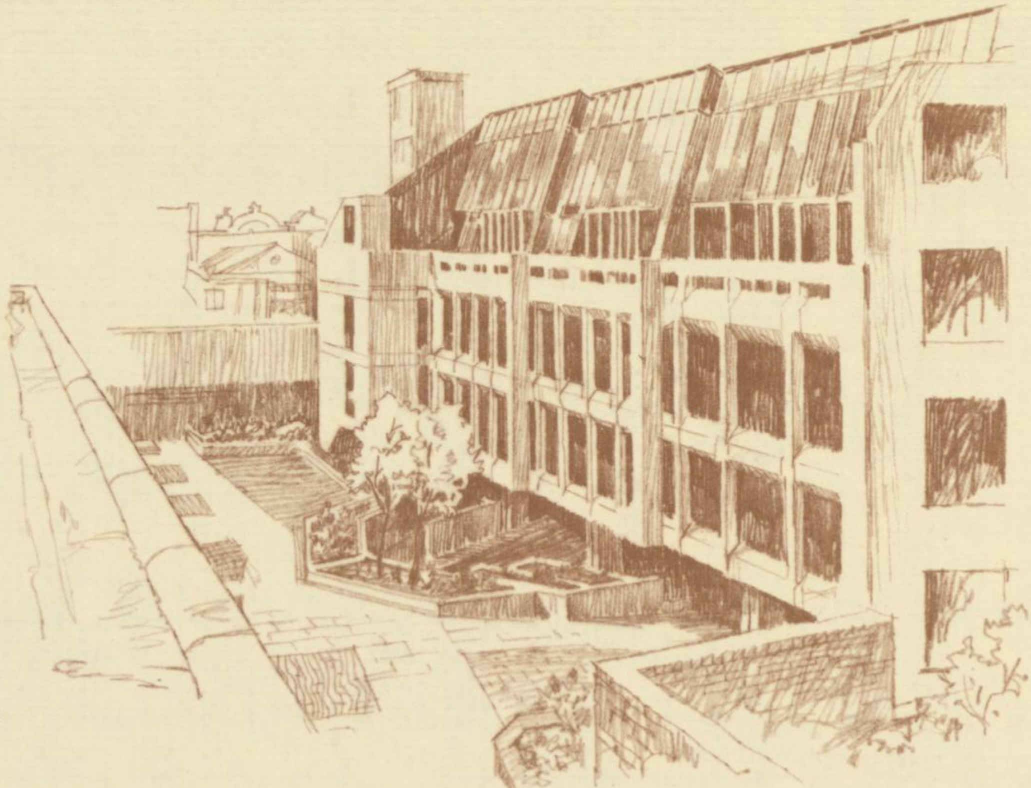
Lubrizol continued to strengthen its worldwide production capabilities in 1974. Capital expenditures for the year totaled $22.6 million, compared to the $12.7 million spent in 1973. Approximately 70% of this amount was allocated to projects in the United States.

Much of the construction activity at the Painesville, Ohio plant continues to revolve around the

Lubrizol of Canada, Ltd. began operations at Niagara Falls, Ontario in 1953.

final phases of the transfer of manufacturing operations from the Wickliffe, Ohio plant. By year-end production of additives at Wickliffe will have ceased. The capacity of the manufacturing operations transferred to Painesville is being substantially increased.

The Painesville plant property, including 49 acres acquired during 1974, comprises a total of 138 acres. The additional land will permit future expansion as needed.



The Western Zone sales office in London moved to a new headquarters.

Growth in Lubrizol's business has necessitated increasing attention to distribution. At the Deer Park, Texas plant, the 3.5 mile system of four underground pipelines, started in 1973, now connects the plant to port facilities on the Houston Ship Channel. These pipelines represent a highly efficient transportation system for both finished products and raw materials. The system was initiated in July with the transfer of over 500,000 gallons of oil from a barge to the plant for use in processing. When the bulk storage tanks at the port are completed later this year, the system will greatly facilitate the transfer of products for shipment overseas. The system will be used to transfer over 15 million gallons of material each year.

Lubrizol supplies its customers abroad not only through export from the United States, but from strategically located manufacturing and storage facilities around the world.

The Canadian market has been served since 1953 by Lubrizol of Canada, Ltd., located at Niagara Falls, Ontario. This plant has undergone several expansions as customer needs have increased. While shortages of certain raw materials hampered production in most parts of the world, some of these materials were readily available in Canada. This resulted in the highest level of operations the plant ever experienced and gains were made in both Canadian and export shipments.

At the Bromborough, England plant of Lubrizol Limited, a unit to manufacture viscosity improver was recently completed. This material has found wide acceptance due to its unique properties for automatic transmission fluids and motor oils. The new unit will supply the increased demand in Europe.

The Rouen and LeHavre plants of Lubrizol France are also being expanded with additional facilities to manufacture inhibitors, dispersants and detergents primarily for use in motor oils. The dispersant unit nearing completion at LeHavre will increase capacity nearly twenty percent.

1974 marked the fifteenth anniversary of Lubrizol Japan, Ltd., the wholly-owned sales company, and the tenth anniversary of Nippon-Lubrizol Industries, Inc., Lubrizol's joint venture manufacturing company with Nippon Oils and Fats Co., Limited.

Over the years, the increased demand for Lubrizol products has outstripped capacity at the original plant at Taketoyo, Japan. In 1970, a nearby site was purchased to allow expansion and permit access to deep-water port facilities. In the initial stage, warehouse and storage facilities were installed, and in 1974, construction of an additional manufacturing plant was commenced at the new site.

Specialty Chemicals for Metal Finishing and Plastics

Several years ago, Lubrizol instituted a program to diversify into the field of specialty chemicals apart from its line of additives for the petroleum industry. This area which is still in the development stage continues to grow.

The company's activities in the area of metal finishing chemicals were strengthened in 1973 by acquisition of The R. O. Hull & Company, Inc. Hull, whose plant is in Cleveland, Ohio, manufactures brighteners, plating chemicals and conversion coatings for automotive and appliance parts. Lubrizol, for a number of years, has manufactured a line of phosphate coatings, which are sold to a similar group of customers, for use in providing rust-resistant finishes on metal parts. In December 1974, these Lubrizol operations were joined with those of Hull, which will continue to serve the metal finishing industry as a wholly-owned subsidiary.

Lubrizol is also engaged in the development, manufacture and sale of specialty chemicals for use in the formulation and fabrication of plastics and synthetic fibers. The first series of these products was based on diacetone acrylamide (DAA), a vinyl monomer. To date, these products have found a limited market as adhesives, curing agents for thermosetting resins, heat stabilizers for plastic laminates, and latices for paints.

An additional line of products of this type was introduced in late 1971 under the AMPS trademark. This new vinyl monomer is currently being market evaluated as a dye receptive agent in synthetic fibers and in polyelectrolytes for water treatment. This material is being produced in a semi-works facility at Wickliffe, Ohio while other areas of application are pursued.

An additional plant of Nippon-Lubrizol Industries, Inc. is under construction in Japan.

Employees and Retirement Benefits

At year-end, 3,479 people were employed by Lubrizol and subsidiary companies. Approximately two-thirds of these men and women reside in the United States.

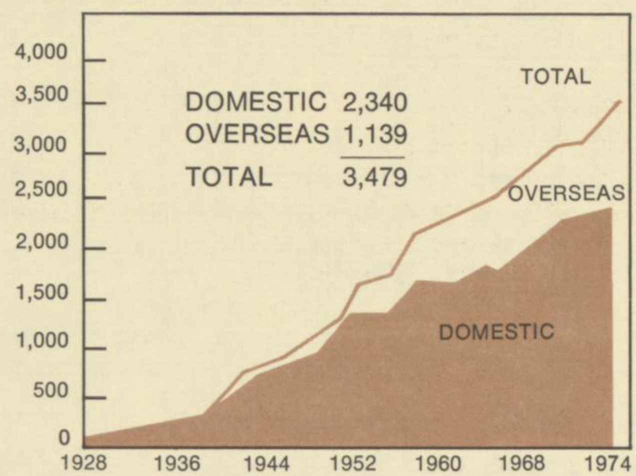
In 1944, Lubrizol instituted a retirement program for U.S. employees consisting of a pension plan and a profit sharing plan. Similar retirement programs have been effectuated by subsidiaries with the terms dependent upon the laws and practices in each country. Frequent modifications are made to keep these plans current.

On September 2, 1974, the Employee Retirement Income Security Act was enacted in the United States. This law is intended to assure the equitable character and financial soundness of retirement programs.

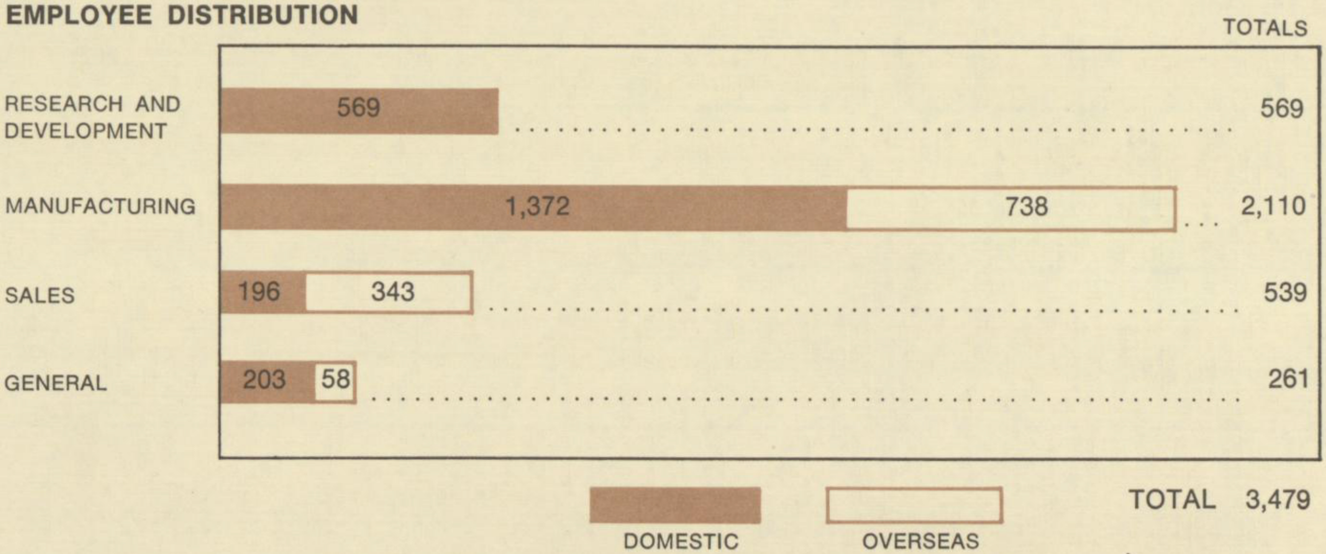
The company's retirement benefit plans already satisfy or exceed most of the requirements of the new law. For example, the pension plan provides 100% vesting of accrued benefits over a ten year period of participation, which closely approximates the requirements of the new law. The vesting schedule for the profit sharing plan is in most respects more liberal than the law requires. Both plans presently have an age requirement for vesting which will be eliminated and the service requirements for participation will have to be reduced from two years to one. Certain other provisions of a technical nature will also require amendment. These changes will not materially increase funding requirements.

It has been Lubrizol's practice to fund accrued costs of its retirement plans. There were no unfunded past service costs and pension fund assets exceeded the actuarially computed value of the vested benefits.

GROWTH OF EMPLOYEES



EMPLOYEE DISTRIBUTION



Shareholder Information

Common Shares without par value of The Lubrizol Corporation have been listed and traded on the New York Stock Exchange since August 22, 1966. At the close of business on December 31, 1974, there were 8,027 shareholders of record for the 20,293,609 Common Shares outstanding.

Currently, more than 5,000 individuals are shareholders of the company. This includes over 1,500 Lubrizol employees, which represents about 45% of the total number of employees. The shareholder list also includes approximately 450 banks and trust companies, 300 security dealers and a number of mutual funds.

There are Lubrizol shareholders in all 50 states of the United States and in 17 other countries.

The dividends paid to shareholders during 1974 include the extra dividend of 10 cents per share declared in 1973. Dividends declared in 1974 amounted to 71.6 cents per share.

DIVIDENDS PAID PER COMMON SHARE

	1974	1973
First quarter	$.208	$.108
Second quarter	.108	.108
Third quarter	.25	.108
Fourth quarter	.25	.108
Year total	$.816	$.432

COMMON SHARE PRICE HISTORY

	1974		1973	
	HIGH	LOW	HIGH	LOW
First quarter	39½	34	46	38⅝
Second quarter	41	33	42¾	33¼
Third quarter	42⅜	34⅛	51½	33⅜
Fourth quarter	43½	28⅜	50	32¾

SHAREHOLDER CLASSIFICATION

	Percent of Shares Held
INDIVIDUALS	38
BANKS AND TRUST COMPANIES	38
EMPLOYEES AND EMPLOYEES' PROFIT SHARING TRUST	7
SECURITY DEALERS	7
INSTITUTIONAL INVESTORS	6
DIRECTORS AND OFFICERS	4

FINANCIAL REVIEW

Revenues from worldwide operations reached a new high of $382,950,677 during 1974, an increase of $103,839,388 or 37% over 1973. Net income was $50,457,546, an increase of $13,719,938 or 37%, representing $2.49 per share compared with $1.81 for 1973.

The current ratio was 2.4 to 1 at year-end. The company's financial position continued strong. Cash and short-term investments were $37,657,984 as compared with $50,775,673 a year ago. Due to worldwide inflation, substantial cash was needed to finance accounts receivable and inventories. The only borrowed money amounted to $2,707,618 of short-term bank loans to subsidiaries.

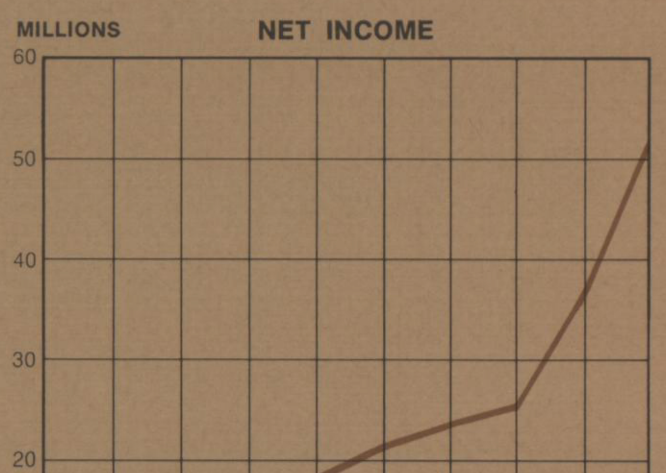
Capital expenditures for the year were $22,639,736 compared with $12,743,652 for 1973. The United States investment tax credit applicable to certain expenditures amounted to $789,752 and was applied as a reduction of the current income tax expense.

During the year, the number of Common Shares outstanding decreased from 20,314,443 to 20,293,609. The company purchased 77,784 shares in the open market and issued 56,950 treasury shares under the equity purchase and stock option plans.

Equity in earnings of affiliated companies decreased $721,672 in 1974. The principal reason was that 1974 included a translation loss while 1973 included a translation gain. In addition, the purchase price in excess of book value of additional equity acquired in an affiliated company was written off in the current year.

TOTAL REVENUES

NET INCOME



CONSOLIDATED BALANCE SHEET

	December 31 1974	December 31 1973
ASSETS		
Current assets:		
Cash	$ 3,731,202	$ 3,256,364
Short-term investments — at cost which approximates market:		
Cash investments	17,086,125	33,082,495
State, municipal and other government securities	16,840,657	14,436,814
Receivables:		
Customers	60,560,610	43,064,649
Affiliated companies	4,330,960	1,834,810
Other	4,053,734	2,684,803
Inventories — at cost (first-in first-out method) not in excess of market:		
Finished products	17,684,808	10,414,715
Products in process	27,811,119	13,896,631
Raw material and supplies	33,128,674	12,775,371
Deferred income taxes	3,073,043	1,239,202
Prepaid expenses	2,432,628	1,714,665
Total current assets	190,733,560	138,400,519
Plant property — at cost:		
Land and improvements	14,469,095	12,534,430
Buildings and improvements	31,786,730	28,368,736
Machinery and equipment	105,117,070	93,222,610
Construction in progress	8,732,945	5,025,677
Total	160,105,840	139,151,453
Less accumulated depreciation	70,108,950	61,382,589
Plant property — net	89,996,890	77,768,864
Other assets:		
Investments in affiliated companies — at equity	10,126,005	7,588,965
Miscellaneous	1,052,900	788,799
Total other assets	11,178,905	8,377,764
TOTAL	$291,909,355	$224,547,147

	December 31	
	1974	1973
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Loans payable by foreign subsidiaries to banks	$ 2,707,618	$ 559,058
Accounts payable:		
Trade	32,811,500	16,260,016
Affiliated companies	10,267,064	6,220,169
Other	1,625,446	1,815,141
Dividend payable	—	2,031,968
Accrued expenses:		
Income taxes	20,789,080	12,665,791
Other taxes	2,564,948	2,174,948
Employee compensation	6,509,763	5,242,003
Other	2,667,170	1,927,463
Total current liabilities	79,942,589	48,896,557
Deferred cash grants from a foreign government (being amortized over the lives of the related assets acquired)	1,471,976	1,311,896
Deferred income taxes	7,050,374	4,496,027
Shareholders' equity:		
Serial preferred stock without par value — Authorized and unissued — 2,000,000 shares		
Common Shares without par value: Authorized — 25,000,000 shares Outstanding — 20,293,609 shares in 1974 and 20,314,443 shares in 1973 (after deducting 81,900 treasury shares in 1974 and 61,066 in 1973)	23,263,959	22,667,830
Retained earnings	180,180,457	147,174,837
Total shareholders' equity	203,444,416	169,842,667
TOTAL	$291,909,355	$224,547,147

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

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31	
	1974	1973
Revenues:		
Net sales	$376,926,629	$274,263,231
Royalties and fees	6,024,048	4,848,058
Total	382,950,677	279,111,289
Cost and expenses:		
Cost of sales	252,894,923	181,302,357
Selling and administrative expenses	26,994,233	24,004,463
Research and development expenses	14,847,662	12,668,922
Total	294,736,818	217,975,742
Income from operations	88,213,859	61,135,547
Other income:		
Interest income	3,109,427	2,988,466
Other items — net	784,544	62,207
Income before taxes on income and equity in earnings of affiliated companies	92,107,830	64,186,220
Provision for taxes on income	42,959,000	29,479,000
Income before equity in earnings of affiliated companies	49,148,830	34,707,220
Equity in earnings of affiliated companies	1,308,716	2,030,388
Net income	$ 50,457,546	$ 36,737,608
Net income per share	$2.49	$1.81

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Shares		
	Shares Outstanding	Amount	Retained Earnings
YEAR 1974			
Balance January 1	20,314,443	$22,667,830	$147,174,837
Net income			50,457,546
Common Shares:			
Treasury shares purchased:			
Stated value	(77,784)	(93,684)	
Excess of cost over stated value			(2,925,243)
Treasury shares issued:			
Under equity purchase plan	49,050	476,276	
Exercise of stock options	7,900	213,537	
Dividends ($.71⅗ per share)			(14,526,683)
Balance December 31	20,293,609	$23,263,959	$180,180,457
YEAR 1973			
Balance January 1	20,158,176	$21,857,217	$120,291,565
Pooling of interests	142,857	236,300	1,426,696
Net income			36,737,608
Common Shares:			
Treasury shares purchased:			
Stated value	(14,100)	(16,351)	
Excess of cost over stated value			(503,235)
Exercise of stock options (including 19,550 treasury shares)	25,500	520,193	
Distribution of treasury shares to employees	2,010	70,471	
Dividends ($.53⅕ per share)			(10,777,797)
Balance December 31	20,314,443	$22,667,830	$147,174,837

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

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31 1974	1973
SOURCE OF FUNDS		
Operations:		
Net income	$ 50,457,546	$36,737,608
Charges to operations not requiring funds:		
Depreciation	10,172,424	9,621,588
Other — net	2,467,303	1,127,458
Total	63,097,273	47,486,654
Increase in accounts payable	20,408,684	6,500,728
Increase in accrued expenses	10,520,756	8,372,965
Increase in dividend payable	—	2,031,968
Increase in loans payable by foreign subsidiaries to banks	2,148,560	210,981
Proceeds from stock option and equity purchase plans	689,813	520,193
Net assets acquired in pooling of interests	—	1,662,996
Other	222,309	157,194
Decrease in cash and short-term investments	13,117,689	—
Total	$110,205,084	$66,943,679
APPLICATION OF FUNDS		
Capital expenditures	$ 22,639,736	$12,743,652
Dividends on Common Shares	14,526,683	10,777,797
Increase in receivables	21,361,042	9,045,756
Increase in inventories	41,537,884	5,728,555
Increase in deferred income taxes	1,833,841	464,100
Increase in prepaid expenses	717,963	135,828
Increase in investments in affiliated companies	2,537,040	1,855,606
Decrease in dividend payable	2,031,968	—
Purchase of Common Shares	3,018,927	519,586
Increase in cash and short-term investments	—	25,672,799
Total	$110,205,084	$66,943,679

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

NOTES TO FINANCIAL STATEMENTS

Note 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 generally at rates in effect at year-end; other income statement 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.

INVESTMENTS — The equity method of accounting is used for investments in affiliates located in India, Japan and Mexico. Dividends received from these affiliates were $400,240 in 1974 and $339,413 in 1973.

DEPRECIATION — Depreciation of $10,172,424 in 1974 and $9,621,588 in 1973 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 employees. The cost of these plans charged to operations was $3,838,116 in 1974 and $3,245,196 in 1973. The practice is to fund accrued costs of the plans. There were no unfunded past service costs 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.

Note 2 — Foreign Operations

A summary of net assets of subsidiaries located outside the United States and Canada at December 31, 1974 and 1973 follows:

	1974	1973
Current assets	$96,258,978	$66,291,907
Current liabilities ...	38,071,261	21,322,832
Working capital	58,187,717	44,969,075
Plant property - net .	27,482,529	23,497,260
Other assets	470,906	292,710
Deferred income and taxes	(6,363,087)	(4,507,694)
Net assets	$79,778,065	$64,251,351

Net income after all applicable income taxes of subsidiaries outside the United States and Canada was $22,611,005 in 1974 and $18,444,145 in 1973. Dividends received from these subsidiaries were $11,368,942 in 1974 and $13,488,058 in 1973.

Undistributed earnings of subsidiaries and affiliates outside the United States of approximately $67 million at December 31, 1974 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.

Note 3 — Income Taxes

The provision for taxes on income consists of the following:

	1974	1973
Current:		
United States	$24,678,000	$15,273,000
Foreign	17,560,000	13,514,000
Deferred:		
United States	(48,000)	408,000
Foreign	769,000	284,000
Total	$42,959,000	$29,479,000

Deferred income taxes result from differences in the time of recognition of revenues and expenses for tax and financial statement purposes. The principal items which give rise to these differences are intercompany profits and the use of accelerated depreciation for tax purposes.

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 ($789,752 in 1974 and $350,943 in 1973) as a reduction of the provision for taxes on income, and (c) tax-exempt investment income of $736,000 in 1974 and $157,000 in 1973.

Note 4 — Equity Purchase Plan

The Equity Purchase Plan, adopted by the Board of Directors on August 26, 1974 and amended on January 27, 1975, authorizes the sale of 375,000 Common Shares to eligible employees at a price equal to book value at the time of purchase. The Plan provides that such shares offered for sale may be purchased for up to five years from the date of the offer. The Plan requires that the shares may only be resold to the company at a price equal to the book value at the time of resale, and such resale can be made at any time at the election of the company or the employee.

During 1974, 68,000 shares were offered for purchase; 49,050 shares were purchased at a book value of $9.71 per share leaving 18,950 shares available for purchase at year-end. The Plan and these sales thereunder are subject to approval of shareholders at the 1975 Annual Meeting.

Note 5 — Employee Stock Options

In 1965, the shareholders approved a qualified stock option plan which provided that prior to March 15, 1975, options may be granted to purchase up to 900,000 Common Shares. Options granted under this plan are for a term of five years and become exercisable in cumulative annual increments of 25% each commencing 18 months after date of grant.

The price for options granted was, in every case, the fair market value of the Common Shares on the date of the grant. Further information as to these options is as follows:

	Number of Shares	
	1974	1973
Outstanding at beginning of year	36,400	49,250
Granted at $34.25 per share		13,850
Surrendered:		
$27.03 per share	(4,000)	
$23.00 to $27.03 per share		(1,200)
Exercised:		
$27.03 per share	(7,900)	
$17.56 to $27.03 per share		(25,500)
Outstanding at end of year:		
$34.25 to $43.125 per share	24,500	
$27.03 to $43.125 per share		36,400
Exercisable at end of year	2,662	8,150
Available for grant at end of year	761,400	757,400

On January 27, 1975, the Board of Directors approved the 1975 Employee Stock Option Plan authorizing the granting of options for up to 300,000 Common Shares. The option price shall not be less than the fair market value of the Common Shares on the date of grant. The period of the options is five years for qualified stock options and ten years for nonstatutory stock options. The Plan expires in January 1985. The Plan is subject to approval of shareholders at the 1975 Annual Meeting.

ACCOUNTANTS' OPINION

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

1717 EAST NINTH STREET

CLEVELAND, OHIO 44114

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

We have examined the consolidated balance sheet of The Lubrizol Corporation and its subsidiaries as of December 31, 1974 and 1973 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, 1974 and 1973 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.

Haskins & Sells

February 24, 1975

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

1973 vs. 1972

Revenues for 1973 increased 26% over those for 1972, principally due to higher physical volume. The effect of translating foreign currencies into United States dollars was also a factor. Due to the same factors, costs and expenses increased 23%.

Other income increased by reason of a greater amount of interest earned.

Due to higher tax rates in certain countries, the effective income tax rate rose 1.3%.

Net income increased 40%, principally due to higher volume.

1974 vs. 1973

Revenues for 1974 increased 37% over those for 1973 and costs and expenses increased 35%. The principal reason was that inflation caused higher material costs and operating expenses and selling prices were increased to recover these higher costs while maintaining normal profit margin. Product mix was more favorable and there was a modest gain in volume.

The effective income tax rate rose .7% because a greater portion of the taxable income was earned in high tax areas.

Net income increased 37%, principally as a result of increased prices. Improvement in product mix and increased volume also contributed to the gain.

TEN YEAR SUMMARY

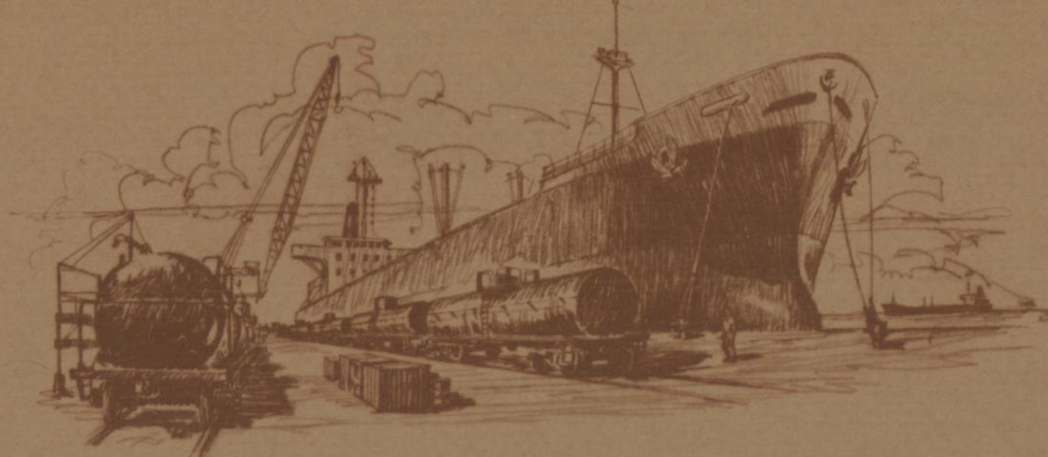
	1974	1973	1972
CONSOLIDATED OPERATIONS			
Revenues	$382,950,677	$279,111,289	$221,449,913
Cost and expenses:			
Cost of sales	252,894,923	181,302,357	146,086,249
Selling, administrative and research expenses	41,841,895	36,673,385	31,550,372
Total	294,736,818	217,975,742	177,636,621
Income from operations	88,213,859	61,135,547	43,813,292
Other income (expense)	3,893,971	3,050,673	1,039,226
Income before taxes on income and equity in earnings of affiliated companies	92,107,830	64,186,220	44,852,518
Provision for taxes on income	42,959,000	29,479,000	20,008,000
Income before equity in earnings of affiliated companies	49,148,830	34,707,220	24,844,518
Equity in earnings of affiliated companies	1,308,716	2,030,388	1,398,483
Net income	$ 50,457,546	$ 36,737,608	$ 26,243,001
Net income per share	$2.49	$1.81	$1.30
Dividends declared per share	.71⅗	.53⅕	.41⅗
Average shares outstanding	20,289,148	20,314,905	20,168,409

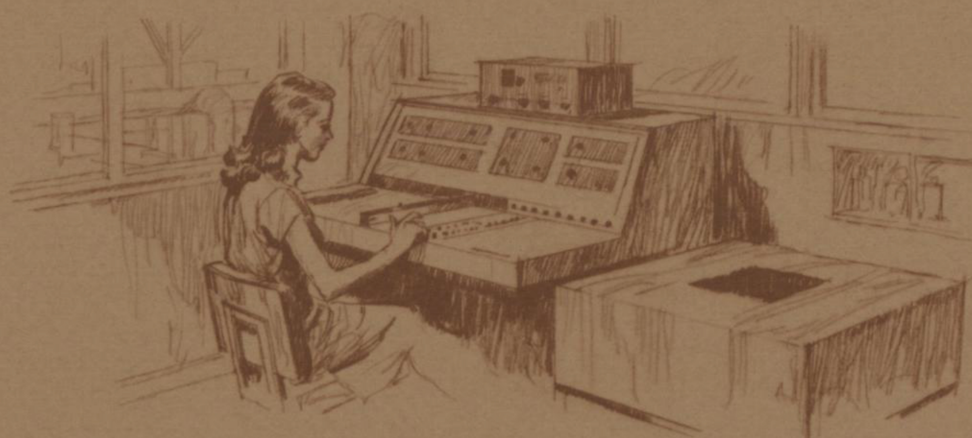
See Management's Discussion and Analysis of the Summary of Operations on page 21.

	1974	1973	1972
CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Current assets	$190,733,560	$138,400,519	$ 97,353,481
Current liabilities	79,942,589	48,896,557	31,779,915
Working capital	110,790,971	89,503,962	65,573,566
Plant property — net	89,996,890	77,768,864	74,793,246
Other assets	11,178,905	8,377,764	6,493,006
Total	211,966,766	175,650,590	146,859,818
Less:			
Long-term debt	—	—	—
Deferred income and taxes	8,522,350	5,807,923	4,711,036
Net assets — Shareholders' equity	$203,444,416	$169,842,667	$142,148,782
OTHER DATA			
Capital expenditures	$ 22,639,736	$ 12,743,652	$ 11,255,145
Depreciation	10,172,424	9,621,588	8,934,767
Number of employees at end of year	3,479	3,286	3,037
Number of shareholders at end of year	8,027	7,944	7,972
Common Shares outstanding at end of year	20,293,609	20,314,443	20,158,176
Shareholders' equity per share at end of year	$10.03	$8.36	$7.05
Return on average shareholders' equity	27%	24%	20%

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.

1971	1970	1969	1968	1967	1966	1965
$200,872,700	$186,842,376	$165,661,635	$150,565,073	$120,181,439	$107,198,060	$92,510,259
132,031,304	121,089,265	107,591,028	94,570,355	77,541,396	68,030,537	57,868,132
29,534,754	26,053,363	24,368,450	22,784,346	21,025,715	19,913,317	18,366,500
161,566,058	147,142,628	131,959,478	117,354,701	98,567,111	87,943,854	76,234,632
39,306,642	39,699,748	33,702,157	33,210,372	21,614,328	19,254,206	16,275,627
1,234,995	403,347	(357,276)	(350,675)	(146,148)	76,690	344,616
40,541,637	40,103,095	33,344,881	32,859,697	21,468,180	19,330,896	16,620,243
18,321,000	19,173,000	16,321,000	16,307,000	9,077,000	8,185,000	7,020,000
22,220,637	20,930,095	17,023,881	16,552,697	12,391,180	11,145,896	9,600,243
1,179,540	919,897	834,851	—	—	—	—
$ 23,400,177	$ 21,849,992	$ 17,858,732	$ 16,552,697	$ 12,391,180	$ 11,145,896	$ 9,600,243
$1.16	$1.09	$.89	$.84	$.63	$.57	$.49
.37½	.32½	.28¾	.23¾	.21¼	.20	.17½
20,153,723	20,108,284	19,963,004	19,795,942	19,652,548	19,483,288	19,416,324
$ 77,884,691	$ 72,045,910	$ 60,891,665	$ 58,003,826	$ 45,897,012	$ 39,447,590	$37,791,020
27,646,927	28,482,536	23,669,618	24,498,099	17,187,161	15,775,499	13,392,247
50,237,764	43,563,374	37,222,047	33,505,727	28,709,851	23,672,091	24,398,773
73,041,213	66,681,187	60,302,845	53,481,357	46,815,100	34,939,423	26,059,295
5,423,192	4,709,026	3,947,443	3,509,785	2,631,815	1,687,236	1,521,698
128,702,169	114,953,587	101,472,335	90,496,869	78,156,766	60,298,750	51,979,766
—	3,000,000	5,400,000	7,950,000	8,250,000	750,000	1,000,000
3,673,933	2,989,786	2,840,225	2,722,237	2,527,593	978,341	—
$125,028,236	$108,963,801	$ 93,232,110	$ 79,824,632	$ 67,379,173	$ 58,570,409	$50,979,766
$ 14,516,931	$ 14,006,802	$ 13,172,709	$ 12,289,764	$ 16,118,287	$ 12,134,232	$ 6,712,924
8,099,830	7,316,742	6,150,700	5,193,074	4,149,871	3,133,510	2,717,407
3,037	2,906	2,799	2,646	2,472	2,252	2,066
7,815	6,995	6,752	6,230	5,469	5,228	4,385
20,161,486	20,146,824	20,080,104	19,832,044	19,691,932	19,536,184	19,430,392
$6.20	$5.41	$4.64	$4.03	$3.42	$3.00	$2.62
20%	22%	21%	22%	20%	20%	20%





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

LABORATORIES

Wickliffe, Ohio
- Chemical Research
- Polymer Research
- Mechanical Testing

Hazelwood, England
- Mechanical Testing

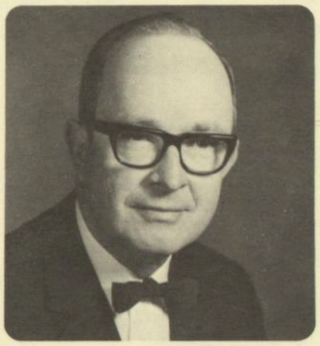
Atsugi, Japan
- Mechanical Testing

SALES AND TECHNICAL SERVICE OFFICES

Cleveland, Ohio
Detroit, Michigan
Houston, Texas
Naperville, Illinois
Ridgewood, New Jersey
Tulsa, Oklahoma
Whittier, California
Wilmington, Delaware

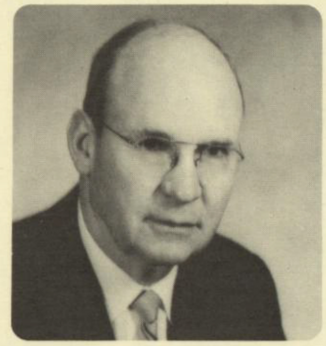
Athens, Greece
Bogota, Colombia
Bombay, India
Brussels, Belgium
Buenos Aires, Argentina
Caracas, Venezuela
Cham-Zug, Switzerland
Copenhagen, Denmark
Durban, South Africa
Freeport, The Bahamas
Guayaquil, Ecuador
Hamburg, West Germany
Helsinki, Finland
La Paz, Bolivia
Lima, Peru
London, England
Madrid, 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

DIRECTORS



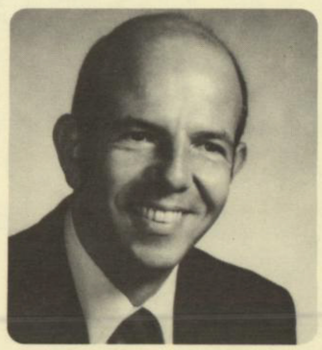
M. ROGER CLAPP
Chairman of the Board

T. W. MASTIN
President and
Chief Executive Officer



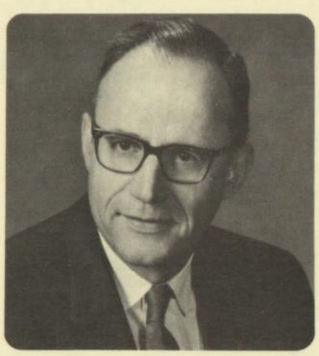
RAYMOND Q. ARMINGTON
Chairman of the Board of
The TRIAX Company, a
manufacturer of automatic
storage and retrieval systems

PAUL L. CARLL
Vice President - Manufacturing



L. E. COLEMAN
Executive Vice President

HARRY KAYE
Vice President - Finance



W. M. LeSUER
Vice President - Research
and Development

HARRY T. MARKS
Chairman of the Board and
Chief Executive Officer
of Ferro Corporation,
a manufacturer of
materials for industry

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Founder of the Company

KELVIN SMITH
Honorary Chairman of the Board
Founder of the Company

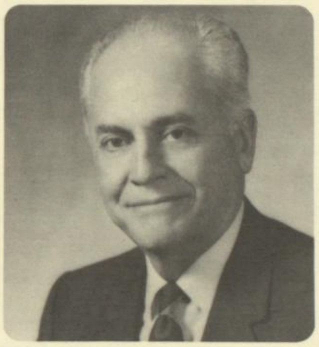
KENT H. SMITH
Founder of the Company

VINCENT K. SMITH
Founder of the Company

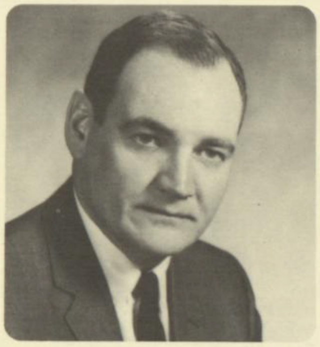
JOHN L. PALMER
Vice President -
International Operations

KARL H. RUDOLPH
President of The Cleveland
Electric Illuminating Company,
an electric utility

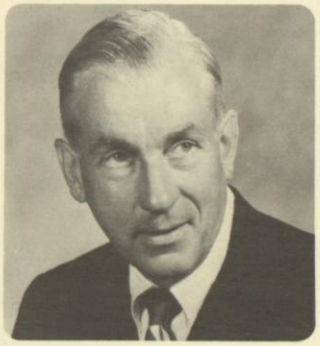
H. JAMES SHEEDY
Partner in the law firm of
Squire, Sanders & Dempsey



J. R. STITT
Vice President - Sales



RENOLD D. THOMPSON
Executive Vice President-
Operations and Director
of Oglebay Norton Company,
a mining, vessel transportation
and service company
to the steel industry



ROBERT K. WILLIAMS
Vice President - Corporate
Planning and Development

OFFICERS

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Chairman of the Board

T. W. MASTIN
President and
Chief Executive Officer

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Executive Vice President

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Vice President - Personnel

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

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Vice President -
International Operations

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Vice President - Administration
and Secretary

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Vice President - Sales

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Vice President - Corporate
Planning and Development

W. T. BEARGIE
Treasurer

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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. (Canada)

AFFILIATES

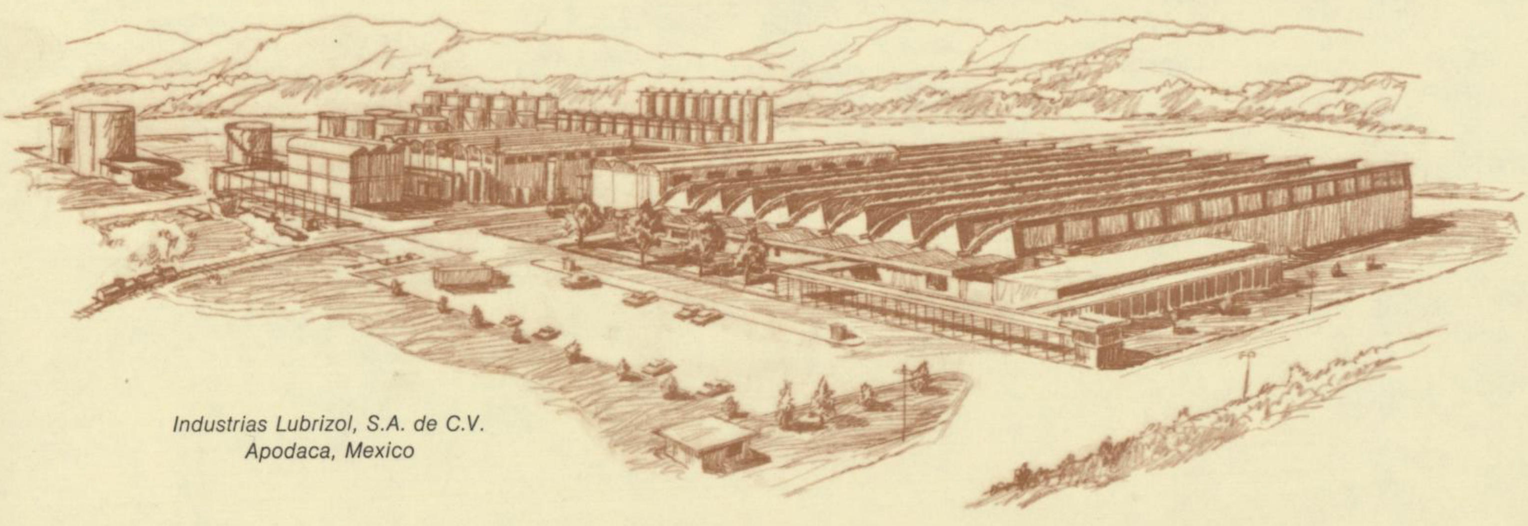
Industrias Lubrizol, S.A. de C.V. - (Mexico)

Lubrizol India Limited

Nippon-Lubrizol Industries, Inc. - (Japan)

Aikoh Rohco Co., Ltd. - (Japan)

LUBRIZOL



Industrias Lubrizol, S.A. de C.V.
Apodaca, Mexico