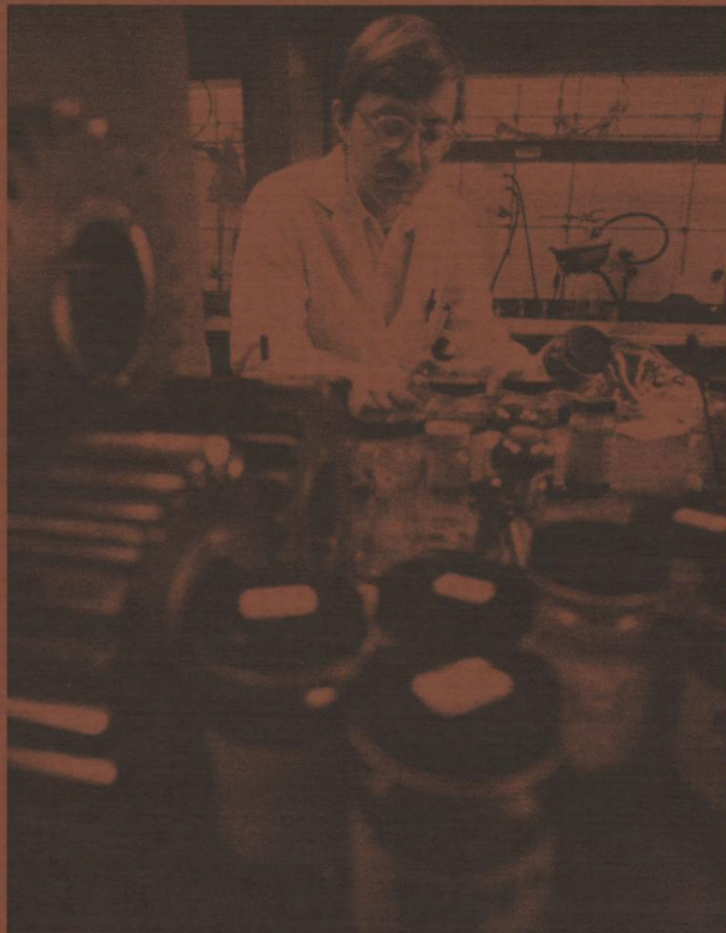


**Lubrizol**

1978 Annual Report



1978  
Annual Report

The  
Lubrizol  
Corporation

# Financial Highlights

	1978	1977	% Increase
Total revenues . . . . .	<b>\$595,257,000</b>	\$514,711,000	16
Net income . . . . .	<b>77,365,000</b>	58,069,000	33
Net income per share . . . . .	<b>3.95</b>	2.96	33
Dividends per share . . . . .	<b>1.40½</b>	1.25	12
Capital expenditures . . . . .	<b>44,373,000</b>	22,982,000	93
Depreciation . . . . .	<b>15,256,000</b>	14,270,000	7
Research and development expenditures	<b>20,572,000</b>	19,246,000	7
Shareholders' equity . . . . .	<b>323,036,000</b>	271,783,000	19

## Common Share Price History

	1978		1977	
	High	Low	High	Low
1st quarter . . . . .	38¾	33¾	37¾	30½
2nd quarter . . . . .	43⅝	36⅞	36¾	27¾
3rd quarter . . . . .	48¼	37¾	37¼	32¾
4th quarter . . . . .	48	39¼	36¼	32⅛

## Dividends Paid per Common Share

	1978	1977
1st quarter . . . . .	\$ .32½	\$ .27½
2nd quarter . . . . .	.36	.32½
3rd quarter . . . . .	.36	.32½
4th quarter . . . . .	.36	.32½
Total . . . . .	<u>\$1.40½</u>	<u>\$1.25</u>

# The Lubrizol Corporation

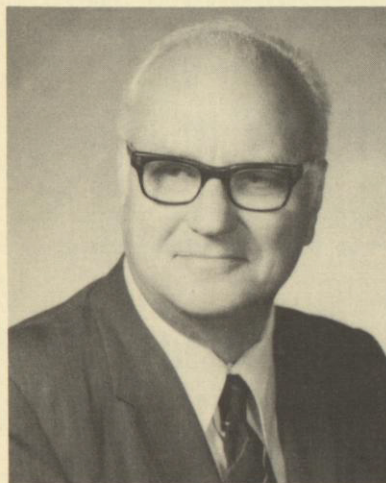
Lubrizol is a leading supplier to the petroleum industry of chemical additives to improve the performance of lubricants and fuels used in automobiles, trucks, off-highway equipment, marine engines and industrial applications. The company has 15 manufacturing plants and 41 sales and technical service offices throughout the world.

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- 17 Company Facilities

## To Our Shareholders

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T. W. Mastin

In 1978, Lubrizol observed its 50th anniversary. An opening ceremony attended by representatives from each of the company's plants and offices as well as by three of its founders was held at the general offices in Wickliffe, Ohio on July 28. Open houses for employees, their families and guests followed in the subsequent weeks at Lubrizol's plants around the world and principal officers participated in each of these events.

The year was one of significant accomplishment. Revenues increased 16% and net income 33%. The gains were attributable to higher volume and improved prices and currency effects.

With regard to currency effects, the principal factor from an accounting standpoint was that inventories denominated in foreign currencies are translated into U.S. dollar equivalents at historical rates of exchange rather than at the rates in effect at the time of sale. The weakening of the U.S. dollar during 1978 thus had the effect of reducing charges to the cost of sales. There was also an after-tax loss on exchange of \$91,000. These currency effects added 21 cents to net income per share, compared with a loss from currency effects of 11 cents per share in 1977.

As reported earlier, a patent settlement increased net income per share by 16 cents. Adjusted for the patent settlement and currency effects, net income per share increased 17% compared with the prior year.

Prices were increased by reason of inflation. Physical volume rose 6%, following upon increases of 10% in 1977 and 5% in 1976.

Approximately 35% of the sales were for delivery to customers in the United States and 32% for Europe. Latin America accounted for 9%; Asia for 9% and other areas 15%.

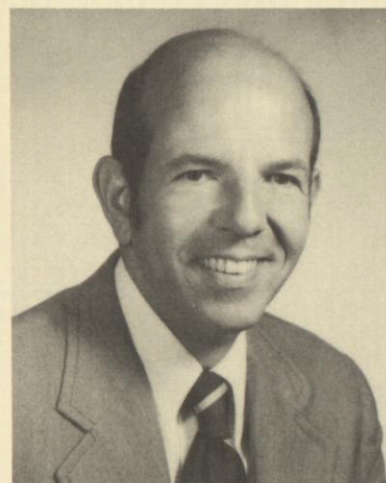
Return on average shareholders' equity was 26%. For the 14th consecutive year, a return of 20% or more was achieved. Dividend payments totaled \$28 million. The amount paid per share increased for the 16th year in a row.

Cash and short-term investments totaled \$58 million at year-end compared with \$39 million in 1977. The company has no long-term debt.

Capital expenditures were \$44 million, a record amount. Principal factors in the increase over the \$23 million spent in 1977 were the purchase of two ocean-going chemical tankers and expenditures for completing construction of the polyisobutene plant at Port Arthur, Texas. The effects of inflation were felt in most construction projects.

Lubrizol is a major exporter from the United States. The company's exports, together with royalties and fees, result in a favorable contribution to the U.S. balance of payments year after year. During 1978, more than 5,000 export shipments, both of intermediates to plants abroad and of finished products to customers, were made. Quantities ranged from several drums up to bulk shipments of 1 million gallons. Cargo space on some 1,200 different sailings was required.

The *Lucor Manor* and the *Lucor Wickliffe*, the two tankers which were recently acquired, have been placed in this service. The vessels, which are sister ships, were built in the Netherlands in 1975. They were acquired and refitted for a total of \$10.8 million. Each of the ships is a 6,500 ton vessel,



L. E. Coleman

equipped with a number of stainless steel tanks to permit transport of a variety of products.

Construction of the polyisobutene plant at Port Arthur is being completed. The plant is undergoing trial runs and is expected to commence operation by April. Polyisobutene is a high volume starting material for a number of additives and it has been in short supply. To help meet the company's needs in the U.S., the *Lucor Manor* on its initial voyage carried a shipment from Europe. Cost of the Port Arthur facility, which was constructed over a period of several years, was nearly \$26 million.

As part of the capital expenditures, new manufacturing units were installed at several plants. An additional 100 acres of land adjacent to the Deer Park, Texas plant was acquired to permit future expansion. Costs to meet environmental regulations were a further factor. The principal project of that type has been to modernize the sewer systems and control run-off at a U.S. plant. The total cost will be \$1.2 million, with most of that spent in 1978.

Plans are moving forward with respect to construction with Shell Brasil, S.A. of the joint venture, additive manufacturing plant near Rio de Janeiro. All necessary permits have been obtained by I.A.B. — Industria de Aditivos do Brasil, the joint venture company, and construction has started.

With regard to non-additive lines, by reason of limited capacity, sales of AMPS<sup>(TM)</sup> monomer remain on allocation. The product is being used to improve dye receptivity in synthetic fibers and in certain water treatment applications. The plant being constructed at Bayport, Texas will be completed by the end of this year. Due in part to the need for additional environmental safeguards, its cost has risen to over \$10 million.

In executive changes during the year, L. E. Coleman, President, was elected Chief Executive Officer and Edward L. Hutton, President and Chief Executive Officer of Chemed Corporation, was added to the Board of Directors. Evelyn C. Slaughter was elected Secretary. Last fall, W. G. Bares was elected Vice President and placed in charge of the newly formed Diversified Products Group. Donald L. Murfin was made Assistant to the President, replacing Mr. Bares in that position.

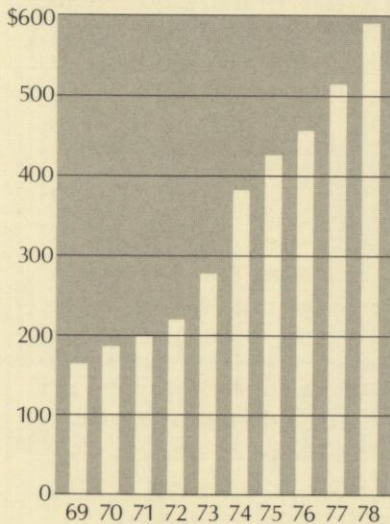
The opportunities in the additive field continue to be substantial and there are two factors that suggest this. One is the projected growth in world vehicle population. The other is the growing need for more efficient lubricants and fuels derived from petroleum.

With the increased industrialization of much of the world and a higher standard of living, more cars, trucks, buses, and railroad and marine diesels will be needed to provide transportation. More roads and road-building equipment will be required. Continued mechanization of farming will be necessary to supply the food. Industry itself will require increased quantities of oils and fluids to turn out the goods.

These bright prospects for the world generally are tempered by the availability and price of petroleum. The proved oil reserves of the world are placed at about 646 billion barrels. Based upon present demand, this suggests about 29 years' supply, but a number of complex questions are involved.

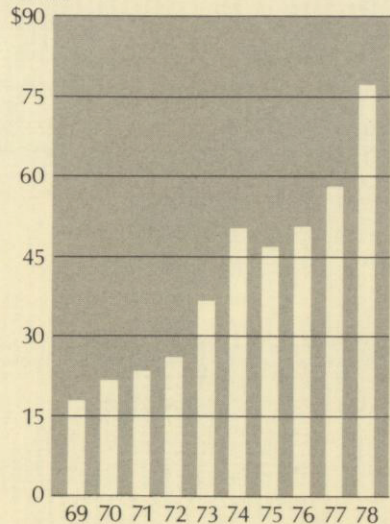
## Total Revenues

Millions

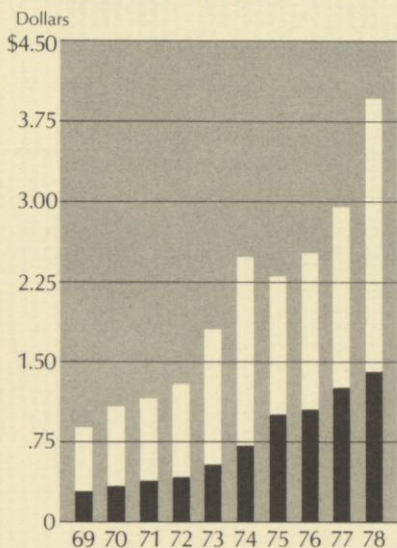


## Net Income

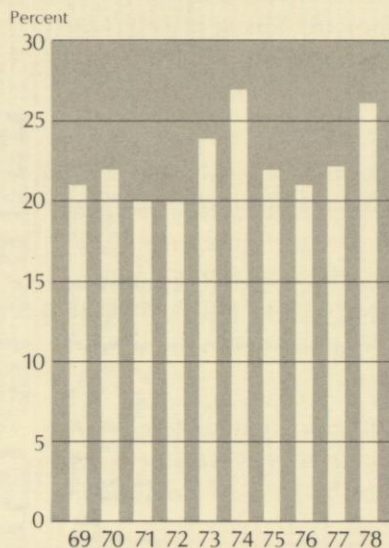
Millions



Net Income per Share  
 Dividends per Share



**Return on Average Shareholder's Equity**



The contract price of crude oil on the world market is currently in the range of \$13 to \$16 per barrel, depending upon the grade. Imports of petroleum and petroleum products of \$42 billion were the principal component in the substantial balance of trade deficit of the United States in 1978. The price has been a contributing factor to inflation. The rate of inflation and the trade deficit have been factors in the weakening of the U.S. dollar.

The scope of the problem is apparent and so are the benefits that can accrue from its solution. During the past century, automotive transportation has contributed immeasurably to our freedom and mobility, our convenience and enjoyment. Entire industries and countless jobs have been created. Stemming the advance and turning the clock back to an earlier era would seem unlikely.

New discoveries of oil would be of obvious help in a solution. With the cost of exploration high and the risk great, appropriate incentives are necessary to bring this about. Obviously too, more efficient use of petroleum is needed. The quantity existing in nature cannot be increased. The quality of lubricants and fuels derived from petroleum can, however. This has been the principal focus of Lubrizol's business since its inception and this field has taken on new dimensions.

Lubrizol additive systems are currently being used in superior engine oils for passenger cars which maintain protection for an extended time. A major car manufacturer has recommended use of oils of this type by its dealers. The expected issuance this year of a new technical classification extending drain intervals to 15,000 miles should make use of such oils more widespread. Substantial attention is also being given to the development of longer-life, heavy-duty engine oils for trucks. The protection and durability needed can be achieved by chemical additives.

These represent traditional applications for additives. A new application concerns the use of additive systems in lubricants to save fuel. Since almost half of the crude oil supply is used to produce gasoline, ways of reducing fuel consumption are important. The downsizing of cars to reduce weight is having a significant effect. However, Federal law requires that auto manufacturers achieve annual improvements, reaching a sales-weighted average of 27.5 miles per gallon by 1985, and further measures will be needed to meet these objectives. Lubrizol is currently marketing additive systems for engine oils for passenger cars as well as for truck gear oils which save fuel.

Lubrizol's program to develop additives for lubricants to reduce fuel consumption is described in the accompanying special report. The factor that will have the greatest importance on the company's future is the talent of its people. The special report is indicative of how these talents are being brought to bear both on the challenges of today and those of tomorrow.

*L. E. Coleman*

L. E. Coleman  
President

*T. W. Mastin*

T. W. Mastin  
Chairman of the Board

March 20, 1979

# Management's Discussion and Analysis of the Summary of Operations (page 14)

## 1978 vs. 1977

Revenues totaled \$595,257,000 in 1978, a gain of 16% over 1977. The primary reasons for the higher revenues were improved prices and higher volume. Cost and expenses were up 15% due to inflation and increased volume. Income from operations amounted to \$124,205,000, a 20% improvement over 1977. In addition to improved prices and volume, currency effects contributed to the gain.

Currency effects added \$4,191,000 to net income in 1978 as compared with a \$2,064,000 loss in 1977. This added 21 cents to net income per share, compared with a loss of 11 cents per share in 1977. In accordance with the requirements of Statement No. 8 of the Financial Accounting Standards Board, inventories are charged to cost of sales at historical rates of exchange rather than at current rates. In addition, there was an after tax exchange loss of \$91,000 in 1978 and \$41,000 in 1977.

With respect to other income (charges), a patent settlement added \$6,000,000 before tax. Interest income increased 44% to \$4,638,000 due to more short-term investments and higher interest rates. Other items — net, decreased principally due to lower financing costs for the Brazilian operations.

The effective income tax rate decreased from 45% to 44% because of non-taxable currency effects.

Equity in earnings of affiliated companies improved 48% primarily as a result of higher shipments.

Net income increased 33% to \$77,365,000. The gain was primarily due to improved prices and higher volume, currency effects and the patent settlement.

## 1977 vs. 1976

Worldwide revenues amounted to \$514,711,000 in 1977, an increase of 13% over the \$457,265,000 for 1976. This increase was primarily due to a 10% increase in volume.

Cost and expenses increased 14% for the year, principally as a result of the volume increase and general inflation. Increased testing for customers and the change to the LIFO method of valuing certain inventories were also factors.

After tax exchange losses were \$41,000 in 1977 as compared with \$2,551,000 in 1976. The decrease in exchange losses accounted for the improvement in other income (charges), equity in earnings of affiliated companies and the reduction in the effective income tax rate.

Net income increased 14% to \$58,069,000 primarily due to higher volume and the reduction in exchange losses.

## Consolidated Statements of Income

	Year Ended December 31 1978	Year Ended December 31 1977
<b>Revenues:</b>		
Net sales . . . . .	<b>\$586,476,957</b>	\$507,120,968
Royalties and fees . . . . .	<b>8,780,233</b>	7,589,851
Total . . . . .	<b>595,257,190</b>	514,710,819
<b>Cost and expenses:</b>		
Cost of sales . . . . .	<b>404,473,279</b>	354,608,417
Selling and administrative expenses . . . . .	<b>46,006,803</b>	37,499,152
Research and development expenses . . . . .	<b>20,571,790</b>	19,246,147
Total . . . . .	<b>471,051,872</b>	411,353,716
Income from operations . . . . .	<b>124,205,318</b>	103,357,103
<b>Other income (charges):</b>		
Interest income . . . . .	<b>4,637,799</b>	3,217,970
Patent settlement . . . . .	<b>6,000,000</b>	
Other items — net . . . . .	<b>(660,623)</b>	(3,500,545)
Income before taxes on income and equity in earnings of affiliated companies . . . . .	<b>134,182,494</b>	103,074,528
Provision for taxes on income . . . . .	<b>59,083,000</b>	46,536,000
Income before equity in earnings of affiliated companies	<b>75,099,494</b>	56,538,528
Equity in earnings of affiliated companies . . . . .	<b>2,265,744</b>	1,530,743
Net income . . . . .	<b>\$ 77,365,238</b>	\$ 58,069,271
Net income per share . . . . .	<b>\$3.95</b>	\$2.96

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

## Consolidated Balance Sheets

<b>Assets</b>	December 31 1978	December 31 1977
<b>Current assets:</b>		
Cash . . . . .	\$ 6,057,653	\$ 1,162,267
Short-term investments — at cost which approximates market . . . . .	51,836,186	37,984,612
<b>Receivables:</b>		
Customers . . . . .	97,295,344	81,149,912
Import deposits . . . . .	8,570,056	8,461,084
Other . . . . .	10,067,744	5,238,290
<b>Inventories:</b>		
Finished products . . . . .	31,907,582	25,236,470
Products in process . . . . .	30,395,545	31,134,383
Raw material and supplies . . . . .	36,605,695	34,476,247
Deferred income taxes . . . . .	2,735,231	2,380,738
Prepaid expenses . . . . .	2,754,898	2,443,878
Total current assets . . . . .	278,225,934	229,667,881
<b>Plant property — at cost:</b>		
Land and improvements . . . . .	25,793,558	21,970,457
Buildings and improvements . . . . .	42,531,954	39,501,980
Machinery and equipment . . . . .	167,355,612	147,515,965
Construction in progress . . . . .	33,965,543	19,020,094
Total . . . . .	269,646,667	228,008,496
Less accumulated depreciation . . . . .	119,628,181	106,639,841
Plant property — net . . . . .	150,018,486	121,368,655
<b>Other assets:</b>		
Investments in affiliated companies — at equity . . . . .	10,926,328	7,924,463
Miscellaneous . . . . .	2,564,083	1,505,893
Total other assets . . . . .	13,490,411	9,430,356
TOTAL . . . . .	\$441,734,831	\$360,466,892



<b>Liabilities and Shareholders' Equity</b>	December 31 1978	December 31 1977
<b>Current liabilities:</b>		
Accounts payable:		
Trade . . . . .	\$ 43,764,935	\$ 32,256,048
Affiliated companies . . . . .	5,628,898	3,865,379
Other . . . . .	4,338,132	3,845,572
Accrued expenses:		
Income taxes . . . . .	29,051,014	16,925,451
Other taxes . . . . .	3,043,952	3,349,974
Employee compensation . . . . .	7,068,767	8,326,821
Other . . . . .	3,042,927	2,027,390
Total current liabilities . . . . .	<u>95,938,625</u>	<u>70,596,635</u>
<b>Other liabilities:</b>		
Non-current liabilities . . . . .	6,100,295	3,385,886
Deferred cash grants from a foreign government . . . . .	2,246,234	1,799,673
Deferred income taxes . . . . .	14,413,663	12,901,872
Total other liabilities . . . . .	<u>22,760,192</u>	<u>18,087,431</u>
<b>Shareholders' equity:</b>		
Serial preferred stock without par value —		
Authorized and unissued — 2,000,000 shares		
Common Shares without par value:		
Authorized — 25,000,000 shares		
Outstanding — 20,000,859 shares in 1978 and		
19,886,209 shares in 1977 (after deducting		
466,300 treasury shares in 1978 and 580,950		
treasury shares in 1977) . . . . .		
	27,552,760	25,525,631
Retained earnings . . . . .	295,483,254	246,257,195
Total shareholders' equity . . . . .	<u>323,036,014</u>	<u>271,782,826</u>
TOTAL . . . . .	<u>\$441,734,831</u>	<u>\$360,466,892</u>

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

## Consolidated Statements of Changes in Financial Position

	Year Ended December 31 1978	Year Ended December 31 1977
<b>Source of Funds</b>		
Operations:		
Net income . . . . .	<b>\$ 77,365,238</b>	\$ 58,069,271
Charges to operations not requiring funds:		
Depreciation . . . . .	<b>15,256,245</b>	14,270,089
Deferred taxes . . . . .	<b>1,157,298</b>	(639,275)
Other — net . . . . .	<b>350,633</b>	347,881
Total . . . . .	<b>94,129,414</b>	72,047,966
Increase in accounts payable . . . . .	<b>13,764,966</b>	8,216,655
Increase in accrued expenses . . . . .	<b>11,577,024</b>	4,571,411
Increase in non-current liabilities . . . . .	<b>2,714,409</b>	1,184,833
Common shares sold under Equity Purchase and Stock Option Plans . . . . .	<b>2,056,476</b>	1,096,349
Other . . . . .	<b>860,273</b>	351,081
Decrease in cash and short-term investments . . . . .		19,132,610
TOTAL . . . . .	<b><u>\$125,102,562</u></b>	<b><u>\$106,600,905</u></b>
<b>Application of Funds</b>		
Capital expenditures . . . . .	<b>\$ 44,373,358</b>	\$ 22,981,504
Dividends on Common Shares . . . . .	<b>27,959,609</b>	24,788,682
Purchase of Common Shares . . . . .	<b>208,917</b>	24,227,170
Increase in receivables . . . . .	<b>21,083,858</b>	16,476,056
Increase in inventories . . . . .	<b>8,061,722</b>	6,361,926
Increase in investments in affiliated companies . . . . .	<b>3,237,312</b>	3,660,875
Decrease in loans payable by foreign subsidiaries to banks . . . . .		8,104,692
Other . . . . .	<b>1,430,826</b>	
Increase in cash and short-term investments . . . . .	<b>18,746,960</b>	
TOTAL . . . . .	<b><u>\$125,102,562</u></b>	<b><u>\$106,600,905</u></b>

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

## Consolidated Statements of Shareholders' Equity

	Number of Shares Outstanding	Common Stock	Retained Earnings
<b>Year 1978</b>			
Balance, January 1 . . . . .	19,886,209	\$ 25,525,631	\$246,257,195
Net income . . . . .			77,365,238
Cash dividends (\$1.40½ per share) . . . . .			(27,959,609)
Common shares — Treasury:			
Shares purchased . . . . .	(5,400)	(7,432)	(179,570)
Shares issued upon exercise of stock options . . . . .	10,175	349,915	
Equity Purchase Plan transactions:			
Shares issued . . . . .	111,875	1,706,561	
Shares reacquired . . . . .	(2,000)	(21,915)	
Balance, December 31 . . . . .	<u>20,000,859</u>	<u>\$ 27,552,760</u>	<u>\$295,483,254</u>
<b>Year 1977</b>			
Balance, January 1 . . . . .	20,467,159	\$ 25,305,270	\$236,327,788
Net income . . . . .			58,069,271
Cash dividends (\$1.25 per share) . . . . .			(24,788,682)
Common shares — Treasury:			
Shares purchased . . . . .	(655,000)	(774,018)	(23,351,182)
Equity Purchase Plan transactions:			
Shares issued . . . . .	83,050	1,096,349	
Shares reacquired . . . . .	(9,000)	(101,970)	
Balance, December 31 . . . . .	<u>19,886,209</u>	<u>\$ 25,525,631</u>	<u>\$246,257,195</u>

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

# Notes to Financial Statements

## Note 1 — Accounting Policies

**CONSOLIDATION** — All subsidiaries are wholly-owned and consolidated. The equity method of accounting is used for investments in affiliated companies.

**INVENTORIES** — Inventories are stated at cost which is not in excess of market. In 1977, the company changed its method of pricing most of its U.S. inventories from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method. In periods of rising prices, the LIFO method of inventory valuation results in a more appropriate matching of costs with revenues. The change in 1977 resulted in a charge to cost of sales of \$2,497,000 and a reduction in net income of \$1,258,000 or \$.06 per share.

Inventories on the LIFO method were about 34% of consolidated inventories at December 31, 1978 and 39% of consolidated inventories at December 31, 1977. The current replacement cost exceeded the stated LIFO cost by approximately \$4,800,000 at December 31, 1978 and \$2,500,000 at December 31, 1977.

**DEPRECIATION** — Depreciation of \$15,256,000 in 1978 and \$14,270,000 in 1977 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 deferred income taxes related to these differences have been provided.

**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 \$7,907,000 in 1978 and \$6,207,000 in 1977. Pension fund assets exceeded the actuarially computed value of vested benefits.

## Note 2 — Income Taxes

The provision (credit) for taxes on income consists of the following:

	1978	1977
Current:		
United States . . . . .	\$36,201,000	\$25,432,000
Foreign . . . . .	21,725,000	21,743,000
Deferred:		
United States . . . . .	947,000	513,000
Foreign . . . . .	210,000	(1,152,000)
Total . . . . .	<u>\$59,083,000</u>	<u>\$46,536,000</u>

Deferred income taxes are provided for 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:

	1978	1977
Accelerated depreciation . . . . .	\$ 1,390,000	\$ 1,909,000
Foreign inventory reserves . . . . .	631,000	(907,000)
Intercompany profit in inventory . . . . .	(268,000)	(1,112,000)
Other . . . . .	(596,000)	(529,000)
Total . . . . .	<u>\$ 1,157,000</u>	<u>\$ (639,000)</u>

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

	1978	1977
48% of income before tax . . . . .	\$64,407,000	\$49,476,000
Different rates applicable to certain foreign income . . . . .	(3,562,000)	(971,000)
Investment tax credit . . . . .	(751,000)	(883,000)
DISC non-taxable earnings . . . . .	(1,586,000)	(1,518,000)
Other . . . . .	575,000	432,000
Total . . . . .	<u>\$59,083,000</u>	<u>\$46,536,000</u>

Undistributed earnings of subsidiaries and affiliates of approximately \$132 million at December 31, 1978 and \$105 million at December 31, 1977, have been reinvested indefinitely

in the operations of the subsidiaries and affiliates, principally for working capital, plant and equipment. No provision has been made for additional taxes which might result if at some future time such earnings were distributed to the company.

**Note 3 — Employee Stock Options**

The 1975 Stock Option Plan provides that prior to January 1985 qualified and nonstatutory 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 nonstatutory 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 percent each commencing one year after date of grant.

Additional information as to these options is as follows:

	Number of Shares	
	1978	1977
Outstanding, January 1 . . . . .	206,450	171,800
Granted at \$33.06 per share . . . . .		50,500
Exercised at \$32.125 to \$41.00 per share . . . . .	(10,175)	
Expired at: \$34.25 per share . . . . .	(4,050)	
\$43.125 per share . . . . .		(10,650)
Surrendered at \$32.125 to \$41.00 per share . . . . .	(2,875)	(5,200)
Outstanding, December 31 — at \$32.125 to \$41.00 per share . . . . .	189,350	206,450
Exercisable, December 31 . . . . .	105,787	69,963
Available for grant, December 31 . . . . .	110,275	107,400

**Note 4 — Equity Purchase Plan**

The Equity Purchase Plan provides for the sale of Common Shares to eligible employees at a price equal to book value. Shares offered for sale under the Plan may be purchased for up to five years from the date of the offer. At the election of the employee or the company, shares issued under the Plan will be reacquired by the company at a price equal to the then book value. In April 1978, shareholders increased the number of shares to be offered under the Plan from 375,000 to 725,000 shares. Shares offered for sale were 93,500 in 1978 and 106,000 in 1977. At December 31, 1978 there were 259,500 shares available for offer.

Additional information as to the shares is provided by the following table:

	Number of Shares	
	1978	1977
Outstanding, January 1 . . . . .	296,650	222,600
Sold to employees . . . . .	111,875	83,050
Reacquired by the company . . . . .	(2,000)	(9,000)
Outstanding, December 31 . . . . .	406,525	296,650
Offered for sale but not sold at December 31 . . . . .	47,975	66,350

The increase in book value of equity shares outstanding is charged to income from operations; accordingly, the average number of equity shares is not considered outstanding in computing net income per share.

**Note 5 — Quarterly Financial Data (Unaudited)**

Quarterly financial data for the years 1978 and 1977 is as follows:

(In Thousands of Dollars Except per Share Data)

	1978			
	Three Months Ended			
	March 31	June 30	Sept. 30*	Dec. 31
Revenues . . . . .	\$127,617	\$153,080	\$155,721	\$158,839
Gross profit . . . . .	41,881	50,410	50,868	47,625
Net income . . . . .	15,341	19,435	23,961	18,628
Net income per share . . . . .	\$ .78	\$ 1.00	\$ 1.22	\$ .95

\*Includes a patent settlement of \$6,000,000 which increased net income per share by 16 cents.

	1977			
	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31*
Revenues . . . . .	\$119,619	\$132,191	\$133,217	\$129,684
Gross profit . . . . .	37,887	43,006	42,087	37,123
Net income . . . . .	13,006	14,962	15,794	14,307
Net income per share . . . . .	\$ .66	\$ .77	\$ .80	\$ .73

\*The effect of the change to LIFO which was reflected in the fourth quarter was a decrease in gross profit of \$2,497,000 and net income of \$1,258,000 or \$.06 per share.

## Notes continued

### Note 6 — Operations in Geographic Areas

The accompanying tables present information about the company's operations in different geographic areas:

	1978				Consolidated Total
	United States	Europe	Other	Eliminations	
	(In Thousands of Dollars)				
Operations:					
Revenues . . . . .	\$259,548	\$176,740	\$158,969		\$595,257
Transfers between geographic areas . . . . .	100,597	4,347	1,052	\$105,996	
Total . . . . .	360,145	181,087	160,021	105,996	595,257
Cost and expenses . . . . .	293,789	149,309	129,643	105,769	466,972
Operating profit . . . . .	<u>\$ 66,356</u>	<u>\$ 31,778</u>	<u>\$ 30,378</u>	<u>\$ 227</u>	128,285
General corporate expenses . . . . .					4,080
Income from operations (as shown in the consolidated statement of income) . . . . .					<u>\$124,205</u>
Assets:					
Identifiable assets . . . . .	<u>\$207,642</u>	<u>\$104,046</u>	<u>\$103,212</u>	<u>\$ 35,927</u>	\$378,973
Corporate assets . . . . .					51,836
Investments in affiliated companies . . . . .					10,926
Total assets (as shown in the consolidated balance sheet) . . . . .					<u>\$441,735</u>
	1977				
	United States	Europe	Other	Eliminations	Consolidated Total
	(In Thousands of Dollars)				
Operations:					
Revenues . . . . .	\$233,442	\$153,984	\$127,285		\$514,711
Transfers between geographic areas . . . . .	82,326	1,069		\$ 83,395	
Total . . . . .	315,768	155,053	127,285	83,395	514,711
Cost and expenses . . . . .	261,603	126,345	102,704	82,898	407,754
Operating profit . . . . .	<u>\$ 54,165</u>	<u>\$ 28,708</u>	<u>\$ 24,581</u>	<u>\$ 497</u>	106,957
General corporate expenses . . . . .					3,600
Income from operations (as shown in the consolidated statement of income) . . . . .					<u>\$103,357</u>
Assets:					
Identifiable assets . . . . .	<u>\$166,694</u>	<u>\$ 83,804</u>	<u>\$ 80,388</u>	<u>\$ 16,328</u>	\$314,558
Corporate assets . . . . .					37,985
Investments in affiliated companies . . . . .					7,924
Total assets (as shown in the consolidated balance sheet) . . . . .					<u>\$360,467</u>

#### NOTES:

- A. Transfers between geographic areas are made at prices comparable to normal unaffiliated customer sales for similar products. Amounts relating to affiliated companies accounted for on the equity basis are not allocated to geographic areas and are not significant to area operations.
- B. Identifiable assets are those assets of the company that are identified with the operations in each geographic area. Corporate assets are short-term investments.

Net assets of subsidiaries, excluding intercompany accounts, located outside the United States at December 31, 1978 and 1977 were \$187,948,000 and \$136,069,000. Net income

of these subsidiaries after applicable income taxes was \$39,702,000 in 1978 and \$30,113,000 in 1977 and dividends received from the subsidiaries were \$12,420,000 and \$24,115,000, respectively.

#### **Note 7 — Business Segment Information**

The company is a supplier to the petroleum industry of chemical additives for lubricants and fuels, and manufactures and sells metal finishing chemicals. In 1978 and 1977, over 95% of the company's sales, income, and assets were attributable to its chemical additive operations.

The company's largest customers in 1978 and 1977, all major oil companies, were six groups of affiliated companies which in the aggregate accounted for approximately 36% of its 1978 sales and 38% of 1977 sales. The largest single group accounted for about 12% of sales in 1978 and 13% in 1977. No other single group accounted for more than 10% of sales in either year.

#### **Note 8 — Replacement Cost Data (Unaudited)**

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 the products. Consequently, the company believes that its earnings have not been materially affected by the increased costs arising from inflation.

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.

## **Opinion of Independent Auditors**

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

We have examined the consolidated balance sheets of The Lubrizol Corporation and its subsidiaries as of December 31, 1978 and 1977 and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with the 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, 1978 and 1977 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 consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1977, in the method of pricing certain inventories as described in Note 1 to the consolidated financial statements.

*Deloitte Haskins & Sells*

Cleveland, Ohio  
February 23, 1979

# Ten Year Summary

(Dollar Amounts in Thousands Except per Share Data)

	1978	1977	1976
<b>Summary of Operations</b>			
Revenues . . . . .	<b>\$595,257</b>	\$514,711	\$457,265
Cost and expenses:			
Cost of sales . . . . .	<b>404,473</b>	354,609	311,211
Selling, administrative and research expenses	<b>66,579</b>	56,745	50,233
Total . . . . .	<b>471,052</b>	411,354	361,444
Income from operations . . . . .	<b>124,205</b>	103,357	95,821
Other income (charges) . . . . .	<b>9,977</b>	(283)	(951)
Income before taxes on income and equity in earnings of affiliated companies . . . . .	<b>134,182</b>	103,074	94,870
Provision for taxes on income . . . . .	<b>59,083</b>	46,536	44,355
Income before equity in earnings of affiliated companies . . . . .	<b>75,099</b>	56,538	50,515
Equity in earnings of affiliated companies . . . . .	<b>2,266</b>	1,531	442
Net income . . . . .	<b>\$ 77,365</b>	\$ 58,069	\$ 50,957
Net income per share . . . . .	<b>\$3.95</b>	\$2.96	\$2.52
Dividends declared per share . . . . .	<b>1.40½</b>	1.25	1.05
Average shares outstanding, excluding Equity Purchase Plan shares (in thousands) . . . . .	<b>19,588</b>	19,599	20,245
<b>Consolidated Statement of Financial Position</b>			
Current assets . . . . .	<b>\$278,226</b>	\$229,668	\$224,992
Current liabilities . . . . .	<b>95,939</b>	70,597	65,913
Working capital . . . . .	<b>182,287</b>	159,071	159,079
Plant property — net . . . . .	<b>150,019</b>	121,369	113,455
Other assets . . . . .	<b>13,490</b>	9,430	5,558
Total . . . . .	<b>345,796</b>	289,870	278,092
Less:			
Non-current liabilities . . . . .	<b>6,100</b>	3,386	2,201
Deferred income and taxes . . . . .	<b>16,660</b>	14,701	14,258
Net assets — Shareholders' equity . . . . .	<b>\$323,036</b>	\$271,783	\$261,633
<b>Other Data</b>			
Capital expenditures . . . . .	<b>\$ 44,373</b>	\$ 22,982	\$ 19,420
Depreciation . . . . .	<b>15,256</b>	14,270	13,800
Number of employees at end of year . . . . .	<b>3,803</b>	3,627	3,557
Number of shareholders at end of year . . . . .	<b>8,502</b>	8,846	8,760
Common Shares outstanding (in thousands) . . . . .	<b>20,001</b>	19,886	20,467
Shareholders' equity per share at end of year . . . . .	<b>\$16.15</b>	\$13.67	\$12.78
Return on average shareholders' equity . . . . .	<b>26%</b>	22%	21%

**NOTES:**

- A. The number of shares and per share amounts have been adjusted to give retroactive effect to the 2 for 1 stock split in 1971.
- B. See Note 1 to the financial statements regarding the change to LIFO method of valuing inventories in 1977.



1975	1974	1973	1972	1971	1970	1969
<u>\$425,641</u>	<u>\$382,951</u>	<u>\$279,111</u>	<u>\$221,450</u>	<u>\$200,873</u>	<u>\$186,842</u>	<u>\$165,662</u>
300,385	252,895	181,302	146,086	132,031	121,089	107,591
47,117	41,842	36,673	31,550	29,535	26,053	24,369
<u>347,502</u>	<u>294,737</u>	<u>217,975</u>	<u>177,636</u>	<u>161,566</u>	<u>147,142</u>	<u>131,960</u>
78,139	88,214	61,136	43,814	39,307	39,700	33,702
3,234	3,894	3,051	1,039	1,235	403	(357)
81,373	92,108	64,187	44,853	40,542	40,103	33,345
35,855	42,959	29,479	20,008	18,321	19,173	16,321
45,518	49,149	34,708	24,845	22,221	20,930	17,024
1,374	1,309	2,030	1,398	1,179	920	835
<u>\$ 46,892</u>	<u>\$ 50,458</u>	<u>\$ 36,738</u>	<u>\$ 26,243</u>	<u>\$ 23,400</u>	<u>\$ 21,850</u>	<u>\$ 17,859</u>
\$2.31	\$2.49	\$1.81	\$1.30	\$1.16	\$1.09	\$ .89
1.00	.71 <sup>3</sup> / <sub>5</sub>	.53 <sup>1</sup> / <sub>5</sub>	.41 <sup>3</sup> / <sub>5</sub>	.37 <sup>1</sup> / <sub>2</sub>	.32 <sup>1</sup> / <sub>2</sub>	.28 <sup>3</sup> / <sub>4</sub>
20,302	20,289	20,315	20,168	20,154	20,108	19,963
\$192,931	\$190,734	\$138,401	\$ 97,353	\$ 77,885	\$ 72,046	\$ 60,892
63,873	79,943	48,897	31,779	27,647	28,483	23,670
129,058	110,791	89,504	65,574	50,238	43,563	37,222
107,072	89,997	77,769	74,793	73,041	66,681	60,303
5,379	11,178	8,378	6,493	5,423	4,709	3,947
<u>241,509</u>	<u>211,966</u>	<u>175,651</u>	<u>146,860</u>	<u>128,702</u>	<u>114,953</u>	<u>101,472</u>
10,698	8,522	5,808	4,711	3,674	3,000	5,400
<u>\$230,811</u>	<u>\$203,444</u>	<u>\$169,843</u>	<u>\$142,149</u>	<u>\$125,028</u>	<u>\$108,964</u>	<u>\$ 93,232</u>
\$ 22,214	\$ 22,640	\$ 12,744	\$ 11,255	\$ 14,517	\$ 14,007	\$ 13,173
11,599	10,172	9,622	8,935	8,100	7,317	6,151
3,588	3,479	3,286	3,037	3,037	2,906	2,799
8,440	8,027	7,944	7,972	7,815	6,995	6,752
20,363	20,294	20,314	20,158	20,161	20,147	20,080
\$11.33	\$10.03	\$8.36	\$7.05	\$6.20	\$5.41	\$4.64
22%	27%	24%	20%	20%	22%	21%

# Officers and Directors

## Directors

- M. Roger Clapp**  
Former Chairman of the Board
- L. E. Coleman**  
President and Chief Executive Officer
- Edward L. Hutton**  
President, Chief Executive Officer and a Director of Chemed Corporation, manufacturer of specialized industrial chemicals and health care products.
- W. M. LeSuer**  
Vice President - Research and Development
- T. W. Mastin**  
Chairman of the Board
- James N. Purse**  
Vice Chairman of the Board of The Hanna Mining Company, a mining, processing and transportation company
- Douglas W. Richardson**  
Vice Chairman of the Board
- Karl H. Rudolph**  
Chairman of the Board 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

## Officers

- T. W. Mastin**  
Chairman of the Board
- L. E. Coleman**  
President and Chief Executive Officer
- Douglas W. Richardson**  
Vice Chairman of the Board
- W. G. Bares**  
Vice 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
- Philip L. Krug**  
Vice President - Manufacturing
- W. M. LeSuer**  
Vice President - Research and Development
- John L. Palmer**  
Vice President - Corporate Technology
- J. R. Stitt**  
Vice President - Sales
- Robert K. Williams**  
Vice President
- Evelyn C. Slaughter**  
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 at the offices of The Lubrizol Corporation, 29400 Lakeland Blvd., Wickliffe, Ohio, at 10:00 a.m. on Monday, April 23, 1979.

## 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.

# The Lubrizol Corporation

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

## Manufacturing Plants

Cleveland, Ohio  
Painesville, Ohio  
Bayport, Texas  
Deer Park, Texas  
Port Arthur, Texas

Apodaca, Mexico  
Bombay, India  
Bromborough, England  
Durban, South Africa  
Huelva, Spain  
LeHavre, France  
Niagara Falls, Canada  
Rouen, France  
Sydney, Australia  
Taketojo, 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

LS & T, Inc. (Liberia)  
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. (Mexico)  
Lubrizol South Africa (Pty.) Limited  
Nippon Lubrizol Industries Corporation — (Japan)

## Affiliates

Aikoh Rohco Co., Ltd. —  
(Japan)  
Greenwich Oil Corporation  
Industria de  
Additivos do Brasil  
Industrias Lubrizol, S.A. de C.V.  
— (Mexico)  
Lubrizol India Limited

