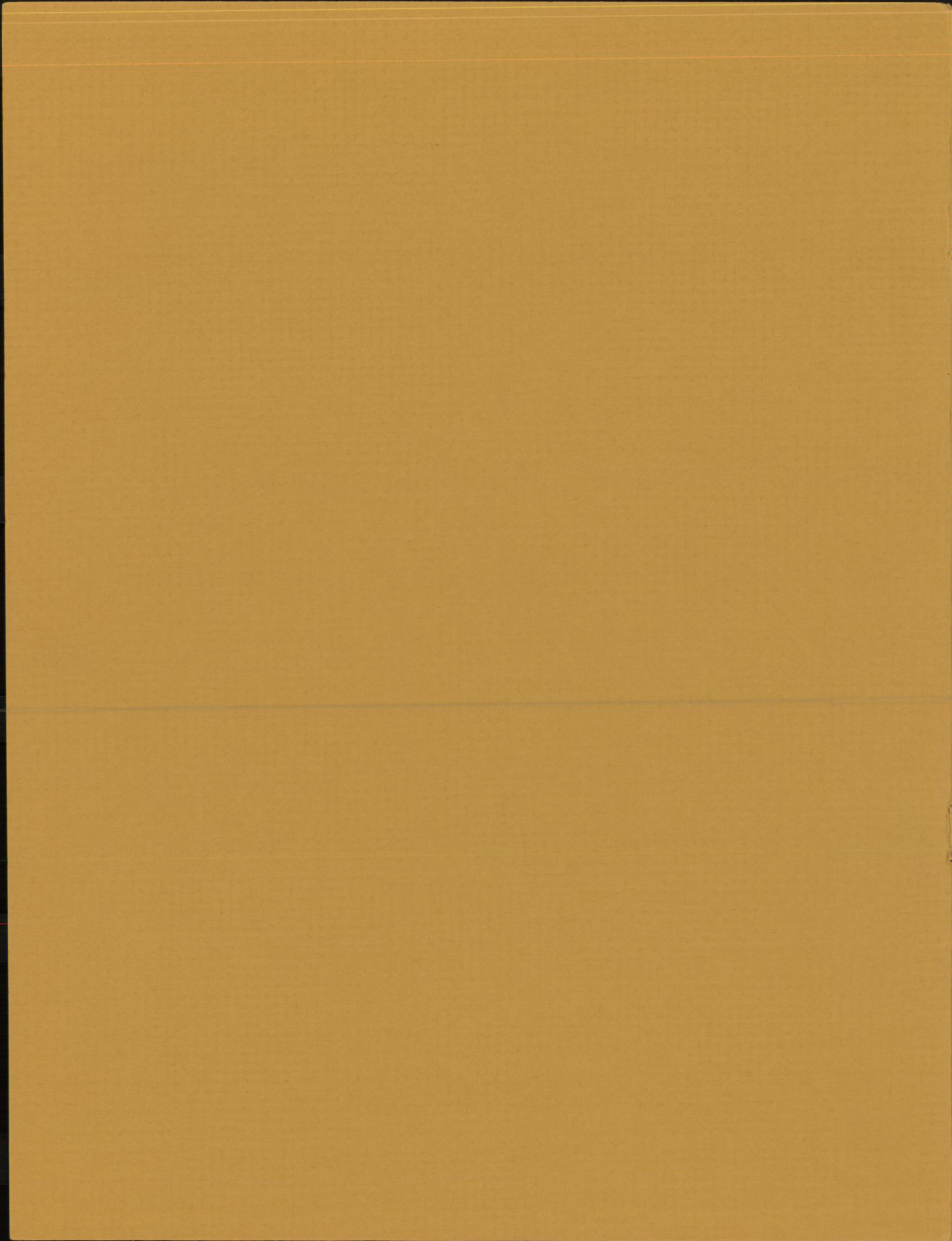


THE LUBRIZOL CORPORATION 1975 ANNUAL REPORT

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Lubrizol



Founded in 1928, Lubrizol is a leader in the development, manufacture and sale of chemical additives for the petroleum industry, serving its customers from 52 locations — plants, offices, and laboratories — in 32 countries.

Financial Highlights

	1976	1975	1974	% Increase (Decrease)
Total revenues	457.21	\$425,640,819	\$382,950,677	11.1
Net income	50.96	46,892,052	50,457,546	(7.1)
Net income per share	2.52	2.31	2.49	(7.2)
Dividends declared per share		1.00	.71 $\frac{3}{4}$	39.7
Capital expenditures		22,214,123	22,639,736	(1.9)
Depreciation		11,598,534	10,172,424	14.0
Research and development expenditures		16,554,288	14,847,662	11.5
Shareholders' equity		230,810,514	203,444,416	13.5

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To Our Shareholders



M. Roger Clapp



T. W. Mastin

Revenues for 1975 increased 11% while net income declined 7%.

The total volume of additive shipments declined about 4% compared with that of 1974. The decrease occurred in additives of the type used in lubricants for trucks and heavy-duty equipment, but there was a slight increase in the passenger car area. This suggests the lower tonnage can be attributed to poor industrial and commercial business conditions and not to any adverse change in passenger car usage.

Measured against the record level of net income in 1974, 1975 was not an outstanding year for Lubrizol. However, a major recession was experi-

enced in most countries where Lubrizol products are sold. The U.S. market was one of the first affected by this downturn. As signs of recovery began to appear in the United States, the decline continued to deepen in Europe and the Far East. In spite of these conditions, we were able to maintain reasonable returns on sales and on shareholders' equity; 11% and 22% respectively.

During 1975, we continued to benefit from earlier price increases and endeavored to increase prices still further for some products. Price controls in some areas and inventory liquidation generally narrowed our pricing flexibility. As a result of the decrease in volume and higher costs, margins fell somewhat.

In recent years, many of the industrialized countries have been plagued with high rates of inflation and, in most cases, this has led to recession and economic hardship. These problems were compounded when the shipment of petroleum was embargoed to the United States and certain other countries. A shortage of oil-derived materials developed and prices of fuels and petrochemicals increased at a rapid rate.

These events have produced some unfavorable effects on Lubrizol's business, but also

present new opportunities. It becomes more important than ever to develop additives which will extend the useful life of fuels and lubricants. This has been and still is the principal purpose of Lubrizol's business.

Research, development and product evaluation continued at a high level. Expenditures for research and development were \$16.6 million, or 3.9% of revenues. This includes expenditures for the testing of new additive developments in automotive engines and other types of mechanical equipment to evaluate their performance. In addition, \$7.8 million was spent for technical service activities, principally for evaluation in mechanical equipment of specific formulations designed for the needs of our customers throughout the world.

In 1975, more than 750 people at Lubrizol were engaged in activities related to development of new additives and to projects designed to assure the quality and performance of lubricants and fuels currently on the market. With 3,588 employees at year-end, this means that the efforts of one in every five persons employed at Lubrizol are centered on activities of a highly technical nature.

Capital expenditures in 1975 were \$22.2 million. This is close to the amount spent in

1974, which was the highest in the company's history. These funds were used principally to expand manufacturing and distribution facilities.

A major project in the current capital expenditure program is the construction of a \$20 million plant for the production of polyisobutene. This material is used in the manufacture of many of Lubrizol's intermediate products, particularly motor oil dispersants. The plant will be constructed on a 120-acre site in Port Arthur, Texas, and will be in operation by the middle of 1977.

These large capital expenditures will be financed from internally generated capital. We see no immediate need for borrowing. Cash and short-term investments were \$44.9 million on December 31, 1975. On the same date in 1974, this figure was \$37.7 million.

Of particular interest as to overseas operations during 1975 was Lubrizol's purchase of full ownership in Nippon-Lubrizol Industries, Inc., which is the manufacturing company for Lubrizol products in Japan. We have received approval of this acquisition from the Japanese Government.

In September 1974, the quarterly dividend rate was increased from 10.8 cents to 25 cents per share. This increase was maintained in 1975, making it the thirteenth consecutive year in which the

dividend paid was higher than that of the prior year. Payments totaled \$20.3 million.

During 1975, the following changes were made in Lubrizol's Board of Directors and management personnel:

J. Robert Killpack, Executive Vice President - Finance, Eaton Corporation, was elected a director. Raymond Q. Armington, who had been a director since 1967, retired from the Board. In April, John L. Palmer was elected Vice President - Corporate Technology. In October, Paul L. Carlil was elected Vice President - Purchasing and Distribution, and Philip L. Krug was elected Vice President - Manufacturing.

M. Roger Clapp
Chairman of the Board

T.W. Mastin
President

March 12, 1976

Lubrizol Products

For nearly fifty years Lubrizol has pioneered in the development of special chemicals called additives which enhance the performance of lubricating oils and fuels by contributing properties not otherwise present or by improving already existing properties. Lubrizol's expertise in the chemistry, manufacture and application of these products has made it a leader in the additive field and a major supplier to the petroleum industry.

The variations in properties of oils and their many applications require hundreds of different chemicals to formulate the complete line of Lubrizol products. A particular additive package is designed to fit the characteristics of the customer's base oil, refining procedure and the level of performance specified. A single motor oil package may contain several dispersants as well as a number of inhibitors, anti-wear agents, viscosity improvers, and a pour point depressant. The evaluation of an additive package involves an extensive series of engine tests conducted in the laboratory and on the road.

In lubricants, additives enable oil to withstand a broader range of temperature, limit the buildup of sludge, varnish and deposits, reduce wear, inhibit the formation of foam, rust and corrosion, and retard oxidation.

In fuels, additives help maintain efficient operation of the carburetor, reduce spark plug fouling, control corrosion and prevent decomposition of the fuel during storage.



ENGINE OILS,

also known as motor oils, have for many years constituted a major market for Lubrizol additives. These oils are used in gasoline and diesel engines for automob-

iles, trucks, buses and off-highway vehicles; industrial and marine engines; 2-cycle and rotary engines; motorcycle and small 4-cycle engines; and railroad diesel engines.

Engine oils of good quality typically contain six or more different chemicals, depending on the quality of the base oil. Cleanliness agents, called *detergents* and *dispersants*, prevent the formation of harmful carbon and lacquer deposits on pistons and piston rings and retard deposit formation throughout the engine by suspending contaminants and combustion by-products in the lubricating oil.

Oxidation inhibitors are employed to keep the oil from thickening and to retard acid formation. These chemicals prevent the corrosion of sensitive engine bearings and valve lifters, and often provide anti-wear properties.

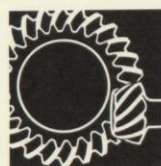
Corrosion inhibitors protect the corrosion-susceptible non-ferrous metal components of an engine, principally bearings. Some corrosion inhibitors function by reacting chemically with surfaces being protected to form a resistant coating; others act by interfering with the formation of corrosive agents. A different term — *rust inhibitor* — is used for additives which protect ferrous metal surfaces. Protective coatings must adhere tightly to prevent removal by dispersants and detergents in the lubricant which would leave the metal vulnerable to attack.

Anti-wear agents also normally perform by depositing a chemical coating on the metal parts being lubricated, preventing destructive metal-to-metal contact more effectively than oil alone. This coating may also reduce or prevent corrosion.

Anti-foam agents modify the surface tension of oil and prevent "frothing" and lubricant loss when oil is agitated.

Viscosity improvers reduce the tendency of an oil to "thin out" when hot, or "thicken up" when cold, thereby permitting an oil to be classified in more than one grade. Oil treated with viscosity improvers can be labeled as both SAE 10W (winter) and SAE 40 (summer) viscosity grades. This feature has become more important as intervals between oil changes have increased, allowing oil to remain in the engines through changes in seasons.

Pour point depressants are required at low temperatures so that lubricating oils do not "solidify" and cease to flow. Some viscosity improvers have the attributes of pour point depressants.



GEAR LUBRICANTS

are also an important application for Lubrizol additives. These oils lubricate rear axles and other final drive gears; manual shift transmissions in passenger cars, trucks and buses; and industrial gear drives.

The additives used in gear lubricants differ from those used in engine oils in that they must function under high temperatures and high pressures experienced in the "contact zone" of heavily loaded gears. For this reason, modern gear lubricants are compounded with unique types of chemicals called *extreme pressure* or "*E.P.*" agents. The E.P. agents must provide protection against welding of the metal

Performance Chemicals in Typical Lubricants and Fuels

Components	Engine Oils	Gear Lubricants	Automatic Transmission Fluids	Farm Tractor Hydraulic Fluids	Industrial Oils	Fuel Additives
Dispersants	■	■	■	■		■
Detergents	■		■	■	■	
Oxidation Inhibitors	■	■	■	■	■	
Rust & Corrosion Inhibitors	■	■	■	■	■	■
Anti-Wear Agents	■	■	■	■	■	
Foam Inhibitors	■	■	■	■	■	
Viscosity Improvers	■	■	■	■		
Pour Point Depressants	■	■	■	■		
Extreme Pressure Agents	■	■		■	■	
Friction Modifiers		■	■	■		
Smoke Suppressants						■
Metal Deactivators		■	■		■	■
Anti-Icing Agents						■
% Volume of additive combination in typical good quality lubricant or fuel	18	7	12	8	4	0.25

surfaces of the gears as they come together under high load conditions. Most gear lubricants also contain rust and corrosion inhibitors to protect the various metal surfaces. *Friction modifiers* may also be used to provide satisfactory performance in special equipment such as limited slip differentials.



AUTOMATIC TRANSMISSION FLUIDS

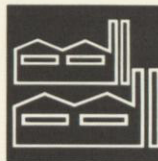
are complex lubricants containing as many as fifteen chemical additives to provide for long transmission life and smooth shifting action. Combinations of chemicals similar to those used in engine oils and gear lubricants are used in automatic transmissions to prevent foam, oxidation, rust and wear, while maintaining cleanliness. In addition, special *friction modifiers* are required, often in very small amounts, to control the transmission of power through the clutch during its engagement.



FARM TRACTOR HYDRAULIC FLUIDS

function not only in the hydraulic systems of the tractor, but "double" as gear lubricants in the transmission and final drive system. In many modern designs they may also serve to lubricate and cool wet brakes. In composition and complexity, these fluids are similar to those used in

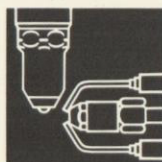
automatic transmissions but they usually require the use of extreme pressure additives due to the high loads carried in the final drive gears.



INDUSTRIAL OILS

include gear lubricants; hydraulic fluids and metal working fluids which may be based on mineral oil, synthetic fluids, or oil-water emulsions; and greases. These lubricants are essential to the operation of any industrial plant.

The additives in industrial gear lubricants are in most cases quite similar to those in automotive gear lubricants, but they are usually employed at somewhat lower concentrations. Gear lubricant additive technology is also used in developing additives for metal working fluids and greases, for both industrial and automotive applications. In hydraulic fluids, the primary need for additives is to prevent oxidation, rust and wear, thus extending the fluid's life and usefulness.



FUEL ADDITIVES

comprise *carburetor detergents*, *rust inhibitors*, *stabilizers*, *smoke suppressants*, *metal deactivators*, and *anti-icing agents*.

Fuel additives are often very complicated because of special problems, such as water contamination effects, that must be overcome. Additives in fuels also contribute to improved engine performance and emission control.

Products to Meet New Needs

Research at Lubrizol continues to involve not only the improvement of current products, but the development of new chemicals to meet the increasingly stringent performance requirements for lubricants and fuels. Standards for toxicity and safety, combined with technological developments in the design of engines and other automotive equipment, are necessitating increasingly sophisticated chemical treatments.

Emphasis on energy conservation, concern for the environment and desire to reduce operating costs contributed to a modest extension in engine oil drain intervals for 1975 and 1976 cars and heavy-duty trucks. Recent developments in oil formulations will undoubtedly permit further improvement in this area in the next few years. Research programs to this end are currently receiving major emphasis.

Auto manufacturers are conducting experiments aimed at extending the oil change period to 10,000 or 12,000 miles. Field tests conducted by Lubrizol indicate increased engine wear and oil thickening with oil change intervals of this magnitude. These tests confirm

previous evidence that certain chemicals in present formulations deteriorate with use and suggest that improved chemical treatments will be needed to meet this objective.

Synthetic lubricants are drawing considerable attention as a means of reducing oil and fuel consumption while maintaining engine cleanliness and preventing wear. Lubrizol additives are being successfully used in formulating these oils. However, the ability of synthetic lubricants to permit greatly extended oil change intervals has yet to be substantiated by test data.

There remains within the automotive industry concern over the effects of unleaded gasoline on certain engine components susceptible to wear. The use of this type of gasoline became significant in the United States with the introduction of 1975 model automobiles and will increase as more cars equipped with catalytic converters are placed in service. While the increased wear has not resulted in catastrophic failure, it is undesirable from the standpoint of engine life.

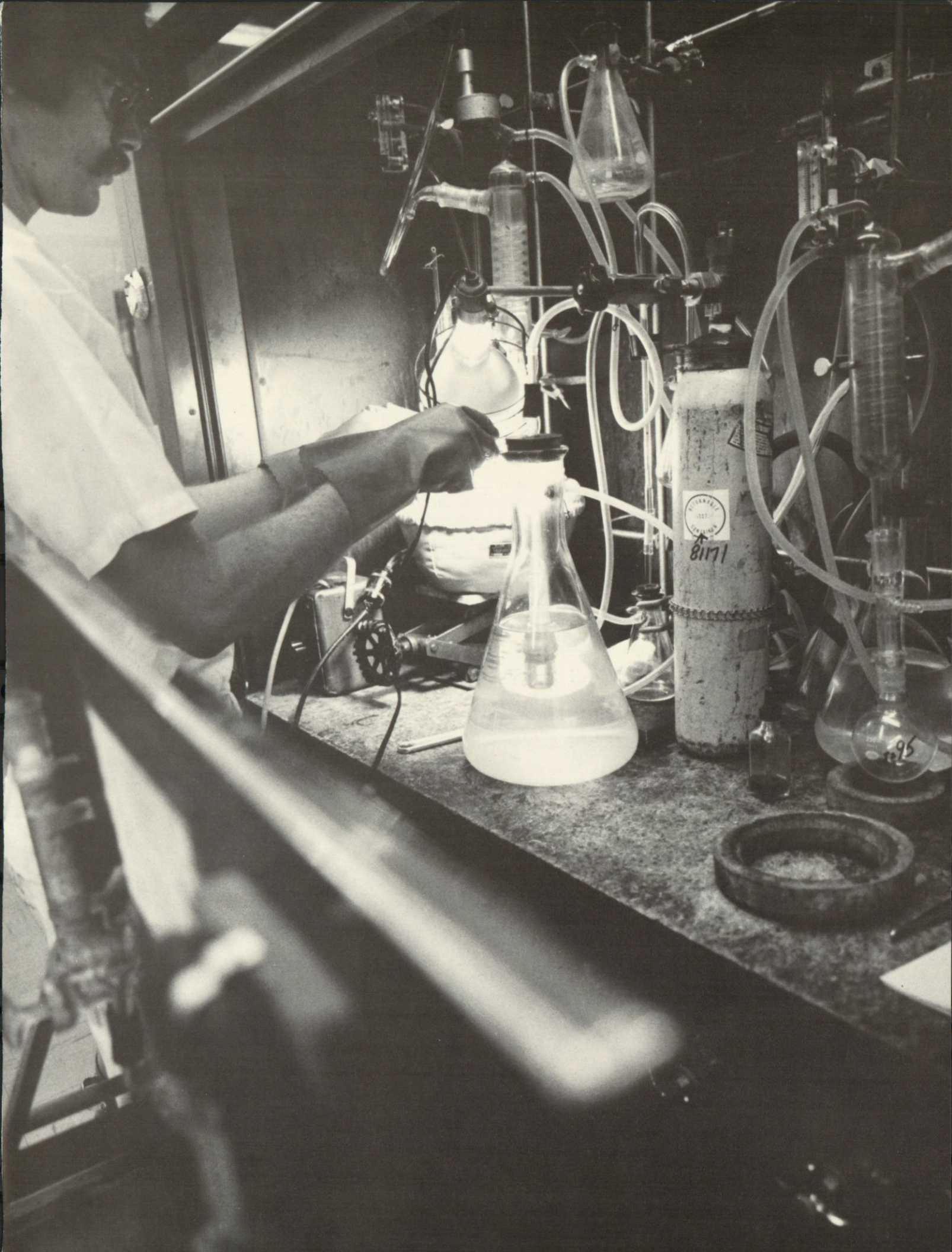
A major auto manufacturer has recently developed an engine wear test which is now being evaluated. If the test proves reliable, it will be incorporated in the engine oil classification system in 1976 or early 1977. Engine oils containing either

improved anti-wear additives or increased quantities of the types now in use would then be necessary.

In 1974, a line of products for DEXRON®II automatic transmission fluids was introduced to meet a manufacturer's requirement for passenger car transmissions. In 1975, the specification was upgraded and Lubrizol developed a new additive system which meets or exceeds all performance requirements. The company is thus in a good position to participate in this market.

In the area of industrial oils, efforts of equipment manufacturers to reduce the volume of oil needed for metal working and hydraulic applications have created more severe operating conditions. Additive systems are being developed to extend the working life of these oils at the higher temperatures or loads being encountered.

In recent years, there has been increasing emphasis on safety in industrial operations. For example, the use of fire-resistant hydraulic fluids has been mandatory in certain mining operations since 1970. For such applications, Lubrizol developed an additive system for water-in-oil emulsions. The use of water in such fluids



requires additives to overcome the possibility of adverse effects on the performance of pumps.

Lubrizol has also developed an additive for cutting oils which suppresses mist formation during metal working operations. This improves air quality of the work place and reduces fire hazard.

Manufacture of Chemical Additives

Lubrizol's products are specialty chemicals subject to exacting requirements in manufacture and end use. Most processing is carried out in batch reactions in glass-lined and corrosion-resistant equipment.

Over 350 different raw materials are used with some 20 of those utilized in substantial quantities. Additives are made in liquid form for ease of incorporation into the customer's product. A light oil is used as the medium to carry out certain chemical reactions and as a diluent for chemicals which would otherwise be too viscous to handle conveniently. The quantity of this oil needed at Lubrizol plants in the United States alone is over 30 million gallons per year.

Expansion of Plant Facilities

Expansion programs aimed at higher productivity and lower cost of operation were carried out at virtually every plant during 1975.

At the Deer Park, Texas plant, an additional unit is being installed to manufacture dispersants. To achieve economy of scale, the unit is being built around the largest glass-lined vessels available.

A new 120-acre site was acquired last year in Port Arthur, Texas for the construction of a \$20 million polyisobutene plant. Polyisobutene is a basic building block for several of the company's products including dispersants. One of Lubrizol's largest volume materials, it is now produced at both the Deer Park, Texas and the LeHavre, France plants, but additional supply is needed.

The Port Arthur site was chosen by reason of the availability of feed stocks for the new plant from a nearby petrochemical complex. A pipeline system designed to handle 600,000 gallons of feed stock per day will be installed for this purpose. The new plant, when completed in 1977, will double the company's capacity for producing this important material.

Two 840,000 gallon storage tanks have been installed at a terminal facility on the Ohio River at East Liverpool, Ohio to receive barge shipments from Texas of both polyisobutene

and blend oil to supply the Painesville, Ohio plant.

A new rail marshalling yard, consisting of approximately 2.5 miles of track was installed at the Painesville plant to permit more efficient utilization of tank cars, both in the receipt of raw materials and the shipment of the products.

Transfer of manufacturing operations from Wickliffe, Ohio, one of the company's original facilities, has been completed. The final production unit at Wickliffe closed down in January of this year. All of the systems transferred to Painesville have been scaled up in size and modified to utilize the latest technology.

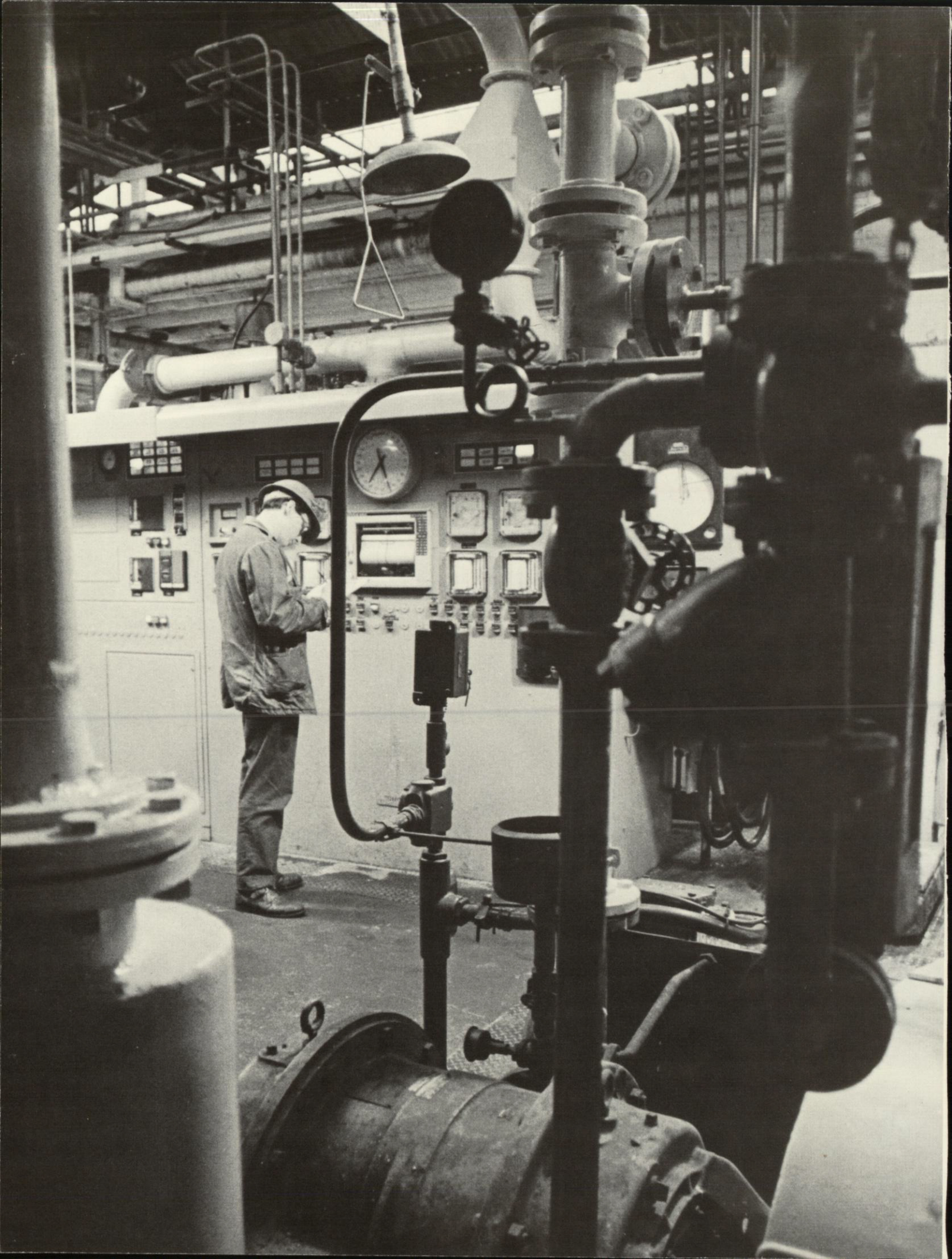
A personnel building is under construction at Painesville to provide enlarged lunchroom and locker facilities as well as offices and a dispensary.

In both the U.S. and overseas markets, the ability of dispersants to prevent plugging of oil passages in engines, automatic transmissions and tractor hydraulic systems has stimulated demand for these products.

Production of these chemicals, which Lubrizol developed and patented, has been expanded both at the Bromborough, England plant of

Performance evaluation in the laboratory is critical to new product development





Lubrizol Limited and the LeHavre plant of Lubrizol France.

At Bromborough, a pipeline has been installed to connect the plant to dock facilities on the Mersey River. This is similar to the major system completed last year to connect the Deer Park plant to a port terminal and, as in that case, the pipeline will be used to transport raw materials and finished products between the plant and the port.

Facilities for the manufacture of zinc dithiophosphates are being installed at Lubrizol of Canada Ltd. in Niagara Falls, Ontario; Industrias Lubrizol, S.A. de C.V. in Monterrey, Mexico and at Lubrizol Espanola S.A. at Huelva, Spain. These chemicals have been widely used in lubricants for many years to reduce engine wear as well as to prevent oxidative breakdown of the lubricant itself.

Lubrizol India Limited, the joint venture manufacturing and sales company with the Government of India, is expanding its facilities with the construction of additional basic manufacturing units. Its plant near Bombay has now been

in operation for seven years and is becoming increasingly self-sufficient.

Market Developments

Revenues for 1975 rose 11% to \$425.6 million, marking the sixteenth consecutive year in which revenues improved over the prior year.

Approximately 95% of Lubrizol's revenues and net income are derived from the sale of additives.

During 1975, 63% of additive sales were for delivery outside the United States and Canada, as compared with 61% in 1974. Market growth in certain of the world's developing countries contributed to the increased proportion of overseas sales. The early onset and severity of the recession in the United States was also a factor.

Shipments to the European area accounted for 35% of additive sales. The market in Latin America accounted for 10% and in Asia 7%. The remaining 11% was attributed to other areas, including several countries whose economies are becoming increasingly industrialized.

In total, the tonnage of additives shipped to customers in 1975 declined 4% from the previous year. This reduction in consumption has been primarily due to the decline in worldwide industrial activity. The use of lubricants and additives in the personal transportation

area, however, has not been greatly influenced by recent economic events.

The sales of metal finishing chemicals were down for 1975, in spite of strong gains in the fourth quarter. Activities in this field are centered in The R. O. Hull and Company, Inc., a wholly-owned subsidiary. Its principal products are plating chemicals, coatings and brighteners for automotive and appliance parts and both of those industries were severely affected by the decline in the economy.

Manufacture and sale of diacetone acrylamide (DAA®), a vinyl monomer introduced by Lubrizol in 1966, have been terminated. Production facilities at the Bayport, Texas plant will be converted to additive manufacturing, with some write-off in equipment. While this product was useful in a number of applications, the overall market was limited. In addition to locating an alternate supplier, the company gave customers the option of obtaining a process license to manufacture the material if so desired.

Marketing of certain other monomers and polymers which have unique water solubility is continuing. These are useful as dye receptors in modacrylic fibers and are being investigated for use in tertiary oil recovery and water treatment.

Financial Review

Revenues were \$425,640,819, an increase of 11% over 1974. Net income was \$46,892,052, a decrease of 7%, which was \$2.31 per share compared to \$2.49 per share for the prior year.

The company's financial position continued strong. Cash and short-term investments increased \$7,206,103 to \$44,864,087. Working capital also increased \$18,266,588 and the current ratio increased to 3 to 1.

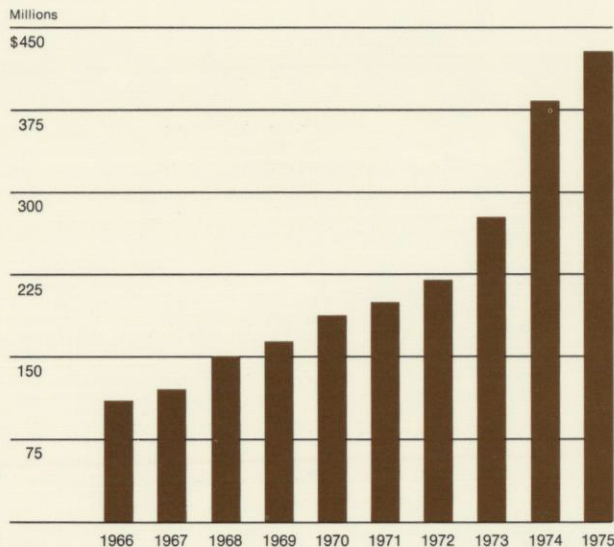
In December 1975, the company acquired the remaining 50% of the outstanding common shares of Nippon-Lubrizol Industries, Inc., and its assets and liabilities are included in the consolidated balance sheet at December 31, 1975.

Capital expenditures for the year were \$22,214,123 which is close to the amount expended in 1974. The United States investment tax credit was \$960,051 compared with \$789,752 and was applied as a reduction of the provision for income taxes.

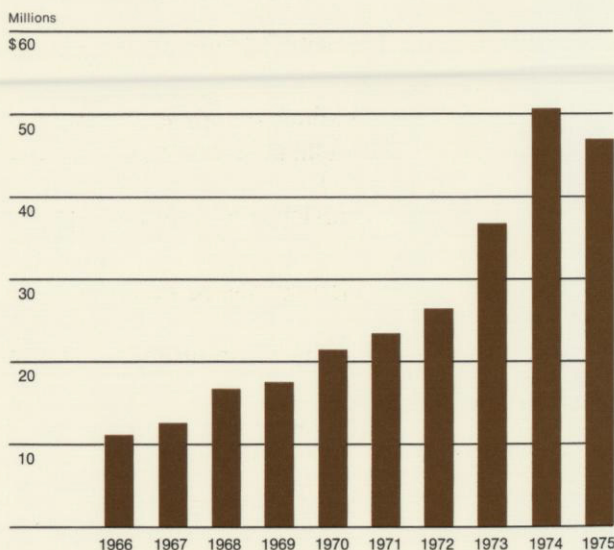
During the year, world currencies underwent considerable fluctuation, with devaluations of the South African Rand and the English Pound, and a strengthening of the United States dollar against other currencies. Exchange gains during the first half of the year were more than offset by exchange losses during the second half of the year, resulting in a net loss of approximately \$1,400,000 for the year. The exchange loss and the write-off of certain manufacturing equipment of \$885,000 was offset by a \$3,500,000 non-recurring payment received from the settlement and transfer of a patent license.

Return on shareholders' equity was 22%, which was the eleventh consecutive year in which a return of 20% or more was achieved.

Total Revenues



Net Income



Consolidated Statement of Income

	<u>Year Ended December 31</u>	
	<u>1975</u>	<u>1974</u>
Revenues:		
Net sales	\$419,089,173	\$376,926,629
Royalties and fees	6,551,646	6,024,048
Total	<u>425,640,819</u>	<u>382,950,677</u>
Cost and expenses:		
Cost of sales	300,384,503	252,894,923
Selling and administrative expenses	30,562,582	26,994,233
Research and development expenses	16,554,288	14,847,662
Total	<u>347,501,373</u>	<u>294,736,818</u>
Income from operations	78,139,446	88,213,859
Other income:		
Interest income	2,335,818	3,109,427
Other items — net	<u>897,753</u>	<u>784,544</u>
Income before taxes on income and equity in earnings of affiliated companies	81,373,017	92,107,830
Provision for taxes on income	<u>35,855,000</u>	<u>42,959,000</u>
Income before equity in earnings of affiliated companies	45,518,017	49,148,830
Equity in earnings of affiliated companies	<u>1,374,035</u>	<u>1,308,716</u>
Net income	<u>\$ 46,892,052</u>	<u>\$ 50,457,546</u>
Net income per share	<u>\$2.31</u>	<u>\$2.49</u>

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

Consolidated Balance Sheet

	December 31	
	1975	1974
ASSETS		
Current assets:		
Cash	\$ 5,514,255	\$ 3,731,202
Short-term investments — at cost which approximates market:		
Cash investments	29,696,473	17,086,125
State, municipal and other government securities	9,653,359	16,840,657
Receivables:		
Customers	56,714,651	60,560,610
Affiliated companies	1,036,316	4,330,960
Other	7,154,838	4,053,734
Inventories — at cost (first-in first-out method) not in excess of market:		
Finished products	19,010,126	17,684,808
Products in process	27,742,800	27,811,119
Raw material and supplies	30,916,367	33,128,674
Deferred income taxes	3,156,821	3,073,043
Prepaid expenses	2,334,586	2,432,628
Total current assets	<u>192,930,592</u>	<u>190,733,560</u>
Plant property — at cost:		
Land and improvements	19,229,092	14,469,095
Buildings and improvements	38,006,076	31,786,730
Machinery and equipment	121,858,910	105,117,070
Construction in progress	10,431,594	8,732,945
Total	<u>189,525,672</u>	<u>160,105,840</u>
Less accumulated depreciation	82,454,153	70,108,950
Plant property — net	<u>107,071,519</u>	<u>89,996,890</u>
Other assets:		
Investments in affiliated companies — at equity	4,240,016	10,126,005
Miscellaneous	1,138,958	1,052,900
Total other assets	<u>5,378,974</u>	<u>11,178,905</u>
TOTAL	<u>\$305,381,085</u>	<u>\$291,909,355</u>

	December 31	
	1975	1974
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Loans payable by foreign subsidiaries to banks	\$ 1,628,057	\$ 2,707,618
Accounts payable:		
Trade	23,651,328	32,811,500
Affiliated companies	3,862,587	10,267,064
Other	9,502,629	1,625,446
Accrued expenses:		
Income taxes	12,212,089	20,789,080
Other taxes	2,730,218	2,564,948
Employee compensation	7,677,241	6,509,763
Other	2,608,884	2,667,170
Total current liabilities	63,873,033	79,942,589
Deferred cash grants from a foreign government (being amortized over the lives of the related assets acquired)	1,649,881	1,471,976
Deferred income taxes	9,047,657	7,050,374
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 — 20,363,209 shares in 1975 and 20,293,609 shares in 1974 (after deducting 12,300 treasury shares in 1975 and 81,900 in 1974)	24,035,127	23,263,959
Retained earnings	206,775,387	180,180,457
Total shareholders' equity	230,810,514	203,444,416
TOTAL	\$305,381,085	\$291,909,355

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

Consolidated Statement of Changes in Financial Position

	Year Ended December 31	
	1975	1974
SOURCE OF FUNDS		
Operations:		
Net income	\$46,892,052	\$ 50,457,546
Charges to operations not requiring funds:		
Depreciation	11,598,534	10,172,424
Other — net	2,604,292	2,467,303
Total	61,094,878	63,097,273
Decrease in receivables	7,767,317	
Increase in accounts payable		20,408,684
Decrease in inventories	5,981,155	
Increase in accrued expenses		10,520,756
Decrease in investments in affiliated companies	5,885,989	
Increase in loans payable by foreign subsidiaries to banks ..		2,148,560
Proceeds from stock option and equity purchase plans	771,168	689,813
Decrease in prepaid expenses	111,145	
Other	1,245,275	222,309
Decrease in cash and short-term investments		13,117,689
Total	<u>\$82,856,927</u>	<u>\$110,205,084</u>
APPLICATION OF FUNDS		
Capital expenditures	\$22,214,123	\$ 22,639,736
Dividends on Common Shares	20,297,122	14,526,683
Net assets of affiliate acquired (excluding cash and short-term investments)	12,210,424	
Decrease in accounts payable	9,898,081	
Increase in receivables		21,361,042
Decrease in accrued expenses	8,416,402	
Increase in inventories		41,537,884
Decrease in loans payable by foreign subsidiaries to banks ..	2,530,894	
Increase in deferred income taxes	83,778	1,833,841
Increase in prepaid expenses		717,963
Increase in investments in affiliated companies		2,537,040
Decrease in dividend payable		2,031,968
Purchase of Common Shares		3,018,927
Increase in cash and short-term investments	7,206,103	
Total	<u>\$82,856,927</u>	<u>\$110,205,084</u>

Consolidated Statement of Shareholders' Equity

	Common Shares		Retained Earnings
	Shares Outstanding	Amount	
YEAR 1975			
Balance January 1	20,293,609	\$23,263,959	\$180,180,457
Net income			46,892,052
Common Shares —			
Treasury shares issued under equity purchase plan	69,600	771,168	
Dividends (\$1.00 per share)			(20,297,122)
Balance December 31	<u>20,363,209</u>	<u>\$24,035,127</u>	<u>\$206,775,387</u>
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 (\$.71 $\frac{3}{8}$ per share)			(14,526,683)
Balance December 31	<u>20,293,609</u>	<u>\$23,263,959</u>	<u>\$180,180,457</u>

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. Exchange gains and losses, including those from translation of foreign currencies, were not significant.

INVESTMENTS — The equity method of accounting is used for investments in affiliates.

Notes continued

Dividends from affiliates were \$367,710 in 1975 and \$400,240 in 1974.

DEPRECIATION — Depreciation of \$11,598,534 in 1975 and \$10,172,424 in 1974 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 \$3,956,499 in 1975 and \$3,838,116 in 1974. 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 — Acquisition

In December 1975, the company purchased the remaining 50% of the outstanding common shares of its Japanese affiliate, Nippon-Lubrizol Industries, Inc. for \$7,573,393 which is included in accounts payable - other. The cost, including the 50% previously owned, has been assigned to assets acquired and liabilities assumed based upon their fair value as follows:

Assets	
Cash and short-term investments ...	\$ 1,948,212
Receivable — affiliated companies ...	3,554,133
Inventories	5,025,847
Plant property	8,281,149
Other assets	319,509
Total assets	19,128,850
Liabilities	
Loans payable	1,451,333
Accounts payable	2,210,615
Accrued expenses	1,308,266
Total liabilities	4,970,214
Net assets	\$14,158,636

The accounts of Nippon-Lubrizol Industries, Inc. were included in the accompanying consolidated balance sheet at December 31, 1975. Pro forma effect on consolidated statement of income for 1975 and 1974 is not material.

Note 3 — Foreign Operations

Net income after all applicable income taxes of subsidiaries outside the United States and

Canada was \$23,073,143 in 1975 and \$22,611,005 in 1974. Dividends received from these subsidiaries were \$13,966,677 in 1975 and \$11,368,942 in 1974.

Undistributed earnings of subsidiaries and affiliates outside the United States of approximately \$79 million at December 31, 1975 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.

A summary of net assets of subsidiaries located outside the United States and Canada at December 31, 1975 and 1974 follows:

	<u>1975</u>	<u>1974</u>
Current assets	\$113,807,782	\$96,258,978
Current liabilities	28,288,079	38,071,261
Working capital	85,519,703	58,187,717
Plant property — net ...	40,570,793	27,482,529
Other assets	613,873	470,906
Deferred income and taxes	(7,593,797)	(6,363,087)
Net assets	\$119,110,572	\$79,778,065

Note 4 — Income Taxes

The provision for taxes on income consists of the following:

	<u>1975</u>	<u>1974</u>
Current:		
United States	\$20,758,000	\$24,678,000
Foreign	13,183,000	17,560,000
Deferred:		
United States	1,049,000	(48,000)
Foreign	865,000	769,000
Total	\$35,855,000	\$42,959,000

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 difference in 1975 between the effective income tax rate of 44.1% and the United States statutory rate of 48% represents 2.7% resulting from lower tax rates on certain foreign income and 1.2% from recording the investment credit as a reduction of the provision for taxes on income.

Note 5 — Employee Stock Options

The 1965 qualified stock option plan, which provided for the granting of options to purchase

up to 900,000 Common Shares, terminated in March 1975 without affecting outstanding options. Options granted under this Plan were 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 the fair market value of the Common Shares on the date of the grant.

In 1975, the shareholders approved a stock option plan which provides that prior to January 1985 qualified and non-statutory stock options may be granted to purchase up to 300,000 Common Shares. Options granted under this plan are for a term of five years for qualified stock options and ten years for non-statutory stock options. The option price is the fair market value of the Common Shares on the date of the grant. Option rights are exercisable in cumulative annual increments of 25% each commencing one year after date of grant.

Additional information as to these options is as follows:

	Number of Shares	
	1975	1974
Outstanding at beginning of year	24,500	36,400
Granted at \$41.00 per share ...	101,200	
Surrendered at \$27.03 per share .		(4,000)
Exercised at \$27.03 per share ...		(7,900)
Outstanding at end of year at \$34.25 to \$43.125 per share ..	125,700	24,500
Exercisable at end of year	8,787	2,662
Available for grant at end of year .	198,800	761,400

Note 6 — Equity Purchase Plan

The Equity Purchase Plan, adopted by the Board of Directors in 1974, and amended on January 27, 1975, was approved by the shareholders on April 28, 1975. The Plan authorizes the sale of 375,000 Common Shares to eligible employees at a price equal to book value at the time of sale. The Plan provides that such shares offered for sale may be purchased for up to five years from the date of the offer and such shares, at the election of the employee or the company, can only be resold to the company at a price equal to the book value at the time of resale. Additional information as to the shares is provided by the following table:

	Number of Shares	
	1975	1974
Available for purchase at beginning of year	18,950	
Offered	99,000	68,000
Purchased	(69,600)	(49,050)
Available for purchase at end of year	48,350	18,950
Available for offer at end of year .	208,000	7,000

Opinion of Independent Accountants

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, 1975 and 1974 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 accord-

ingly 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, 1975 and 1974 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 20, 1976

Hastings & Sells

Ten Year Summary

New highs in revenues & earnings

1976

	1975	1974	1973
CONSOLIDATED OPERATIONS			
Revenues	<i>457.27</i> \$425,640,819	\$382,950,677	\$279,111,289
Cost and expenses:			
Cost of sales	300,384,503	252,894,923	181,302,357
Selling, administrative and research expenses ..	47,116,870	41,841,895	36,673,385
Total	347,501,373	294,736,818	217,975,742
Income from operations	78,139,446	88,213,859	61,135,547
Other income (expense)	3,233,571	3,893,971	3,050,673
Income before taxes on income and equity in earnings of affiliated companies	81,373,017	92,107,830	64,186,220
Provision for taxes on income	35,855,000	42,959,000	29,479,000
Income before equity in earnings of affiliated companies	45,518,017	49,148,830	34,707,220
Equity in earnings of affiliated companies	1,374,035	1,308,716	2,030,388
Net income	<i>50.96</i> \$ 46,892,052	\$ 50,457,546	\$ 36,737,608
Net income per share	<i>2.52</i> \$2.31	\$2.49	\$1.81
Dividends declared per share	<i>1.05</i> 1.00	.71%	.53%
Average shares outstanding	20,302,455	20,289,148	20,314,905
See Management's Discussion and Analysis of the Summary of Operations on page 22.			
CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Current assets	\$192,930,592	\$190,733,560	\$138,400,519
Current liabilities	63,873,033	79,942,589	48,896,557
Working capital	129,057,559	110,790,971	89,503,962
Plant property — net	107,071,519	89,996,890	77,768,864
Other assets	5,378,974	11,178,905	8,377,764
Total	241,508,052	211,966,766	175,650,590
Less:			
Long-term debt			
Deferred income and taxes	10,697,538	8,522,350	5,807,923
Net assets — Shareholders' equity	\$230,810,514	\$203,444,416	\$169,842,667
OTHER DATA			
Capital expenditures	\$ 22,214,123	\$ 22,639,736	\$ 12,743,652
Depreciation	11,598,534	10,172,424	9,621,588
Number of employees at end of year	3,588	3,479	3,286
Number of shareholders at end of year	8,440	8,027	7,944
Common Shares outstanding at end of year	20,363,209	20,293,609	20,314,443
Shareholders' equity per share at end of year	\$11.33	\$10.03	\$8.36
Return on average shareholders' equity	22%	27%	24%

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.

1972	1971	1970	1969	1968	1967	1966
\$221,449,913	\$200,872,700	\$186,842,376	\$165,661,635	\$150,565,073	\$120,181,439	\$107,198,060
146,086,249	132,031,304	121,089,265	107,591,028	94,570,355	77,541,396	68,030,537
31,550,372	29,534,754	26,053,363	24,368,450	22,784,346	21,025,715	19,913,317
177,636,621	161,566,058	147,142,628	131,959,478	117,354,701	98,567,111	87,943,854
43,813,292	39,306,642	39,699,748	33,702,157	33,210,372	21,614,328	19,254,206
1,039,226	1,234,995	403,347	(357,276)	(350,675)	(146,148)	76,690
44,852,518	40,541,637	40,103,095	33,344,881	32,859,697	21,468,180	19,330,896
20,008,000	18,321,000	19,173,000	16,321,000	16,307,000	9,077,000	8,185,000
24,844,518	22,220,637	20,930,095	17,023,881	16,552,697	12,391,180	11,145,896
1,398,483	1,179,540	919,897	834,851			
\$ 26,243,001	\$ 23,400,177	\$ 21,849,992	\$ 17,858,732	\$ 16,552,697	\$ 12,391,180	\$ 11,145,896
\$1.30	\$1.16	\$1.09	\$.89	\$.84	\$.63	\$.57
.41%	.37½	.32½	.28¾	.23¾	.21¼	.20
20,168,409	20,153,723	20,108,284	19,963,004	19,795,942	19,652,548	19,483,288
\$ 97,353,481	\$ 77,884,691	\$ 72,045,910	\$ 60,891,665	\$ 58,003,826	\$ 45,897,012	\$ 39,447,590
31,779,915	27,646,927	28,482,536	23,669,618	24,498,099	17,187,161	15,775,499
65,573,566	50,237,764	43,563,374	37,222,047	33,505,727	28,709,851	23,672,091
74,793,246	73,041,213	66,681,187	60,302,845	53,481,357	46,815,100	34,939,423
6,493,006	5,423,192	4,709,026	3,947,443	3,509,785	2,631,815	1,687,236
146,859,818	128,702,169	114,953,587	101,472,335	90,496,869	78,156,766	60,298,750
		3,000,000	5,400,000	7,950,000	8,250,000	750,000
4,711,036	3,673,933	2,989,786	2,840,225	2,722,237	2,527,593	978,341
\$142,148,782	\$125,028,236	\$108,963,801	\$ 93,232,110	\$ 79,824,632	\$ 67,379,173	\$ 58,570,409
\$ 11,255,145	\$ 14,516,931	\$ 14,006,802	\$ 13,172,709	\$ 12,289,764	\$ 16,118,287	\$ 12,134,232
8,934,767	8,099,830	7,316,742	6,150,700	5,193,074	4,149,871	3,133,510
3,037	3,037	2,906	2,799	2,646	2,472	2,252
7,972	7,815	6,995	6,752	6,230	5,469	5,228
20,158,176	20,161,486	20,146,824	20,080,104	19,832,044	19,691,932	19,536,184
\$7.05	\$6.20	\$5.41	\$4.64	\$4.03	\$3.42	\$3.00
20%	20%	22%	21%	22%	20%	20%

Management's Discussion and Analysis of the Summary of Operations

1975 vs. 1974

Revenues increased \$42,690,142, or 11% in 1975 largely as a result of pre-1975 price increases, plus modest increases during the year.

Increases in cost of sales (19%) and selling, administrative and research expenses (13%) were principally due to higher wage and material costs with some increase in overhead.

Other income decreased because of lower interest yields on short-term investments, exchange losses and write-off of certain equipment offset by a \$3,500,000 non-recurring payment received from the settlement and transfer of a patent license.

A decrease of \$7,104,000 in income taxes resulted primarily from the decrease in pre-tax income and the reduction of the effective tax rate because of lower tax rates on certain foreign income.

Net income decreased 7%, principally due to 4% lower volume, plus increased material costs and expenses.

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.

COMMON SHARE PRICE HISTORY

	1975		1974	
	High	Low	High	Low
First quarter	51	35 $\frac{1}{4}$	39 $\frac{1}{2}$	34
Second quarter	57 $\frac{1}{4}$	43 $\frac{1}{2}$	41	33
Third quarter	59 $\frac{3}{8}$	41 $\frac{3}{4}$	42 $\frac{3}{8}$	34 $\frac{1}{8}$
Fourth quarter	48 $\frac{7}{8}$	36 $\frac{1}{8}$	43 $\frac{1}{2}$	28 $\frac{3}{8}$

DIVIDENDS PAID PER COMMON SHARE

	1975	1974
	First quarter	\$.25
Second quarter	.25	.108
Third quarter	.25	.25
Fourth quarter	.25	.25
Total	<u>\$1.00</u>	<u>\$.816</u>

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.

Officers and Directors

1975

DIRECTORS

- M. Roger Clapp
Chairman of the Board
- T. W. Mastin
President and
Chief Executive Officer
- Paul L. Carll
Vice President — Purchasing
and Distribution
- L. E. Coleman
Executive Vice President
- Harry Kaye
Vice President — Finance
- J. Robert Killpack
Executive Vice President —
Finance of Eaton Corporation, a
manufacturer of automotive,
industrial and consumer products
- W. M. LeSuer
Vice President — Research
and Development
- Harry T. Marks
Former Chairman of the Board
and Chief Executive Officer of
Ferro Corporation, a manufacturer
of materials for industry
- John L. Palmer
Vice President — Corporate
Technology
- Karl H. Rudolph
President and Chief Executive
Officer 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

- M. Roger Clapp
Chairman of the Board
- T. W. Mastin
President and
Chief Executive Officer
- L. E. Coleman
Executive Vice President
- Gordon B. Cameron
Vice President — Personnel
- Paul L. Carll
Vice President — Purchasing
and Distribution
- Roger Y. K. Hsu
Vice President and
General Counsel
- Harry Kaye
Vice President — Finance
- Philip L. Krug
Vice President — Manufacturing
- W. M. LeSuer
Vice President — Research
and Development
- John L. Palmer
Vice President — Corporate
Technology
- 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

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

Listing

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

Transfer Agent, Registrar and Dividend Disbursing Agent

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

Annual Meeting

The Annual Meeting of Shareholders will be held in the Hassler Room of the Bond Court Hotel, St. Clair Avenue at East Sixth Street, Cleveland, Ohio, at 10:15 a.m. on Monday, April 26, 1976.

The Lubrizol Corporation

29400 Lakeland Boulevard, Wickliffe, Ohio 44092
(216) 943-4200

MANUFACTURING PLANTS

Cleveland, Ohio
Painesville, 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
Montvale, New Jersey
Naperville, Illinois
Tulsa, Oklahoma
Whittier, California
Wickliffe, Ohio
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

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
Nippon-Lubrizol Industries, Inc. -
(Japan)
The R. O. Hull & Company, Inc.
Rohco Chemicals Co., Ltd.
(Canada)

AFFILIATES

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



