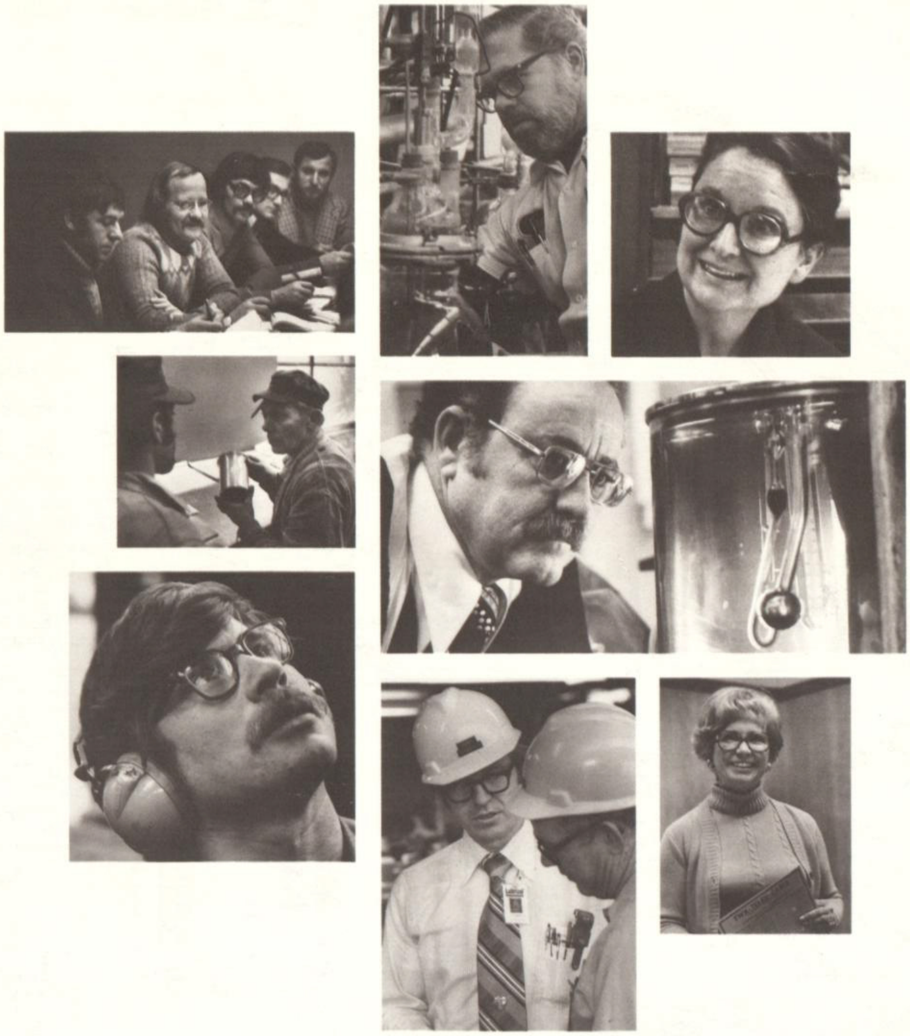


Lubrizol

The Lubrizol Corporation

1976 Annual Report

Lubrizol is a leading supplier to the petroleum industry of chemical additives to improve the performance of lubricants and fuels used in automobiles, trucks, off-highway equipment, marine engines and industrial applications. The company has 14 manufacturing plants and 41 sales and technical service offices throughout the world.

FINANCIAL HIGHLIGHTS

	1976	1975	% Increase (Decrease)
Total revenues	**$457,265,000**	$425,641,000	7
Net income	**50,957,000**	46,892,000	9
Net income per share	**2.52**	2.31	9
Dividends per share	**1.05**	1.00	5
Capital expenditures	**19,420,000**	22,214,000	(13)
Depreciation	**13,800,000**	11,599,000	19
Research and development expenditures	**17,033,000**	16,554,000	3
Shareholders' equity	**261,633,000**	230,811,000	13

Contents

2 Message to Shareholders
4 Review of Operations
12 Financial Review
13 Consolidated Financial Statements
21 Management's Discussion
22 Ten Year Summary
24 Officers and Directors
25 Company Facilities

TO OUR SHAREHOLDERS

Lubrizol's 1976 revenues of $457 million and net income of $51 million represent increases of seven percent and nine percent respectively over the previous year. Product tonnage increased nearly five percent over 1975 and was slightly above the record volume of 1974. These improvements reflect a return to more normal economic conditions and sales increases following new product introductions.

The company's strong commitment to research and development was continued in 1976, with expenditures totaling $17 million. Major emphasis was directed toward increasing Lubrizol's competitive strength and technological leadership in traditional market areas.

Lubrizol's development of new performance chemicals for industrial oils, two-cycle lubricants, synthetic and long drain engine oils, and fuels creates a potential for significant additional business. Changing requirements for engine, power train and industrial lubricants, both for performance and regulatory reasons, will undoubtedly continue to create demand for improved chemical treatments long into the future.

Capital expenditures for 1976 were $19 million as compared with $22 million in 1975. This investment, financed from internally generated funds, provides for the strengthening of the company's production and research capabilities to meet the demands of a growing market.

Each year, as part of this capital program, Lubrizol has modernized its plants and equipment to improve efficiency and lower operating costs. This year the Securities and Exchange Commission required major corporations to compute for informational purposes the replacement cost of inventories and productive capacity and the related effect on depreciation expense and cost of sales. We believe this information which is reported in the Form 10-K Annual Report has limited utility and that it has no bearing on the company's soundness or financial strength.

Total dividends paid during 1976 amounted to $21 million or $1.05 per share. Commencing with the September 10 payment, the quarterly dividend rate was increased ten percent from 25 cents per common share to 27½ cents per share, making 1976 the fourteenth consecutive year in which dividends have increased.

On December 1, Lubrizol and Marine Colloids, Inc. announced the signing of a definitive merger agreement calling for the acquisition of Marine Colloids by Lubrizol.

Marine Colloids, headquartered in Rockland, Maine, develops, processes and markets natural hydrocolloids used as stabilizers and gelling and thickening agents in a variety of consumer and industrial products. The most important of these hydrocolloids are carrageenans which are extracted from a number of species of red seaweed.

The merger is subject to the approval of Marine Colloids' shareholders and to certain other conditions including the satisfactory review of technical studies now in progress relating to carrageenans and the approval by the Canadian Government to transfer equity in Marine Colloids' Canadian companies.

Lubrizol has always been aware of its accountability to the community and its responsibility to participate in the achievement of broadly recognized public goals. To this end, The Lubrizol Foundation was established in 1952 for the purpose of contributing to youth, educational, civic and cultural activities of a charitable nature. In the past twenty-five years, the Foundation has contributed nearly $7.5 million to these activities.

In April, T. W. Mastin was elected Chairman of the Board and continues as Chief Executive Officer. L. E. Coleman was elected President. M. Roger Clapp, Chairman since 1972, retired as an officer of the company after 35 years of contributions to its growth and success. Mr. Clapp remains a member of our Board of Directors.

Other management changes include the election of James N. Purse, President and Chief Executive Officer of The Hanna Mining Company, as a director. W. T. Beargie was named Vice President - Finance and continues as Treasurer.

Lubrizol's success is and always has been a result of the contributions by its employees. The photographs in this year's report show a few of the more than 3,500 men and women who made 1976 a successful year for Lubrizol. Although their backgrounds and individual talents are diverse, they all share an awareness of responsibility and a dedication to service.

L. E. Coleman and T. W. Mastin

TW Mastin   L. E. Coleman

T. W. Mastin
Chairman of the Board

L. E. Coleman
President

March 11, 1977

REVIEW OF OPERATIONS

Market Developments Spur Additive Growth

Lubrizol, for 48 years, has been serving the petroleum and transportation industries by developing and manufacturing chemicals to improve lubricants and fuels. The success of these products is based on their ability to meet performance requirements specified by the petroleum companies or by the manufacturers of automotive equipment or industrial machinery. The market demand, however, is principally determined by such factors as lubricant and fuel usage, the periodic upgrading of lubricant performance, changes in equipment design, and more recently, by the concern for more efficient utilization of petroleum.

During 1976, all of these factors made a significant contribution to Lubrizol's success. Worldwide revenues increased to a record $457 million, despite the relatively slow start in the early months of the year. Additive shipments were nearly five percent higher than in 1975 and slightly above the record volume of 1974. Forty percent of these additive sales were for delivery to customers in the United States and Canada, 33 percent in Europe, 10 percent in Latin America, 8 percent in Asia and the remaining 9 percent in other areas.

The use of lubricants and fuels, one of the major determinants of additive consumption, increased from the depressed levels of 1975 as general economic activity improved. The resultant increase in additive requirements was primarily evident in such applications as industrial oils and hydraulic fluids, gear lubricants, and diesel engine oils. Sales of additives for automatic transmission fluids and farm tractor hydraulic fluids also showed significant gains in 1976 primarily as a result of new product introductions.

Requirements for new additive technology have paralleled improvements in the design of engines, drive train components and industrial machinery and have been a significant contributor to Lubrizol's growth. In recent years, however, the effect of such technical advancements for improved performance has been overshadowed by the extensive and often complex equipment modifications mandated by governmental regulations.

The changes in automobile engines to reduce emission levels, ranging from the early positive crankcase ventilation system to today's use of catalytic converters and exhaust gas recirculation, have required increasingly sophisticated chemical treatments for engine oils to maintain trouble-free performance. It is expected that this trend will continue as emission standards become more restrictive.

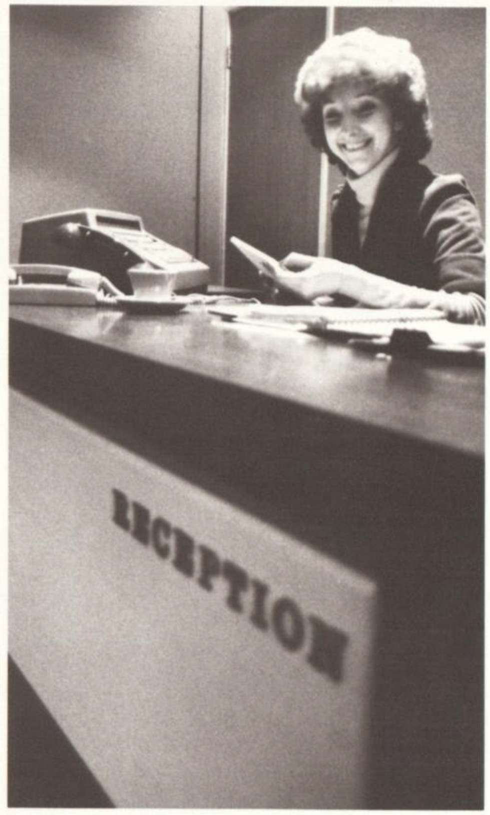
Diesel engines have been used for many years in heavy-duty trucks and in several makes of European automobiles. Compared with the gasoline engine, the diesel has the advantages of longer life and lower fuel consumption. The strong emphasis on fuel economy has stimulated interest in diesel engines for light trucks and automobiles in the United States. As the auto manufacturers modify current engine design and metallurgy to minimize engine weight and cost, improved additive treatments will probably be needed.

In the area of industrial oils and hydraulic fluids, new industrial machinery is being designed to operate at higher speeds and pressures with smaller volumes of oil for lubrication and cooling. To protect vital components under these more severe conditions, higher quality oils containing more effective additive treatments are necessary.

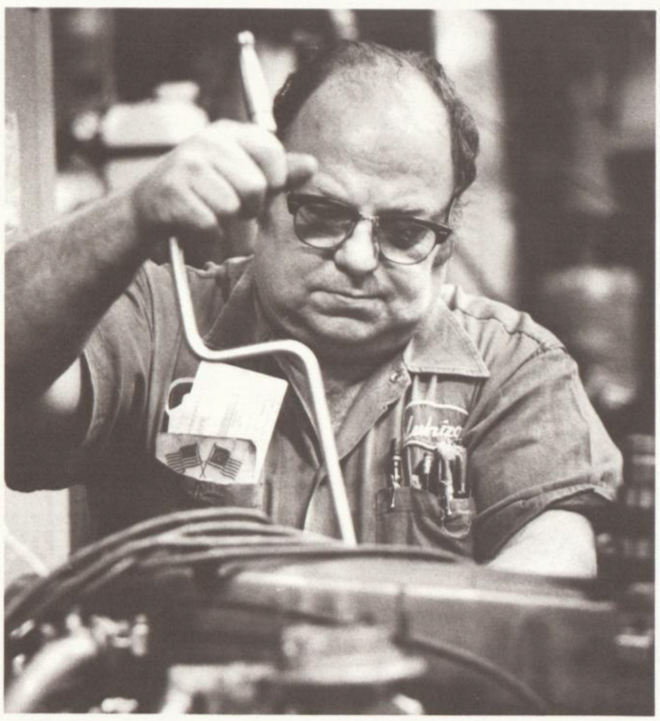
Another major influence on additive demand relates to changes in lubricant composition to gain more efficient utilization of petroleum. Results from extensive automobile and truck tests have indicated that low viscosity or "lighter" oils, such as synthetics and multigrades, improve the conversion efficiency of fuels into useful work by reducing the inherent friction of the lubricants. Some of these changes in formulation may not result in fuel savings sufficiently large to be detectable by the motorist. However, on a national scale, an improvement of a few percent would be significant.

The trend toward low viscosity lubricants could have a substantial impact on the additive market. These lubricants generally require higher levels of wear-inhibiting

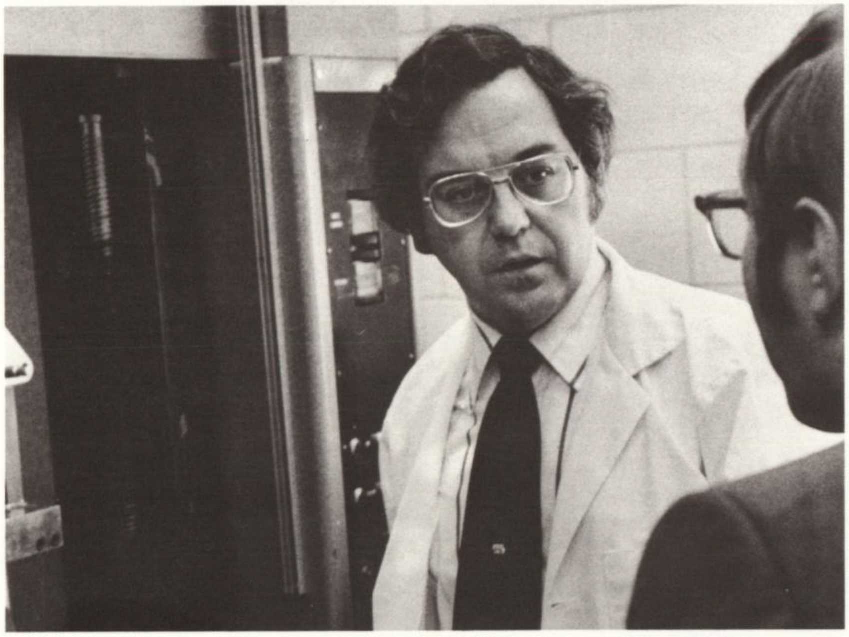
Innovation in the additive field starts in the chemical research laboratory.



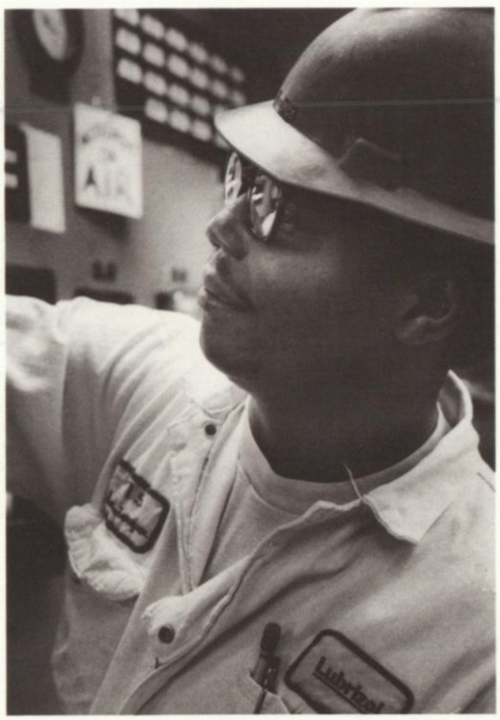
A friendly welcome can be expected at Lubrizol in London or at any of its 55 offices around the world.



Checking out performance in automotive engines is basic in additive development.



Over 600 scientists, engineers and technicians sustain Lubrizol's strong commitment to research.



High levels of skills are required to operate complex manufacturing equipment.

chemicals to prevent equipment damage. In addition, multigrade oils require substantial quantities of viscosity improvers. Synthetic lubricants also permit the generous use of additives to obtain outstanding performance because the additives are generally less expensive than the synthetic base fluid.

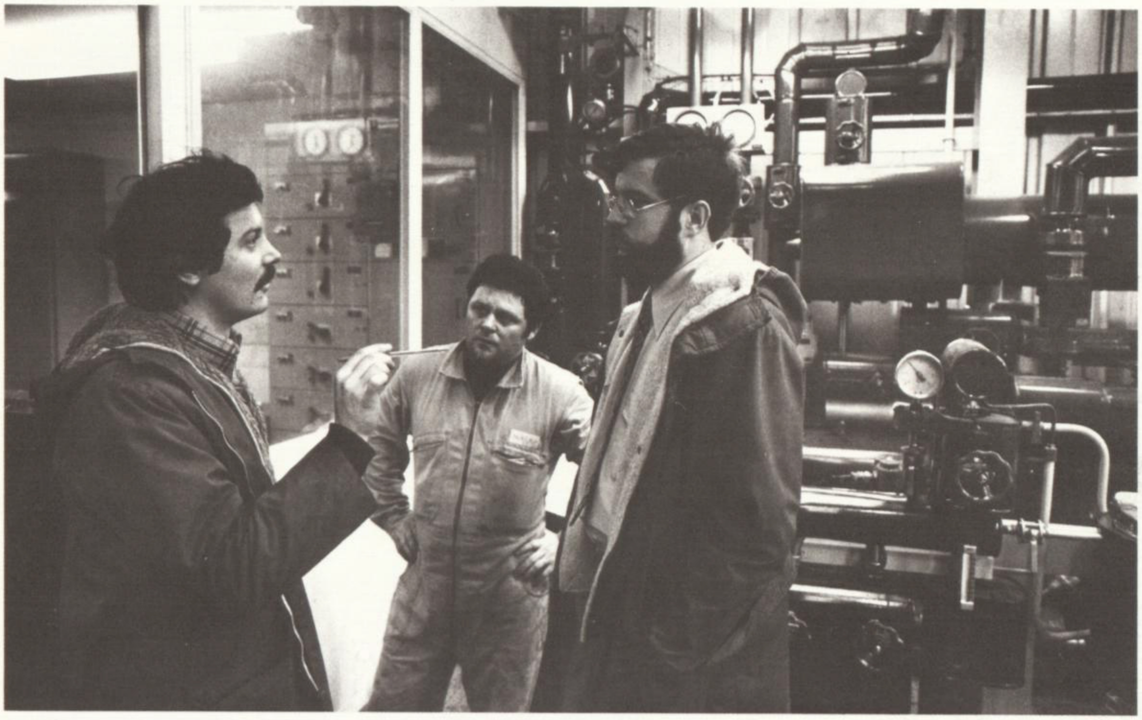
Product Developments

In recent years, Lubrizol has introduced many new products and innumerable product and process improvements which have enabled the company to maintain its position of leadership in the additive industry. There are never any absolute assurances of success in research, and few of the approximately two hundred chemical compounds prepared and evaluated each week by the company's technical staff ever become a commercial reality. Of those which do, most are introduced within the framework of the company's ongoing product improvement, and receive little public mention.

During 1976, Lubrizol's scientists and engineers continued to meet the challenge of developing new chemicals to fulfill the changing requirements for lubricants and fuels. An integral part of these research activities revolves around the mechanical testing laboratory where new chemical formulations are evaluated and performance of additive packages is proven in laboratory engines or other mechanical equipment.

The development of a single engine oil formulation may require several months of testing to balance the quantities of dispersants, detergents, oxidation and wear inhibitors, and viscosity improvers to give the desired performance. By utilizing its laboratory equipment, with further substantiation by over-the-road fleet tests, Lubrizol has developed chemical combinations which permit long-drain engine oils to be prepared with conventionally refined petroleum base stocks. These new types of engine oils should be entering the consumer market during 1977.

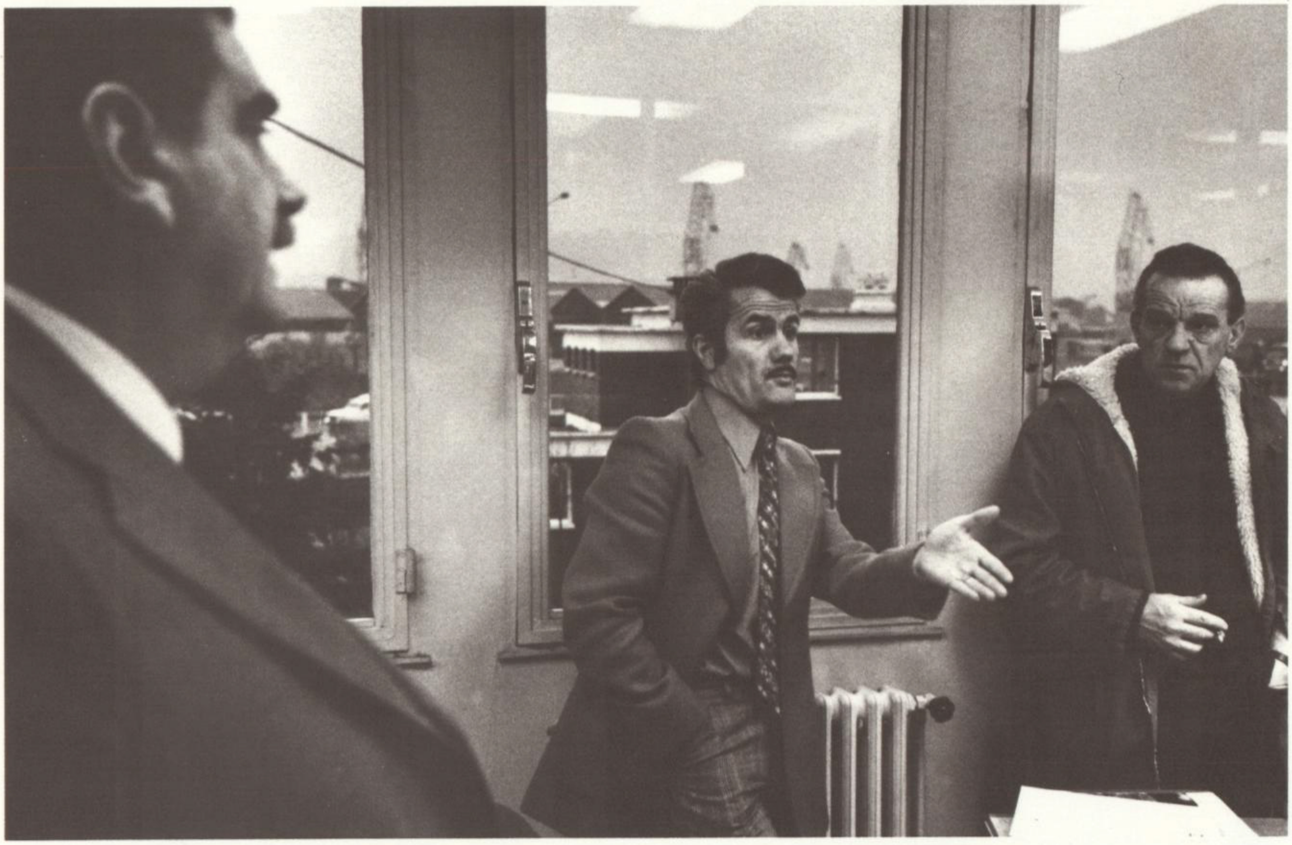
An increase in the recommended oil change interval for heavy-duty diesel trucks and buses is gaining industry acceptance due to the resultant reduction in labor and down-



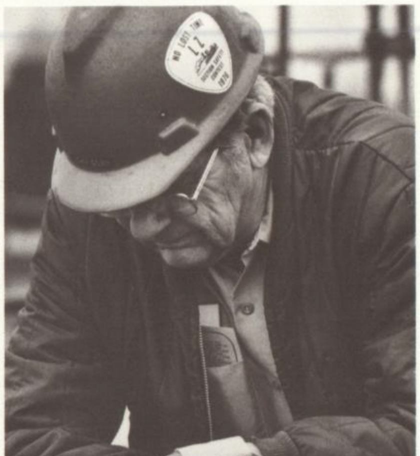
Product quality is dependent upon technical ability, not only in France, but at all Lubrizol plants.

Test equipment must be carefully assembled to insure proper performance.

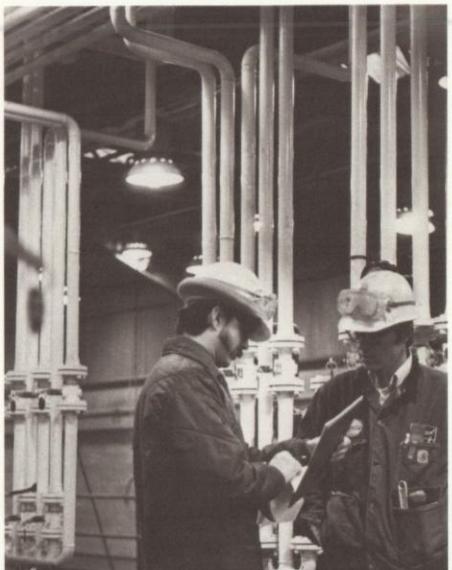
Security of plant property is important, but as Charlie will tell you, safety of people comes first.



Engineers concerned with modernization and expansion of the Rouen, France plant iron out some of the technical aspects.



A moment to pause and consider may be one of the reasons for no lost-time accidents at the Deer Park, Texas plant.



Intricate piping systems carry raw materials from storage to production reactors.

time for maintenance. Although high quality additive treatments will permit an extended use of current diesel lubricants to 100,000 miles, their interseasonal use will create a greater demand for multigrade oils which typically require higher additive treatments than single grade oils. Lubrizol is in a good position to participate in this changing market.

Research is a continuous and long term process. After more than two years of development, a series of products for two-cycle outboard marine engines was recently introduced. This additive system is the first from Lubrizol to be approved by the Boating Industries Association for this multi-million-dollar market. These additives should be in full production by the end of 1977 at the Bayport, Texas plant.

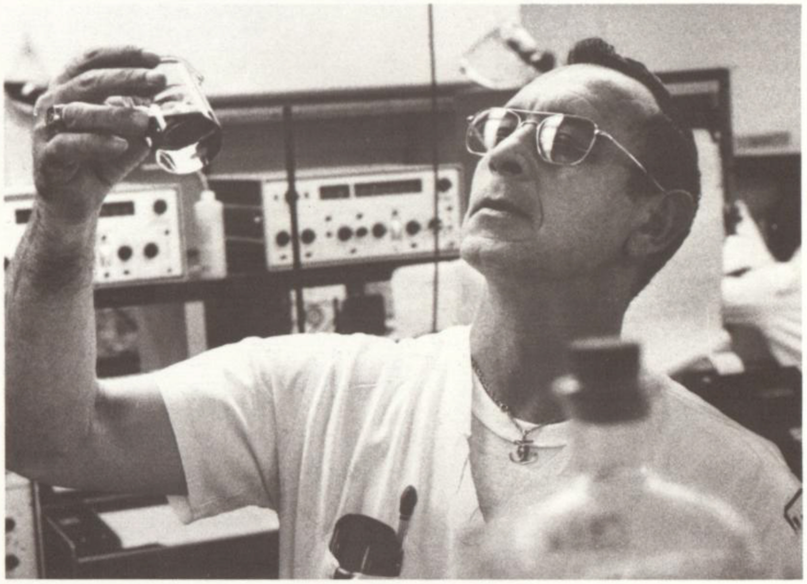
Although Lubrizol has been regarded primarily as a supplier of chemical additives for lubricants, the company for many years has also been producing additives for gasoline and diesel fuels. Lubrizol research has led to the development of improved multi-functional fuel additives which perform effectively at lower treatment levels than were previously possible. These chemicals, which are principally dispersants and detergents, help preserve high overall engine efficiency, and contribute to the maintenance of low exhaust emission levels. Several major petroleum companies have adopted Lubrizol additives for use in their gasolines. It is expected that demand for such additives will continue to grow.

Plant Facilities Improved and Expanded

During 1976, Lubrizol spent $19 million for capital improvement and expansion programs. By making more efficient use of the existing plant and equipment through extensive efforts to reduce operating costs, the company's energy consumption per unit volume has decreased significantly in the last several years.

Many of the projects which contributed to this reduced energy consumption were relatively small while others, such as the insulation of four large storage tanks at the Deer

Orders are processed with individual care at the distribution center in Wickliffe, Ohio.



Customers are assured of high quality through continuous controls prior to shipment.

The shortest distance between two points in a large plant is frequently by bicycle.

Maintaining plants in optimum condition comes down to paying attention to small details and exercising appropriate skills.

Park, Texas plant, will yield significant savings in annual fuel costs. It was also determined that converting from natural gas to fuel oil to fire the plant's steam boilers would considerably reduce costs. Bulk shipments of fuel oil will be received by barges and transported to the plant through the company's pipelines.

The Deer Park pipeline system and the similar system installed at the Bromborough, England plant of Lubrizol Limited have proven to be highly efficient and economical for transporting large volumes of materials between the plants and their respective terminal facilities.

During 1976, another pipeline was placed in service, connecting Lubrizol France's Rouen plant with a terminal on the Seine River. This pipeline will be used to deliver bulk raw materials directly from barges to the plant's storage tanks.

A four-story office building is also under construction at Rouen and should be completed late this year. This new facility will enable the relocation of the purchasing, distribution and accounting personnel from Paris to the plant, thereby improving efficiency and reducing operating costs.

In Spain, the first basic manufacturing unit for Lubrizol Española S.A. was recently completed at the Huelva plant. Designed to produce an important line of oxidation and wear-inhibiting chemicals for engine oils, this production equipment will be able to supply the needs of this growing market area.

A similar unit has also been installed at Industrias Lubrizol, S. A. de C. V., the company's affiliate in Apodaca, Mexico. The completion of this unit enables Industrias Lubrizol to produce all the principal performance components of typical engine oils.

In the United States, the construction of a polyisobutene manufacturing plant at Port Arthur, Texas was deferred for several months to permit further consideration of economic factors. The project is now going forward and the plant should be operational next year.

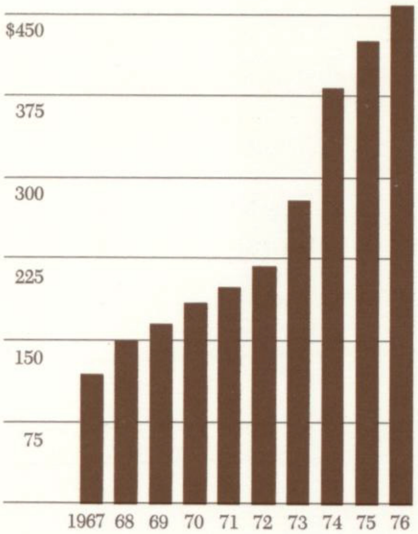
W. A. "Tony" Snell reviews marketing plans for Africa and Europe with his associates in London.

Dedication and knowledge in chemical research lead to new and improved products.

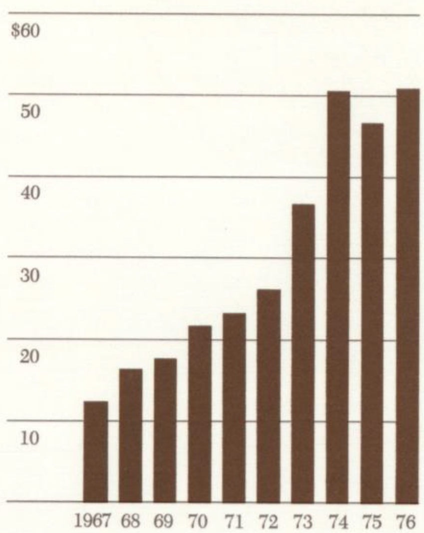
Happiness is an asset in any department.

FINANCIAL REVIEW

Total Revenues
Millions



Net Income
Millions



Lubrizol's worldwide revenues of $457,265,000 were 7% higher than the preceding year. Net income of $50,957,000 and net income per share of $2.52 were 9% higher than 1975.

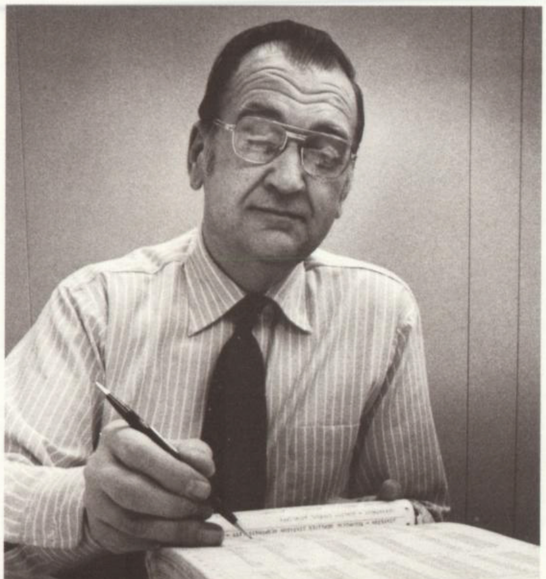
Cash and short-term investments of $58,279,000 were $13,415,000 higher than the previous year and working capital increased $30,022,000 reflecting a continuation of the Company's strong financial position. In January 1977, $23,000,000 was used to purchase 625,000 outstanding Lubrizol Common Shares which will be held in treasury.

During 1976 currencies of several countries, primarily Brazil, Mexico and the United Kingdom, weakened against the United States dollar. Exchange losses amounted to $2,551,000 after income taxes. In Brazil, the Company adopted a policy of local borrowing as protection against major devaluation losses on import deposits which are now required by the Brazilian Government.

Expenditures for plant property in 1976 were $19,420,000. The United States investment tax credit was $959,000 for 1976 compared with $960,000 for 1975.

Non-current liabilities of $2,201,000 are primarily employee benefits deferred to future years.

Average shareholders' equity returned 21% for 1976, the twelfth consecutive year in which the return was 20% or more.



The accomplishments of many talented people are consolidated to report the company's progress.

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31 1976	1975
Revenues:		
Net sales	**$450,853,604**	$419,089,173
Royalties and fees	**6,411,046**	6,551,646
Total	**457,264,650**	425,640,819
Cost and expenses:		
Cost of sales	**311,211,000**	300,384,503
Selling and administrative expenses	**33,200,838**	30,562,582
Research and development expenses	**17,032,624**	16,554,288
Total	**361,444,462**	347,501,373
Income from operations	**95,820,188**	78,139,446
Other income (charges) — net:		
Interest	**2,105,362**	2,160,895
Other items	**(3,056,042)**	1,072,676
Income before taxes on income and equity in earnings of affiliated companies	**94,869,508**	81,373,017
Provision for taxes on income	**44,355,000**	35,855,000
Income before equity in earnings of affiliated companies	**50,514,508**	45,518,017
Equity in earnings of affiliated companies	**442,486**	1,374,035
Net income	**$ 50,956,994**	$ 46,892,052
Net income per share	**$2.52**	$2.31

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

CONSOLIDATED BALANCE SHEET

ASSETS	December 31 1976	December 31 1975
Current assets:		
Cash	$ 5,378,511	$ 5,514,255
Short-term investments — at cost which approximates market:		
Cash investments	43,155,493	29,696,473
State, municipal and other government securities	9,745,485	9,653,359
Receivables:		
Customers	63,696,051	57,750,967
Import deposits	9,471,383	2,979,947
Other	5,205,796	4,174,891
Inventories — at cost (first-in first-out method) not in excess of market:		
Finished products	23,814,091	19,010,126
Products in process	26,806,650	27,742,800
Raw material and supplies	33,864,433	30,916,367
Deferred income taxes	1,388,017	3,156,821
Prepaid expenses	2,466,623	2,334,586
Total current assets	224,992,533	192,930,592
Plant property — at cost:		
Land and improvements	20,819,132	19,229,092
Buildings and improvements	38,552,700	38,006,076
Machinery and equipment	136,079,148	121,858,910
Construction in progress	13,391,488	10,431,594
Total	208,842,468	189,525,672
Less accumulated depreciation	95,387,490	82,454,153
Plant property — net	113,454,978	107,071,519
Other assets:		
Investments in affiliated companies — at equity	4,263,588	4,240,016
Miscellaneous	1,294,080	1,138,958
Total other assets	5,557,668	5,378,974
TOTAL	$344,005,179	$305,381,085

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31 1976	1975
Current liabilities:		
Loans payable by foreign subsidiaries to banks	$ 8,104,692	$ 1,628,057
Accounts payable:		
Trade	25,722,495	23,651,328
Affiliated companies	3,065,814	3,862,587
Other	2,962,035	9,502,629
Accrued expenses:		
Income taxes	11,976,793	12,212,089
Other taxes	2,862,391	2,730,218
Employee compensation	7,893,418	7,677,241
Other	3,325,623	2,608,884
Total current liabilities	65,913,261	63,873,033
Non-current liabilities	2,201,053	
Deferred cash grants from a foreign government (being amortized over the lives of the related assets acquired)	1,709,381	1,649,881
Deferred income taxes	12,548,426	9,047,657
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 — 20,467,159 shares in 1976 and 20,363,209 shares in 1975 (after deducting 12,300 treasury shares in 1975)	25,305,270	24,035,127
Retained earnings	236,327,788	206,775,387
Total shareholders' equity	261,633,058	230,810,514
TOTAL	$344,005,179	$305,381,085

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

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31 1976	1975
SOURCE OF FUNDS		
Operations:		
Net income	$ 50,956,994	$ 46,892,052
Charges to operations not requiring funds:		
Depreciation	13,800,188	11,598,534
Deferred taxes	5,269,573	1,802,890
Other — net	(979,587)	801,402
Total	69,047,168	61,094,878
Decrease in receivables		7,767,317
Decrease in inventories		5,981,155
Decrease in prepaid expenses		111,145
Decrease in investments in affiliated companies		5,885,989
Increase in loans payable by foreign subsidiaries to banks	6,476,635	
Increase in accrued expenses	829,793	
Increase in non-current liabilities	2,201,053	
Proceeds from equity purchase plan	1,270,143	771,168
Other		1,245,275
TOTAL	$ 79,824,792	$ 82,856,927
APPLICATION OF FUNDS		
Capital expenditures	$ 19,419,515	$ 22,214,123
Dividends on Common Shares	21,404,593	20,297,122
Net assets of affiliate acquired (excluding cash and short-term investments)		12,210,424
Increase in receivables	13,467,425	
Increase in inventories	6,815,881	
Increase in deferred income taxes		83,778
Decrease in loans payable by foreign subsidiaries to banks		2,530,894
Decrease in accounts payable	5,266,200	9,898,081
Decrease in accrued expenses		8,416,402
Other	35,776	
Increase in cash and short-term investments	13,415,402	7,206,103
TOTAL	$ 79,824,792	$ 82,856,927

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 1976			
Balance January 1	20,363,209	$24,035,127	$206,775,387
Net income			50,956,994
Common Shares — Issued under equity purchase plan (including 12,300 Treasury shares)	103,950	1,270,143	
Dividends ($1.05 per share)			(21,404,593)
Balance December 31	20,467,159	$25,305,270	$236,327,788
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	20,363,209	$24,035,127	$206,775,387

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. In December 1975, the company purchased the remaining 50% of the outstanding Common Shares of its Japanese affiliate, Nippon-Lubrizol Industries, Inc., whose corporate name was changed to Nippon Lubrizol Industries Corporation. The accounts of Nippon Lubrizol Industries Corporation are included in the accompanying consolidated financial statements from the above date.

AFFILIATES — The equity method of accounting is used for investments in affiliated companies. Dividends from affiliates were $139,901 in 1976 and $367,710 in 1975.

DEPRECIATION — Depreciation of $13,800,188 in 1976 and $11,598,534 in 1975 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 practice is to fund accrued costs of the plans and the amount charged to operations was $4,992,616 in 1976 and $3,956,499 in 1975. Pension fund assets exceeded the actuarially computed value of vested benefits.

NOTE 2 — Foreign Operations

Net income after applicable income taxes of subsidiaries outside the United States and Canada was $20,266,563 in 1976 and $23,073,143 in 1975. Dividends received from these subsidiaries were $23,717,551 in 1976 and $13,966,677 in 1975.

Undistributed earnings of subsidiaries and affiliates of approximately $91 million at December 31, 1976 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, 1976 and 1975 follows:

	1976	1975
Current assets	$135,022,051	$113,807,782
Current liabilities	33,142,287	28,288,079
Working capital	101,879,764	85,519,703
Plant property — net	42,096,627	40,570,793
Other assets	794,640	613,873
Non-current items	(11,607,467)	(7,593,797)
Net assets	$133,163,564	$119,110,572

Exchange losses, after income tax effect, amounted to $2,551,580 in 1976 and $305,413 in 1975.

NOTE 3 — Income Taxes

The provision for taxes on income consists of the following:

	1976	1975
Current:		
United States	$23,407,000	$20,758,000
Foreign	15,678,000	13,183,000
Deferred:		
United States	2,403,000	1,049,000
Foreign	2,867,000	865,000
Total	$44,355,000	$35,855,000

Deferred income taxes result from differences in the time of recognition of revenues and expenses for tax and financial statement purposes. The tax effects of timing differences are as follows:

	1976	1975
Accelerated depreciation	$ 1,701,000	$ 1,859,000
Foreign inventory reserves	1,720,000	434,000
Dividend to be received from DISC in 1977	1,293,000	
Other	556,000	(379,000)
Total	$ 5,270,000	$ 1,914,000

A reconciliation between the United States statutory income tax rate and the company's effective income tax rate is as follows:

	1976	1975
48% of income before tax	$45,538,000	$39,059,000
Different rates applicable to certain foreign income	787,000	(2,702,000)
Investment tax credits	(959,000)	(960,000)
DISC non-taxable earnings	(1,410,000)	
Other	399,000	458,000
Total	$44,355,000	$35,855,000

NOTE 4 — 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	
	1976	1975
Outstanding at beginning of year	125,700	24,500
Granted at:		
$32.125 per share	47,100	
$41.00 per share		101,200
Surrendered at $41.00 per share	(1,000)	
Outstanding at end of year at $32.125 to $43.125 per share	171,800	125,700
Exercisable at end of year	39,962	8,787
Available for grant at end of year	152,700	198,800

NOTE 5 — Equity Purchase Plan

The Equity Purchase Plan authorizes the sale of 375,000 Common Shares to eligible employees at a price equal to book value. 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, as adjusted, at the time of resale. The increase in book value of equity shares purchased is charged to income from operations, accordingly, the average number of shares outstanding is reduced in computing income per share. Additional information as to the shares is provided by the following table:

	Number of Shares	
	1976	1975
Available for purchase at beginning of year	48,350	18,950
Offered	102,000	99,000
Purchased	(103,950)	(69,600)
Available for purchase at end of year	46,400	48,350
Available for offer at end of year	106,000	208,000

NOTE 6 — Subsequent Acquisition of Common Shares

In January 1977, the company purchased at market 625,000 shares of its outstanding stock for approximately $23,000,000. The acquired shares are to be held in the treasury and may be used for acquisitions, incentive plans or other corporate purposes. The difference between the purchase price and the average stated value of the acquired shares approximates $22,000,000 and will be charged to retained earnings in 1977.

NOTE 7 — Replacement Cost Data (Unaudited)

In accordance with the requirements of the Securities and Exchange Commission, the company's annual report on Form 10-K contains estimated data on replacement cost of inventories and productive capacity and the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense for the year.

The company's cost of operations is affected by inflation. To the extent considered feasible, the company attempts to recover increased costs by adjusting the sales prices of its products. Consequently, the company believes that its earnings have not been materially affected by the increased costs arising from inflation.

NOTE 8 — Proposed Acquisition

During 1976, the company entered into an agreement to acquire all of the Common Shares of Marine Colloids, Inc. through an exchange of approximately 633,000 of its Common Shares. The agreement is subject to the approval of the shareholders of Marine Colloids, Inc. and to certain other conditions. It is anticipated that the proposed acquisition will be accounted for as a purchase.

NOTE 9 — Quarterly Financial Data (Unaudited)

Quarterly financial data for 1976 is as follows:

	1976			
	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Revenues	$105,823,000	$122,426,000	$117,958,000	$111,058,000
Gross profit	32,686,000	39,951,000	40,561,000	32,856,000
Net income	11,123,000	14,151,000	13,737,000	11,946,000
Net income per share	$.55	$.69	$.67	$.61

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, 1976 and 1975 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, 1976 and 1975 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

Cleveland, Ohio
February 21, 1977

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

(See page 22)

1976 vs. 1975

Revenues increased 7% and cost and expenses increased 4%. Income from operations in relation to revenues increased 3%. The improvement was principally due to a 5% increase in volume and the consolidation of Nippon Lubrizol Industries Corporation.

Other income decreased in 1976 because of $4.4 million in exchange losses offset by the reversal of an equipment write-off in 1975 and miscellaneous income items.

The effective income tax rate increased 3% mainly because certain foreign income was subject to higher rates.

The decrease in earnings of affiliated companies reflects the devaluation of the Mexican peso and the consolidation of Nippon Lubrizol Industries Corporation in 1976.

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 pretax 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.

COMMON SHARE PRICE HISTORY

	1976		1975	
	High	Low	High	Low
First quarter	44⅞	37	51	35¼
Second quarter	40¼	34½	57¼	43½
Third quarter	42¾	37⅝	59⅜	41¾
Fourth quarter	38¾	31⅛	48⅞	36⅛

DIVIDENDS PAID PER COMMON SHARE

	1976	1975
First quarter	$ .25	$ .25
Second quarter	.25	.25
Third quarter	.27½	.25
Fourth quarter	.27½	.25
Total	$1.05	$1.00

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.

TEN YEAR SUMMARY

(Dollar amounts in thousands except per share data)

	1976	1975	1974
SUMMARY OF OPERATIONS			
Revenues	$457,265	$425,641	$382,951
Cost and expenses:			
Cost of sales	311,211	300,385	252,895
Selling, administrative and research expenses	50,233	47,117	41,842
Total	361,444	347,502	294,737
Income from operations	95,821	78,139	88,214
Other income (expense)	(951)	3,234	3,894
Income before taxes on income and equity in earnings of affiliated companies	94,870	81,373	92,108
Provision for taxes on income	44,355	35,855	42,959
Income before equity in earnings of affiliated companies	50,515	45,518	49,149
Equity in earnings of affiliated companies	442	1,374	1,309
Net income	$ 50,957	$ 46,892	$ 50,458
Net income per share	$2.52	$2.31	$2.49
Dividends declared per share	1.05	1.00	.71⅜
Average shares outstanding (in thousands)	20,245	20,302	20,289
CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Current assets	$224,992	$192,931	$190,734
Current liabilities	65,913	63,873	79,943
Working capital	159,079	129,058	110,791
Plant property — net	113,455	107,072	89,997
Other assets	5,558	5,379	11,178
Total	278,092	241,509	211,966
Less:			
Non-current liabilities	2,201		
Deferred income and taxes	14,258	10,698	8,522
Net assets — Shareholders' equity	$261,633	$230,811	$203,444
OTHER DATA			
Capital expenditures	$ 19,420	$ 22,214	$ 22,640
Depreciation	13,800	11,599	10,172
Number of employees at end of year	3,557	3,588	3,479
Number of shareholders at end of year	8,760	8,440	8,027
Common Shares outstanding (in thousands)	20,467	20,363	20,294
Shareholders' equity per share at end of year	$12.78	$11.33	$10.03
Return on average shareholders' equity	21%	22%	27%

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

1973	1972	1971	1970	1969	1968	1967
$279,111	$221,450	$200,873	$186,842	$165,662	$150,565	$120,181
181,302	146,086	132,031	121,089	107,591	94,570	77,541
36,673	31,550	29,535	26,053	24,369	22,784	21,026
217,975	177,636	161,566	147,142	131,960	117,354	98,567
61,136	43,814	39,307	39,700	33,702	33,211	21,614
3,051	1,039	1,235	403	(357)	(351)	(146)
64,187	44,853	40,542	40,103	33,345	32,860	21,468
29,479	20,008	18,321	19,173	16,321	16,307	9,077
34,708	24,845	22,221	20,930	17,024	16,553	12,391
2,030	1,398	1,179	920	835		
$ 36,738	$ 26,243	$ 23,400	$ 21,850	$ 17,859	$ 16,553	$ 12,391
$1.81	$1.30	$1.16	$1.09	$.89	$.84	$.63
.53⅕	.41⅗	.37½	.32½	.28¾	.23¾	.21¼
20,315	20,168	20,154	20,108	19,963	19,796	19,653
$138,401	$ 97,353	$ 77,885	$ 72,046	$ 60,892	$ 58,004	$ 45,897
48,897	31,779	27,647	28,483	23,670	24,498	17,187
89,504	65,574	50,238	43,563	37,222	33,506	28,710
77,769	74,793	73,041	66,681	60,303	53,481	46,815
8,378	6,493	5,423	4,709	3,947	3,510	2,632
175,651	146,860	128,702	114,953	101,472	90,497	78,157
			3,000	5,400	7,950	8,250
5,808	4,711	3,674	2,989	2,840	2,722	2,528
$169,843	$142,149	$125,028	$108,964	$ 93,232	$ 79,825	$ 67,379
$ 12,744	$ 11,255	$ 14,517	$ 14,007	$ 13,173	$ 12,290	$ 16,118
9,622	8,935	8,100	7,317	6,151	5,193	4,150
3,286	3,037	3,037	2,906	2,799	2,646	2,472
7,944	7,972	7,815	6,995	6,752	6,230	5,469
20,314	20,158	20,161	20,147	20,080	19,832	19,692
$8.36	$7.05	$6.20	$5.41	$4.64	$4.03	$3.42
24%	20%	20%	22%	21%	22%	20%

OFFICERS AND DIRECTORS

Directors

T. W. Mastin
Chairman of the Board and Chief Executive Officer

L. E. Coleman
President

M. Roger Clapp
Former Chairman of the Board

Harry Kaye
Vice President — Financial Planning

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

James N. Purse
President and Chief Executive Officer of The Hanna Mining Company, a mining, processing and transportation company

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

T. W. Mastin
Chairman of the Board and Chief Executive Officer

L. E. Coleman
President

W. T. Beargie
Vice President — Finance and Treasurer

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 — Financial Planning

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

Donald L. Murfin
Assistant Secretary

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 25, 1977.

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

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

Lubrizol Management, Inc.
Lubrizol Overseas Trading Corporation

Lubrizol A.G. – (Switzerland)
Lubrizol do Brasil, Limitada
Lubrizol of Canada, Ltd.
Lubrizol Española 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 Corporation – (Japan)

Affiliates

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