THE LUBRIZOL CORPORATION · 1992 ANNUAL REPORT

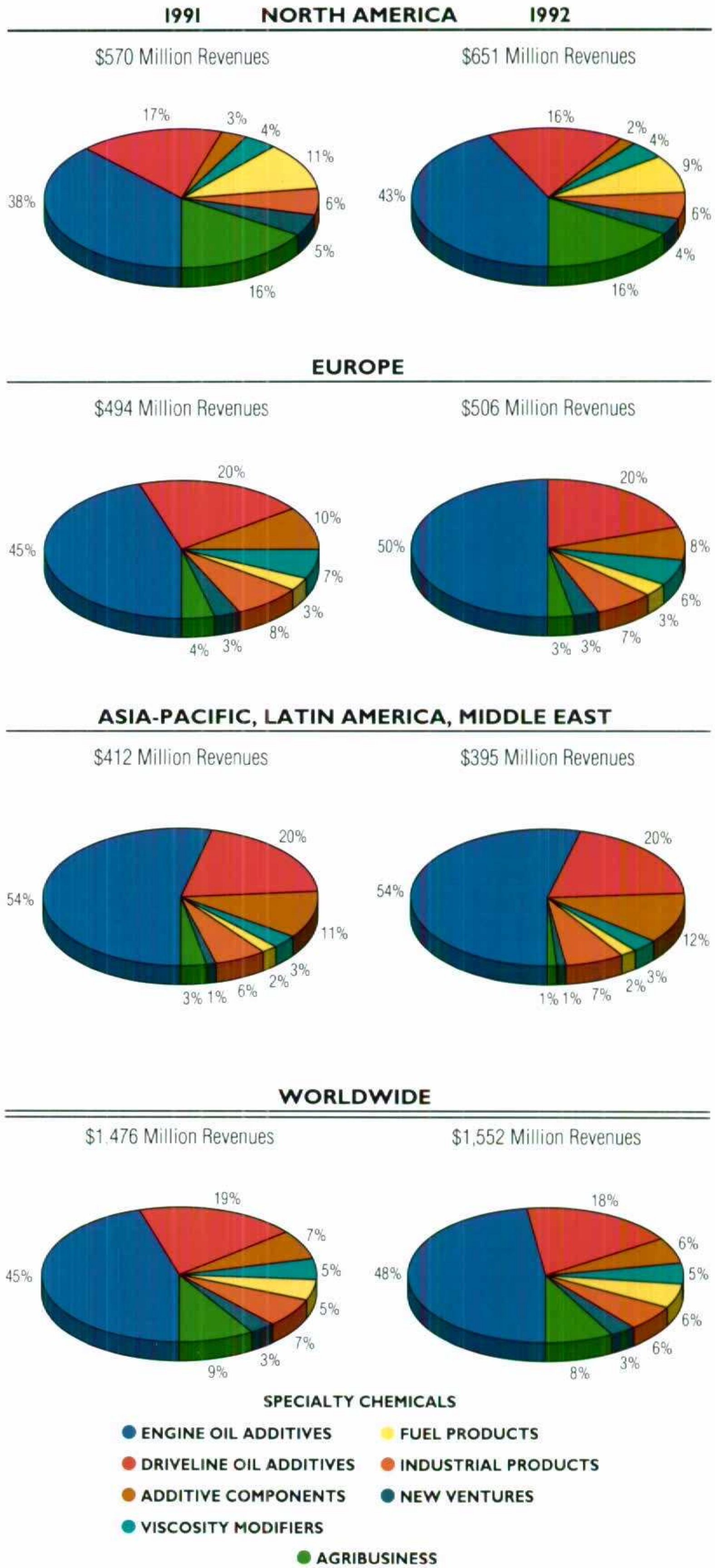
PERSPECTIVE ON PERFORMANCE...

The Lubrizol Corporation is a leading full service supplier of performance chemicals to diverse markets worldwide. These specialty chemical products are created through the application of advanced chemical, mechanical and biological technologies to enhance the performance and quality of the customer products in which they are used.

Founded in 1928 in Cleveland, Ohio, the company now operates plants, laboratories and offices staffed by more than 4,600 employees around the globe. Business operations are technology-based, market-oriented and focused on effectively meeting a broad range of customer needs and service requirements.

Lubrizol serves worldwide transportation and industrial markets through its Lubrizol Petroleum Chemicals Company and Lubrizol Performance Products Company. Petroleum Chemicals is the recognized leader in specialty additive systems for oils used in gasoline and diesel engines, automatic transmission fluids, gear oils, marine and tractor lubricants. Performance Products develops and markets specialty products for industrial fluids, fuel additives and process chemicals. In addition, this unit supports commercial development of evolving strategic business units within the Corporation.

In all aspects of its business, Lubrizol works with its customers to achieve their product performance goals in the most effective, timely and cost efficient manner.



PERSPECTIVE ON PERFORMANCE...

In the six decades of its business operations, Lubrizol has grown from a small supplier of specialty oil additives to a world leader in performance chemicals for both transportation and industrial markets. Today its facilities and staff serve every major geographic area around the globe.

Lubrizol's reputation and business development have been built on a solid foundation of superior performance...in technology, in product quality, manufacturing competence and outstanding customer service support. These factors are recognized by customers who have come to depend on Lubrizol to develop and supply the high value-added performance chemicals needed to meet ever more complex product functional requirements and regulatory mandates.

The narrative section of this report provides a perspective on the unique performance attributes which make Lubrizol a leader in its industry and provide the charter for its continuing success in an increasingly challenging marketplace.

FINANCIAL HIGHLIGHTS

(In Thousands of Dollars Except Per Share Data)	**1992**	1991	Increase (Decrease)
Revenues	**$1,552,248**	$1,476,306	5%
Net income	**124,646**	123,659	1%
Net income per share	**1.81**	1.79	1%
Dividends per share	**.81**	.77	5%
Capital investments	**98,216**	83,541	18%
Research, testing and development expenses	**154,762**	143,983	7%
Shareholders' equity	**819,362**	794,466	3%
Return on average shareholders' equity	**15%**	16%	(6)%

Common Share Price History

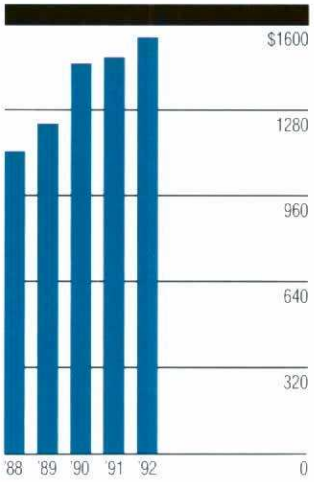
	1992		1991	
	High	Low	High	Low
1st quarter	$34	$27⅞	$28⅞	$22⅜
2nd quarter	34⅞	31	29¾	22
3rd quarter	34⅞	27⅜	23⅞	22¼
4th quarter	28¾	24⅝	28¼	22⅞

Dividends per Common Share

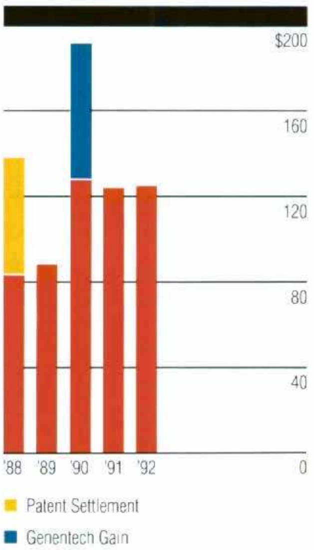
	1992	1991
1st quarter	$.20	$.19
2nd quarter	.20	.19
3rd quarter	.20	.19
4th quarter	.21	.20
Total	$.81	$.77

All share and per share data have been restated to reflect the 2-for-1 stock split effected on August 31, 1992.

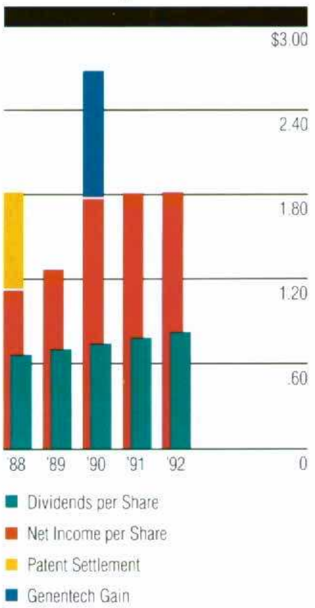
Revenues
(millions)



Net Income
(millions)



Net Income per Share/ Dividends per Share



TO OUR SHAREHOLDERS:

Lubrizol achieved record sales revenues and shipment levels in 1992. Despite this solid growth in sales, we are disappointed with our profit performance. Market share gains and record shipment volumes failed to produce significantly better full-year earnings compared with the previous year, and we experienced wide variations in our quarter-to-quarter results. Higher Agribusiness losses, weak international sales of specialty chemicals in the second half and higher operating expenses all contributed to the erosion of earnings as the year progressed. Yet, while these events were disappointing, we are not discouraged about the company's ability to overcome them and resume normal earnings growth.

Consolidated revenues for 1992 were $1.55 billion, 5 percent higher than 1991 and another record level. Consolidated net income was $124.6 million and income per share was $1.81. For the year, additive shipments increased 8 percent, also a record level. All of this volume growth occurred in North America, where shipments increased 21 percent for the year.

The first half was the best part of the year for Lubrizol. Market share gains in the United States, along with higher shipments to international customers, produced sharply higher revenues in both quarters compared with the previous year. Moderating raw material costs, plus higher manufacturing throughputs, helped to increase gross profits for Specialty Chemicals in the first half. Agribusiness, which is seasonal, also contributed to earnings in the period. These trends offset the effect of higher spending for research, testing and product development, which increased 10 percent for the full fiscal year.

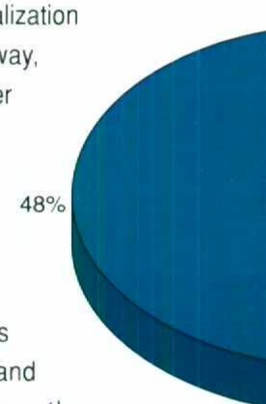
In the second half, recessionary and political factors in international markets caused our specialty chemical shipments to these customers to decline by 8 percent compared with the same period in 1991. For the full year, international shipments were level with the prior year. At the same time, operating expenses and raw material costs increased, particularly in the third quarter. The company implemented price increases during the fourth quarter to recover these higher costs for raw materials and technology. These price increases should affect revenues positively in the first quarter of 1993. Second half Agribusiness results were poor due to lower specialty oil and international seed sales, as well as costs associated with Lubrizol's new partnership with Mycogen.

The company declared a two-for-one stock split in the third quarter. Quarterly dividends were increased 5 percent during the fourth quarter to $.21 per share, yielding an annualized rate of $.84 per share. This is the ninth consecutive year in which dividends were raised. Dividends to shareholders in 1992 totaled $55.9 million.

During the year, the company repurchased 835,000 of its outstanding shares.

EVENTS IN 1992

Last year, we committed to making visible progress in our efforts to gain maximum value from our Agribusiness investment. We took an important step toward that objective in 1992. On December 1, we completed the restructuring of our Agribusiness segment through transactions involving transfer of a majority interest in Agrigenetics to Mycogen Corporation. Agrigenetics is now part of a partnership owned 49 percent by Lubrizol and 51 percent by Mycogen. Lubrizol received 2.29 million shares of Mycogen Common Stock and $39.4 million of a new series of Mycogen Convertible Redeemable Preferred Stock. Our strategy is to combine and enhance the proprietary biotechnology capabilities of both companies, which should lead to more effective commercialization of technological developments. In this way, we expect to obtain maximum shareholder value from our past investments.



Also last year, we reported on our efforts to acquire the business of Amoco's worldwide petroleum additives operation. Due to concerns of the Federal Trade Commission, discussions with Amoco were suspended in April, and their additive business was subsequently acquired by another company.

Litigation issues between Lubrizol and Exxon unfortunately continued in 1992. In December, the Federal Court of Appeals of Canada ruled for Lubrizol in its case against Exxon for infringement of Lubrizol's patent pertaining to dispersant. The appeals court upheld the judgement in Lubrizol's favor, which followed a two-month trial in 1990. Damages in this case will be determined later. Other cases related to the issues decided in Canada are pending in the United States and other countries.

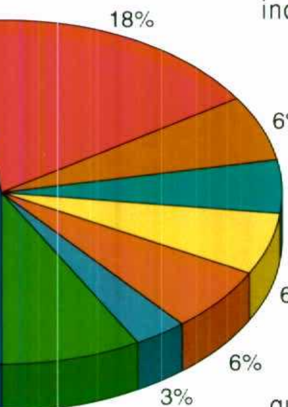
In a separate matter, also in December, Lubrizol was found by jury verdict in Houston to infringe an Exxon patent for an oil soluble copper additive component. While sales of Lubrizol products containing this component have been enjoined in the

United States, we have already converted our customers to alternate products which meet their requirements without the disputed component. We continue to believe that none of our products infringe the Exxon patent and that the patent itself is invalid. We will appeal this verdict.

In January of 1993, we completed the acquisition of Langer & Company of Ritterhude, Germany. Langer is a recognized worldwide manufacturer and supplier of performance chemical additives for the coatings industry. This acquisition will help Lubrizol to expand its existing coatings additives business into new product and geographic markets.

A PERSPECTIVE ON PERFORMANCE

This year's Annual Report narrative section presents a perspective on the company's performance, involving financial and other elements which characterize our business. These other elements include our customers, markets, technology and people. It describes the important partnering relationship which exists between Lubrizol and its customers at a time of oil and additive industry consolidation. Although product development and testing resources are being strained to keep pace with many new demands, this up-front commitment to customers has always been fundamental to our success. Our success clearly depends upon our ability to respond quickly to customers' needs for problem-solving chemistry.



WORLDWIDE 1992
$1,552 Million Revenues

SPECIALTY CHEMICALS
- ENGINE OIL ADDITIVES
- DRIVELINE OIL ADDITIVES
- ADDITIVE COMPONENTS
- VISCOSITY MODIFIERS
- FUEL PRODUCTS
- INDUSTRIAL PRODUCTS
- NEW VENTURES
- AGRIBUSINESS

The company's focus on individual market segments has historically enabled us to bring commercial and technical specialists together with our customers. Changes now occurring in each segment are giving Lubrizol new opportunities for growth: new industry standards for passenger car and diesel truck engine oils are being implemented in 1993 and 1994; lubricants for refrigerant compressors will be upgraded to be compatible with new coolants; new fuel additives and ceramic traps are being considered to help reduce particulate emissions from diesel trucks; environmental compatibility is an issue in all market segments; and innovative applications in several markets are creating new opportunities for Lubrizol AMPS® monomers. All of this activity is stimulating growth in capital spending, which in 1992 totaled $96 million for manufacturing, R&D and international technical support. Capital spending for 1993 is expected to reach $150 million.

OFFICERS AND DIRECTORS

At the Annual Meeting of Shareholders in April, William P. Madar was elected a Director for a three-year term. Mr. Madar is President and Chief Executive Officer of Nordson Corporation.

In April, Philip L. Krug retired as Executive Vice President after 38 years of service with the company. Roger Y. K. Hsu also retired as an officer of the company but will continue as an employee as Counselor to the Chairman.

Also in April, R. John Senz was elected Senior Vice President and Joseph W. Bauer was elected Vice President and General Counsel.

In December, John A. Studabaker retired as an officer of Lubrizol and has joined Mycogen Corporation as a part of the restructuring of our Agribusiness segment.

OUTLOOK

Prospects for the future of your company are positive. Our commitment remains to achieve our historic objectives of a 10 percent earnings growth and 20 percent return on equity. Despite our near-term challenges, we believe we are doing the right things to grow our business and build upon those elements which make up the proven formula for success. We continue to take a long-term perspective on our performance, while maintaining proper attention to current business results.

On behalf of the Board of Directors and all of our employees, thank you for your continuing support, investment and commitment to Lubrizol.

L.E. Coleman W.G. Bares

L.E. Coleman
Chairman of the Board

W.G. Bares
President

March 17, 1993

PERSPECTIVE ON PERFORMANCE...

L.E. COLEMAN

AS A LEADER IN ITS INDUSTRY, CAN LUBRIZOL SUSTAIN ITS POSITION IN THE MARKETPLACE?

Yes, there is a power of incumbency in our business. We are the industry leader, having gained market share steadily in recent years. Today, we also have fewer competitors, due to the cost and the growing complexity of both technology development and test requirements.

We expect our market share to continue to expand and to see the further development of other specialized market segments in which we are not as yet a major player. If we can fill some of the gaps we have identified in these other segments, we believe our market share could still grow.

WITH INCREASING COSTS OF TECHNOLOGY AND PRODUCT CERTIFICATION TESTING, HOW CAN YOU RECOVER YOUR HIGHER COSTS WITHOUT NEGATIVELY IMPACTING YOUR CUSTOMERS?

The key to it is partnership. We have formed effective partnerships with our customers, who rely on Lubrizol to develop and supply the performance additives they need for their own high quality products. Customers have supported the added expenses involved in developing superior products for the consumer. Our customers rely heavily on us. We must help them prosper so we can prosper.

As an example, motor oil prices in the past have been quite low for consumers. We believe anticipated increases in motor oil prices should be an acceptable exchange for a better performing, superior product.

DOES LUBRIZOL'S VISION OF ITS BUSINESS GO BEYOND THE SALE OF PERFORMANCE CHEMICALS FOR LUBRICANTS AND FUELS?

Yes, we are working in a number of areas where our specialty chemical technology can play an important role. One recent example is the development of synthetic refrigerant lubes. This opportunity started with trying to solve a problem for our customers. These lubricants will come to the market as finished products rather than specialty additives. This is a somewhat different approach to our business.

We use a systems approach with these new developments, where we examine all facets of the technical challenge. In the area of diesel fuels, for example, we are involved not only with fuel additives but with the equipment required to precisely meter these additives into the fuel. We also are working with new ceramic filter designs to remove particulates from the exhaust stream.

The key is to match these opportunities to our core competencies.

WHY HAVE TECHNICAL DEVELOPMENT COSTS INCREASED SO SHARPLY IN LUBRIZOL'S BUSINESS?

We think it is a change in the business fundamentals. Driven by both rapid design changes in the equipment markets and current and impending government requirements, product life cycles are being compressed.

Also, the testing of these new developments has become much more complex. This is probably one of the reasons our industry has been consolidating.

Customers are now shifting the whole testing, verification and approval procedure on new additives to their suppliers, rather than attempting to handle this challenging task for themselves. Their approach is to leave the job to the experts!

As a result, while our development and testing programs have seen a virtual doubling in costs over the past five years, our market share has grown.

IS THIS A SHORT-TERM SITUATION FOR THE INDUSTRY, DUE TO A PEAKING IN DESIGN AND REGULATORY CHANGES?

It is hard to predict. The tendency today is to say it will probably continue and represent a fundamental change in business requirements, which we expect to persist for the foreseeable future.

DO YOU EXPECT TO EXPAND LUBRIZOL'S GLOBAL NETWORK OF SERVICE AND CAPABILITIES?

Yes, we expect it to expand. Our principal philosophy is to bring our products and services closer to the customer, and our customers are worldwide.

We have the products customers need, so our thrust is to expand our technical sales and marketing presence. In this regard, we are putting added investment into our key international technical facilities in Hazelwood, England, and Atsugi, Japan.

On a global basis, we are seeing growing product interest from Pacific Rim nations such as China and Indonesia, and in Japan, we are now working directly with key manufacturers as well as traditional customers.

We are experiencing higher activity in Latin America, including Brazil, Mexico and Venezuela. We also have the challenges of Eastern Europe and the former Soviet Union.

HOW IS LUBRIZOL RESPONDING TO ENVIRONMENTAL CONCERNS AND THE GROWING LIST OF ENVIRONMENTAL REQUIREMENTS?

Every industry must address this subject, and it is a major consideration in every program we have at Lubrizol. Our posture is to be proactive on environmental matters in all phases of our operations.

We are strong supporters and participants in the industry's Responsible Care® program. This involves our technology, our facilities, products and people. It means addressing any problems or potential problems up-front and educating our personnel to think environmentally and act accordingly.

In terms of our facilities, it means more capital expenditures for new and upgraded facilities and keeping our processes efficient and reliable. It also involves our new product development work, where environmental considerations are a prime product formulation and performance criteria.

Over the past five years, many of our products have been reformulated to enhance their environmental compatibility in both manufacture and use.

IN VIEW OF ALL THE FACTORS WHICH ARE AFFECTING YOUR BUSINESS, WHAT ARE THE CHANGES YOU FORESEE IN THE COMPANY'S BALANCE SHEET?

We are going into a period of increased capital expenditures, resulting from the demands of technology and testing, environmental and health requirements, and stemming from the growth of our worldwide business.

Stated simply, when we look at our cash flow, our priorities are investment in core business first, followed by dividends and potential acquisitions. Finally, we like buying our own stock.

W.G. BARES

PERSPECTIVE ON PERFORMANCE...

L.E. COLEMAN

WHAT ABOUT LUBRIZOL'S INVESTMENTS IN GENENTECH AND YOUR PARTICIPATION WITH MYCOGEN?

We look at our Genentech shares as a source of cash, and the question is when is the appropriate time to take advantage of that source.

Our original Genentech investment has grown substantially in value, and we have already harvested $181 million in proceeds from our investment. Genentech has developed an important product stream, which should lead to profitable commercialization and earnings growth.

Mycogen is a longer term appreciation situation. They need to digest the partnership with Agrigenetics, after which they will have the potential of expanding the partnership.

DURING 1992, YOU TRANSFERRED 51 PERCENT OF YOUR AGRICULTURAL BUSINESS TO MYCOGEN. WHAT WAS THE RATIONALE BEHIND THIS MOVE?

Our goal was to achieve critical mass by combining our biotechnology assets with that of a capable partner, and thus move this research and product development along at a faster pace toward eventual commercialization. Mycogen was an excellent choice!

It is a "win/win" situation for both companies. The combined efforts promise to be more productive, and our investment value in Mycogen should grow. We just have to have some patience in getting that value established.

We still have the advantage of being able to continue our agenda of getting specialty chemicals from oilseeds.

In the area of vegetable oils for food applications, we are seeking an established food products partner this year to assist in the commercialization of these high quality products in both the food industry and consumer channels.

DO YOU PLAN TO CONTINUE GENENTECH TYPE VENTURE INVESTMENTS IN THE FUTURE?

Probably not, although we may work with smaller companies to further their technology in fields related to our own efforts.

Although, in general, venture capital projects have not proven highly successful — Genentech, ChemDesign and Mycogen being exceptions — we might choose at some point to fill a gap in one of our product lines through investment.

WHAT ABOUT ACQUISITIONS?

We are interested in and serious about acquisitions which would serve to fill out or expand our product lines. The key, of course, is finding the right candidates. We made a bold move this year in our effort to acquire Amoco Chemical's additive business. Unfortunately, we were unsuccessful.

Certainly, we will continue to seek focused acquisitions, consistent with our vision and mission. This is an ongoing activity for us.

SINCE HIGHER RESEARCH AND DEVELOPMENT COSTS NOW SEEM TO BE AN ESSENTIAL FACTOR IN LUBRIZOL'S BUSINESS, WHAT ARE YOU DOING TO MANAGE YOUR OVERALL EXPENSES?

In this regard, we believe attitudes are very important.

Everyone in the organization must be mindful of basic costs and make sure that we are utilizing our assets in the best way possible. We have an efficient organization but are looking for ways to improve it.

Today, we are adding staff very carefully and redeploying people within the organization to those areas of greatest activity and future promise. We also are taking a hard look at our medical costs to try to obtain the coverage needed at the best possible price.

And, yes, we are also closely monitoring our technical programs to make sure the increased dollars we are spending are being spent effectively for both Lubrizol and our customers. These programs are a conscious commitment to the future, and we are doing the spending with our eyes wide open.

WILL YOU PUT A PRIORITY ON INCREASING YOUR NEAR-TERM FINANCIAL PERFORMANCE?

Obviously, we have been disappointed in the flat earnings over the last several years. Yet during that time, Lubrizol has strengthened its position in the marketplace, and our financial performance has not been that bad considering the worldwide recession. We need to add more productivity to improve our bottom line, and we are working hard to do just that, especially in the areas of product development and manufacturing.

One thing certain, we will not sacrifice our long-term viability for the sake of short-term financial results.

HAS YOUR QUALITY MANAGEMENT PROGRAM PAID OFF AS YOU EXPECTED?

It has been vitally important in improving our manufacturing processes and our new product development work. It also has enabled us to gain maximum productivity from our facilities, as well as helped reduce our production costs. And this has been achieved without increasing the size of our organization.

We recently completed an outside survey of our customers. This survey indicated that we are doing very well on product quality, performance and technical service. The survey also showed us areas of our operations in need of further improvement, and we are reacting to those comments as rapidly as possible.

SO YOUR CUSTOMERS ARE AWARE OF YOUR QUALITY MANAGEMENT EFFORT?

Definitely! Through our customer surveys and audits, we are obtaining direct feedback and very candid two-way communication.

Surely, one of the highlights from this dialog is the high regard customers have for the quality of Lubrizol people.

We also have become a leader worldwide in ISO 9000 series approvals for our major plants, both in the United States and overseas. Actually, ISO 9000 is only a part of Lubrizol's global QM program. Quality is an integral part of our job, everyday!

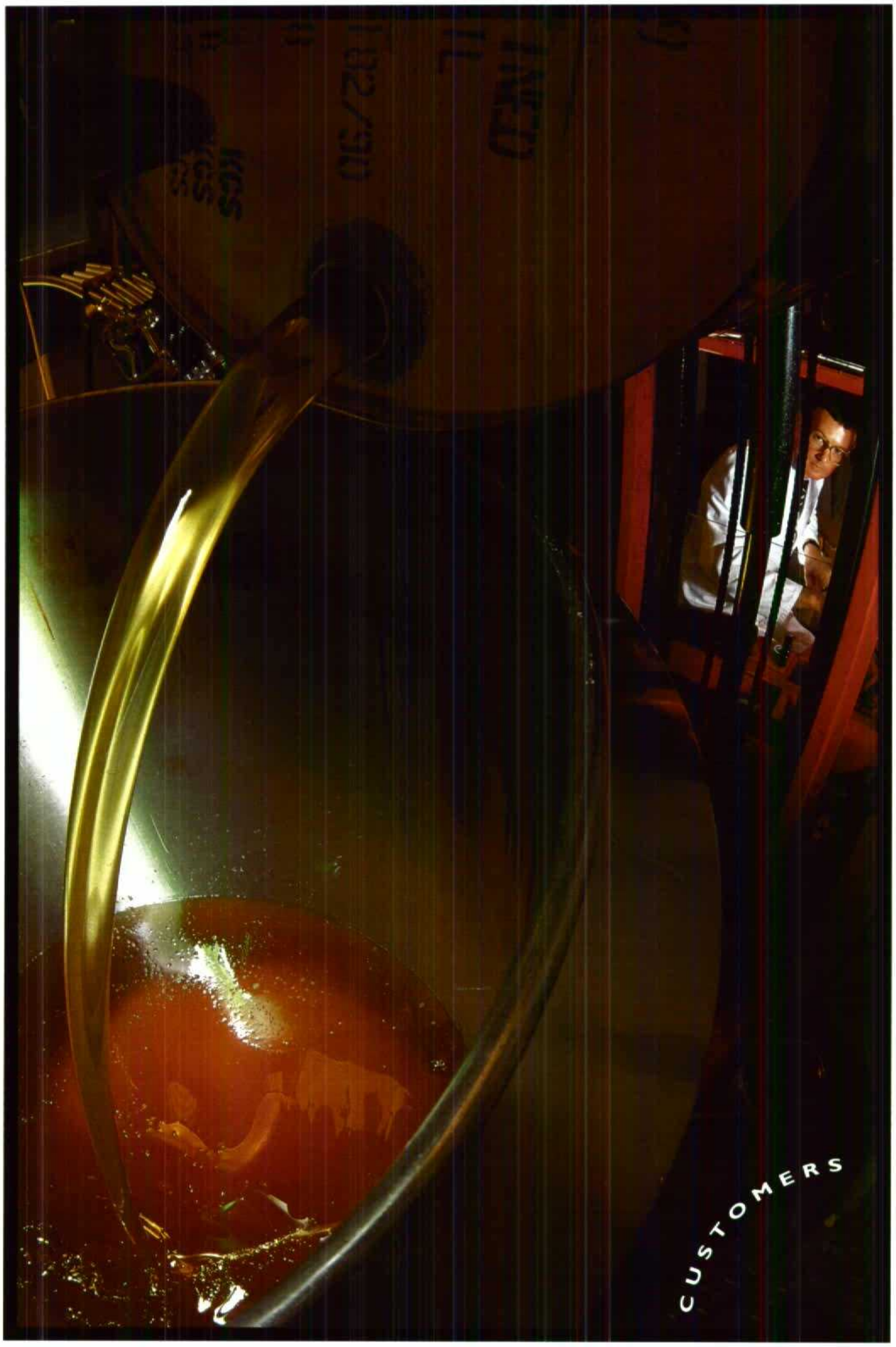
AS WE NEAR THE END OF THIS CENTURY AND LOOK AHEAD TO THE NEXT, WHAT IS YOUR VISION FOR THE COMPANY INTO THE FUTURE?

We believe we are much more focused today than we were even five years ago. Our corporate vision has narrowed, and we expect to be much more selective in our future product and market development work.

As we move into the future, there will be great opportunities to develop new core competencies within our performance chemicals field. The growing need for new environmentally friendly products also will foster growth.

We are recognized as the technology leader in our product markets. This strong posture will continue to be the basis for our profitable growth in lubricant, fuel and industrial fluid additives, as well as other specialty chemicals.

W.G. BARES



CUSTOMERS

PERSPECTIVE ON PERFORMANCE...

Lubrizol's performance chemicals are used principally by customers in the lubricant, fuel and industrial markets and in all geographic areas of the world. Customers include petroleum producers and refiners, independent compounders and blenders, industrial lubricant producers, specialty fluid compounders, paint and coatings suppliers, equipment builders and process chemical producers. The company also supplies the food processing industry with high purity and stability specialty vegetable oils.

Today's increasing demands for higher performance, greater energy efficiency and reduced emissions mandate the use of high amounts of quality performance additives in lubricants, fuels and functional fluids. New engine and equipment developments require superior fluids, and new government regulations are affecting lubricant, fuel and fluids technology as never before. Lubrizol works in partnership with equipment manufacturers and lubricant and fuel suppliers to achieve these challenging performance requirements.

ENHANCING CUSTOMER PRODUCTS

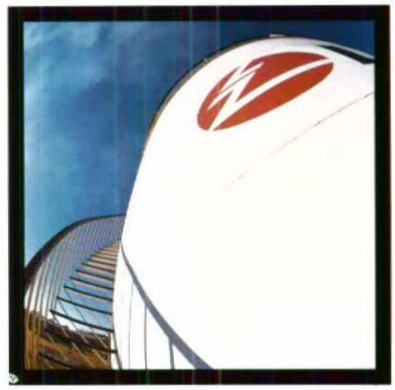
The company's performance chemicals are used to activate and enhance the effectiveness of our customers' own products and to improve their value. Over the years, the requirements have become more demanding. In the beginning, customers needed help with lubricity, wear reduction and basic deposit control. Now they require performance chemicals which help to control emissions, increase fuel economy, improve environmental compatibility and augment the capabilities of new types of functional fluids.

While the worldwide market for lubricants grows at a rate of 1 to 2 percent per year, Lubrizol's volume growth for additive products has averaged 4 to 5 percent per year. Part of this growth is accounted for by the increasing amounts, or treatment levels, of additives blended into particular lubricants. The improved lubricant performance required by customers is achieved by increasing both the quantity and quality of Lubrizol's chemistry.

Customers are depending increasingly on Lubrizol to develop, test, certify and deliver the exact additives they need for their products. Downsizing in the petroleum industry has caused many customers to reevaluate the need for their own product development and testing capabilities. Coupled with the higher cost and complexity of the latest technologies, this trend is causing customers to leave much of the task in the hands of additive producers.

WORLDWIDE MARKET LEADERSHIP

Lubrizol's leadership in performance chemistry, formulation science, manufacturing, distribution, customer service and marketing support make it the logical choice to provide these services. Also, because many customers are multinational, they want a supplier, such as Lubrizol, with both technical and production facilities in key global markets. The company's business is



divided among North America, Europe, Asia-Pacific, Latin America and the Middle East. Lubrizol has technical centers in Wickliffe, Ohio; Hazelwood, England; and Atsugi, Japan. It operates a network of 20 manufacturing plants and more than 50 sales and technical service offices in over 100 countries on five continents.

RAW MATERIALS FOR CUSTOMER FORMULATIONS ARE STORED (ABOVE, LEFT) AT LUBRIZOL FACILITIES WORLDWIDE. • PERFORMANCE ADDITIVE PACKAGES ARE CUSTOM BLENDED (CENTER) TO CUSTOMER REQUIREMENTS. • LUBRIZOL PRODUCTS ARE SHIPPED WORLDWIDE BY CHEMICAL PARCEL TANKERS.

Lubrizol's experience with international customers for over fifty years has given it a unique perspective and advantage in providing problem-solving chemistry. Today, nearly two thirds of revenues result from sales outside of the United States and 50 percent of revenues occur in currencies other than the U.S. dollar. While this international exposure can at times be somewhat variable in regard to fluctuating foreign currencies, it is a defining characteristic of the company.

During 1992, more customers worldwide initiated joint development projects with Lubrizol than ever before. This is a clear indication of their confidence in Lubrizol, at a time when customers typically are reducing the number of key suppliers they use. They demand top quality and performance and understand that Lubrizol additives represent higher value-added. Customers generally are willing to pay based on the best perceived value.

SEEKING CUSTOMER FEEDBACK

It is essential that the company continue to focus sharply on its customer base — understanding customer expectations and responding quickly and effectively to their needs. As part of its efforts to remain close to customers, Lubrizol conducted an extensive customer survey during 1992 in the United States and Europe. All areas of product, technology and service were reviewed. Results indicate that the company continues as the leader in the industry, but there remains room for improvement.

With customers facing greater challenges in their businesses, they expect Lubrizol to keep pace with this change. The company must respond effectively to customers' needs and not become complacent about its leadership role. As a full service supplier, Lubrizol strives to meet customers' requirements in all aspects of additive technology, product quality, manufacturing efficiency, delivery reliability and follow-up service support. The company's prod-

CUSTOMERS PERSPECTIVE ON PERFORMANCE...

ucts are valued for what they do, rather than what they are. Service is valued for its responsiveness and effectiveness.

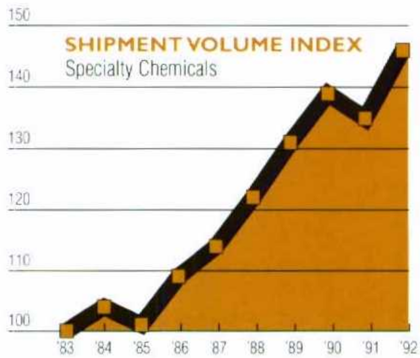
Customers also have indicated a need for greater product uniformity, and continuing improvements in manufacturing systems are being made to meet this requirement. Last year, for our top ten blended additives, variation was cut in half for 40 percent of the products sold.

QUALITY MANAGEMENT PRACTICES

The company continues efforts begun nearly eight years ago to apply quality management practices throughout its manufacturing facilities. Manufacturing plants in Texas, Ohio, England, France, Singapore and South Africa are all now certified as meeting the ISO 9002 quality standard. In addition, the Hazelwood technical center achieved ISO 9001 certification. This is all part of the company's worldwide effort to remain the leader in product quality.

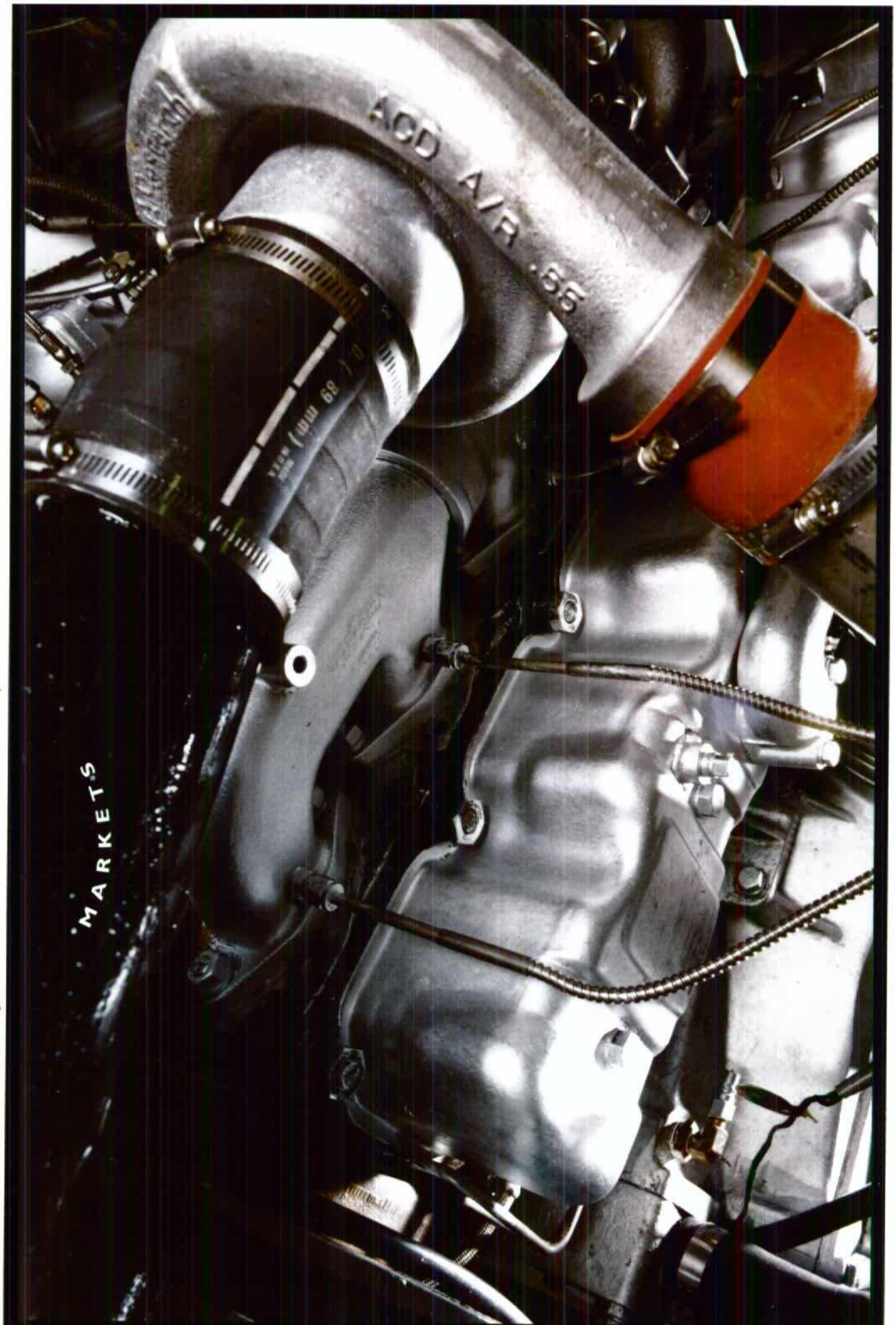
Lubrizol also introduced a new system to improve the timeliness and effectiveness of response to customer problems and inquiries. This system focuses on managing the two-way communication process between Lubrizol and its customers and provides minute-by-minute tracking of problems and solutions. It gives a permanent record of a specific need and response, along with the ability to retrieve data for further analysis.

Finally, the company's full service approach extends to marketing support to help customers obtain high value from their products. Lubrizol is frequently asked by its customers to provide market plans, product promotion and advertising concepts to supplement their own in-house or agency capabilities. This is another form of value-added, customer-oriented performance which distinguishes Lubrizol from its competition.



Shortly after the company was founded in 1928, it developed a six-point business philosophy which included a statement that the customer would always be right in insisting on the highest levels of product quality and service. This attitude has remained ingrained in the culture of Lubrizol for 65 years. The challenges and technologies have changed, but the strong focus and commitment to customers has not. Lubrizol has remained successful by helping customers solve their problems and by responding rapidly to their needs.

PERSPECTIVE ON PERFORMANCE...



Lubrizol serves worldwide transportation and industrial markets for performance chemicals through its Lubrizol Petroleum Chemicals Company and Lubrizol Performance Products Company.

Petroleum Chemicals achieved unprecedented gains in market share in 1992, particularly in North America. Investment in product development and testing programs conducted in 1991 enabled us to meet customer needs. A large amount of new product was sold into the passenger car engine oil and heavy-duty diesel engine oil segments. Both segments, however, are facing new industry upgrades, and we are dedicating appropriate resources to consolidate our recent market share gains.

NEW TESTING PROTOCOL

In March 1992, a new product testing protocol was implemented in the United States. This will be the basis for a new API "SH" category for passenger car engine oils in 1993. It becomes effective in July 1993 and should be fully in place by January 1994. The effect of this new standard will be to improve wear, oxidation and deposit performance in passenger car engines. The testing complexity required by this new standard is causing the additive industry to significantly increase the technology investment needed to achieve the higher levels of performance.

Lubrizol has developed a unique detergent system which will be used to formulate the robust additive packages required for API "SH". This detergent provides superior engine cleanliness in all of the test regimes required by the new standard. Lubrizol is adding capacity to manufacture this product in both Ohio and Texas in 1993.

DIESEL ENGINE OILS

Likewise, heavy-duty diesel engine oils are expected to be upgraded to a new performance level in 1994. The allowable exhaust particulate emission level from diesel engines is being reduced, and oils will be required to handle this additional soot loading in the engine. Diesel engine designs also are being changed and fuel sulfur levels reduced. This is likely to influence the composition of new diesel engine oil additive packages.

During the past several years, Lubrizol has made solid gains in the heavy-duty diesel engine oil market with superior additive technology. The company offers flexible additive packages, using a core package with various boosters to allow customers to produce oils with higher levels of performance for specific needs. This system has been particularly successful in Europe, where Lubrizol has been able to increase market share. Plans are progressing to add production capacity for another key diesel engine oil detergent in France in 1993.

With the complex changes and upgrades for engine oils which are occurring more frequently, costs are increasing for development and testing to meet the higher performance standards. As a result, product prices will need to be increased in the marketplace. This is a fundamental challenge facing the additive industry over the next several years.

LUBRICANT AND FUEL PERFORMANCE ADDITIVES ARE USED (TOP) THROUGHOUT THE TRANSPORTATION INDUSTRY. • LUBRIZOL IS A LEADING DEVELOPER OF PERFORMANCE ADDITIVES FOR FUELS AND LUBRICANTS USED IN HEAVY-DUTY EQUIPMENT (CENTER). • ADDITIVES FOR CUTTING OILS ARE BUT ONE OF THE SEGMENTS SERVED IN THE INDUSTRIAL LUBRICATION MARKET.

TRANSMISSION AND GEAR OILS

Lubrizol continues as the market leader in performance chemicals for driveline applications, such as automatic transmission fluids and automotive gear oils. As with engine oils, product life cycles are becoming shorter and technical complexity is increasing. The company has been successful in maintaining a strong technical partnership with original equipment manufacturers who establish the specifications for these types of fluids. A new sulfur intermediate additive unit was brought on stream in France in 1991, and this product has been approved by all of the major OEM's for use in automotive gear oils. This additive has helped to reduce product variability and is manufactured using a new process which minimizes both by-product waste and disposal.

REVALIDATING MARKET POTENTIAL

PERSPECTIVE ON PERFORMANCE... MARKETS

Lubrizol Performance Products Company has an objective to select, nurture and regularly revalidate performance chemical markets in which Lubrizol has the potential to become a leader. These markets also must be consistent with the long-term financial goals of the Corporation. In 1992, several old and new opportunities were measured against these objectives. Accordingly, the company has ended efforts to expand further into the mining chemicals market and is in the process of redistributing its mining chemicals staff and resources. The RDI laboratory in Colorado will be sold. The mining chemicals market proved too diverse and fragmented to enable the achievement of long-term financial objectives. Similarly, marketing efforts for automotive rustproofing were ended, and the staff was reassigned to new opportunities.

NEW REFRIGERANT LUBES

In 1992, Lubrizol introduced its new series of LubriKuhl™ products for use in refrigerant compressors. The change from CFC's to HFC's in these compressors has created a lubrication problem for the compressor industry. The naphthenic oils previously used for lubrication with CFC's are not soluble in HFC's. This type of problem is particularly well suited to Lubrizol's performance chemical capabilities and cross-discipline project team approach. To solve the problem, Lubrizol developed a new lubricant formulated with synthetic ester and additives. This new line of finished lubricants

will be commercial in 1993 and will be sold to OEM's, as well as to previous customers for naphthenic oils. The company believes it now has a leading technology available for this specialized market need.

DIESEL EXHAUST IMPROVEMENT

A similar project effort has been focused on development of a complete system for diesel exhaust after-treatment in urban bus applications. This market is expected to develop during the mid-1990s. Lubrizol's approach will be to provide a complete system, including the particulate trap, fuel additive and GatePak® additive blending system, along with the service support required by operating customers. This system approach is another example of responding to a problem with unique technology.

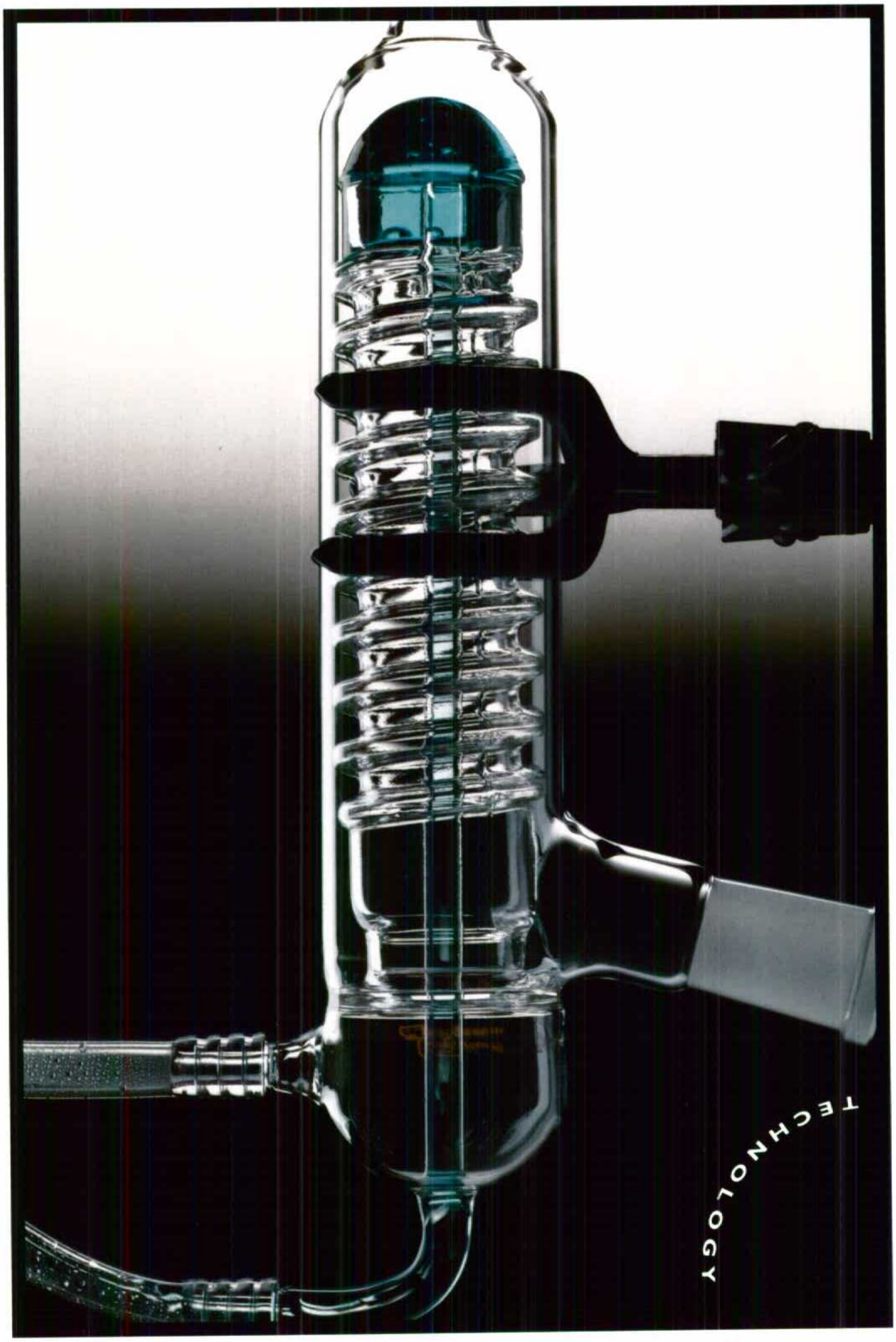
At the end of 1992, Lubrizol announced that it had acquired Langer & Company of Ritterhude, Germany. This acquisition complements the strategy to develop a leading position in the area of performance additives for the coatings industry. Langer's line of micronized waxes and other important products will be combined with Lubrizol's rheology control additives, adhesion promoters and dispersants. This is a service based, environmentally driven business where the technology is working to reduce solvents and increase solids in coatings formulations. This acquisition will also help Lubrizol obtain a regional infrastructure to better serve the important European coatings market.

AMPS® BUSINESS GROWING

Lubrizol has been producing AMPS monomer in Bayport, Texas, for over ten years. This product has various market applications as a dye receptor in acrylic fiber, in water treatment and in oil recovery. Over the past several years, the company has successfully intensified efforts to define new markets for this versatile monomer. In 1992, Lubrizol completely sold out its plant capacity for AMPS. A project has been approved to double the plant size in Bayport by 1994. Future plant expansion outside the United States also may be needed in the next several years.

The company has continued to grow its market for fuel and industrial additives, particularly outside the United States. Lubrizol's commercial organization is in place in Europe and is now looking to expand in the Far East and South America. The company is the leader in hydraulic oil and gear oil additives, as well as a major participant in metalworking additives. Alternate fuels, new oxygenates for octane enhancement and water-based technology are all growing opportunities for Lubrizol's performance chemical technology.

With its global manufacturing base and state-of-the-art processing sysems, Lubrizol can supply whatever product is needed in any quantity, anywhere in the world.



PERSPECTIVE ON PERFORMANCE...

Lubrizol is regarded worldwide as possessing the most extensive technical base in the industry.

The company has over 60 years of "hands-on" experience in formulating and producing high quality performance additives. Its skilled scientists and technical staff address both industry and individual product requirements in laboratories located near customers in key geographic areas.

The thrust of Lubrizol's technical programs is to respond effectively to customers' essential needs. Today, this effort has become much more complex. Customers' needs are being influenced by the demands of equipment builders, by Japanese and European performance requirements, the growing impact of quality management and statistical methods, and by increasing government environmental regulation. Currently, there are even diverse opinions in the marketplace on just what constitutes performance. The challenge is a global one, and we are committed to help our customers face the increasing pressure for global product technology and product availability.

TECHNOLOGY INVESTMENT GROWING

Customers are now relying primarily on suppliers, such as Lubrizol, to test and certify the effectiveness of new performance additive products. At the same time, customers are downsizing their own technical resources, thus putting more pressure on their suppliers for increased services. Because expensive new test procedures and programs are being required, Lubrizol's total dollar investment in technology is growing significantly. For Specialty Chemicals in 1992, Lubrizol spent $76 million for R&D and $64 million for product testing.

New documentation of test programs is being mandated by the industry. Customers are becoming aware of how much additional effort is going into the product to achieve proof of performance. While there is also a need for better test precision, the number of tests required to demonstrate performance has not decreased. Further, the development cycle times between specification changes are being shortened. Lubrizol and its industry are challenged to keep pace with these rapid specification changes in a cost-effective way.

The technology of the industry likewise is being affected by various forces for change, including emission controls, fuel economy, alternate fuels, recycling, biodegradability, environmental compatibility, waste oil management and various legislative initiatives. To respond, Lubrizol's technology investment has grown swiftly, now approaching that of the pharmaceutical industry. Lubrizol is in a unique position to make this required investment.

NEW CHEMISTRY EMERGING

This large investment is paying off in the creation of strong new chemistry and additive products which are emerging to meet both short-term and long-range customer and industry needs.

PERSPECTIVE ON PERFORMANCE... TECHNOLOGY

Besides being prepared to meet the 1993 API "SH" requirement and the 1994 diesel emission requirement, the company is developing other new performance chemical "solutions" for a variety of customer applications. For example, Lubrizol has developed a unique package of additives and synthetic fluids for refrigerant compressor lubrication. It is developing electrorheological fluids for use in shock absorbers and other hydraulic damping applications. New developments also include ceramic additive packages and special additives which improve the effectiveness of diesel particulate traps.

Alternate fuel additive capabilities also are strong, and the company is applying its problem-solving abilities to new engine designs now being tested in its laboratories, including new two-cycle engines. Specialized engine test equipment was installed in the company's own facilities to enable researchers to evaluate performance through the eyes of the customer.

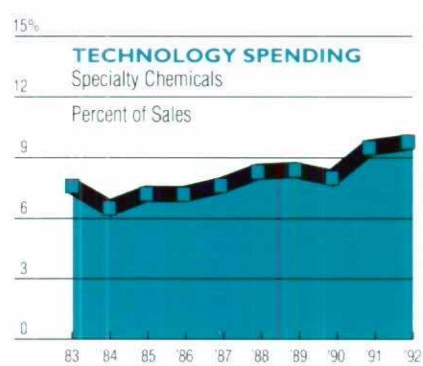
IMPORTANT CORE COMPETENCIES

Today, Lubrizol has no gaps in expertise in its core competencies. These competencies include components, new materials, analytical chemistry, physical chemistry, tribology, performance testing, statistical science, formulation technology, process engineering and information sciences.

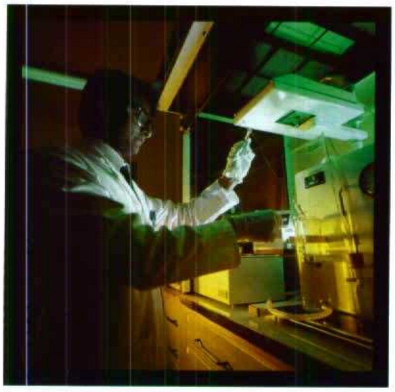
Component technology includes dispersants, detergents, oxidation/antiwear inhibitors, extreme pressure agents, polymeric materials, friction modifiers, corrosion inhibitors and surfactants, synthetic lubes and fuel additives.

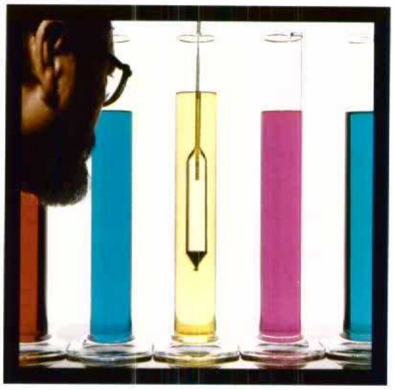
New materials include polymer systems, vegetable oils, ceramics, environmentally compatible materials, catalysts, electrorheological materials, gels and re-refined base stocks.

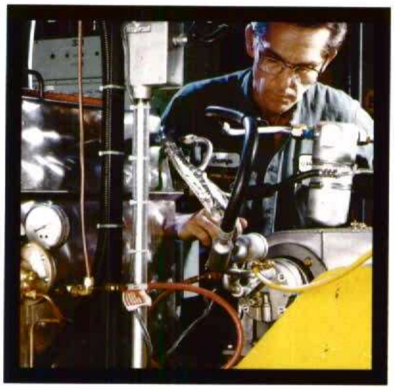
Tribology is the study of wear protection and friction control, failure analysis, surface analysis and material science. Performance testing does simulations, test apparatus design, data acquisition and application testing. The company's statistical science includes data analysis, predictive modeling, consulting, computing skills and experimental design. In addition, Lubrizol conducts industry training for customers, suppliers and OEM's.



The first measure of technology effectiveness is whether it satisfies the customer's needs. Next, the company evaluates the underlying cost structure of the solutions offered to customers. Other factors







RESEARCH AND DEVELOPMENT ACTIVITIES (FAR LEFT) ARE VITAL TO LUBRIZOL'S CONTINUED LEADERSHIP IN THE ADDITIVE INDUSTRY.
• QUALITY PROCESSES (CENTER) USED THROUGHOUT ITS FACILITIES REAFFIRM LUBRIZOL'S COMMITMENT TO QUALITY PRODUCTS.
• AN EXAMPLE OF NEW PRODUCT DEVELOPMENT IS THIS NEW TESTING PROCEDURE FOR SYNTHETIC REFRIGERANTS.

include market share, ideas and patents, and possible entry into new businesses.

RESEARCH & DEVELOPMENT OBJECTIVES

R&D objectives for 1993 are to reduce the time and cost to provide products and technical information to customers; to establish a balanced R&D portfolio consistent with the corporate vision and objectives; to continue quality management efforts within R&D; and to provide state-of-the-art R&D facilities for Lubrizol technical people.

Today's challenges in technology are formidable. Lubrizol is addressing these challenges through the use of its critical mass, worldwide capabilities and core competencies. It is making major investments in facilities and MIS tools to improve technical productivity. While costs are up, so is productivity and efficiency. Further, the company continues to investigate processes to shorten the time cycle for new product development and technical services to worldwide customers.

A CUSTOMER-ORIENTED ORGANIZATION

At Lubrizol, the entire organization is committed to technology and driven by a focus on customer needs. The company fosters new ideas from employees to encourage enthusiasm for solving problem situations. It uses a cross-functional organization for problem solving. Project leaders manage over 200 self-directed projects at any given time, with program leaders providing support for staff professional development. Freedom of expression is encouraged and rewarded.

The company enjoys a strong and growing patent portfolio covering its proprietary developments. The flow of new patent applications is another measure of the success and effectiveness of Lubrizol's R&D programs.

Lubrizol is dedicated to satisfying its customers in a business sense, as well as in a technical sense. It insists that new product developments be cost-effective for customers and is continually striving to shorten the development time frame. And finally, effective customer service is paramount in every technical effort and product application in which the company is involved.

PERSPECTIVE ON PERFORMANCE... PEOPLE

At Lubrizol, skilled personnel, plus advanced chemical science, combine to produce leading edge technology for customers.

The importance of the human factor cannot be over emphasized. Knowledge, innovation, experience and enthusiasm for problem solving all derive from people and their individual and collective efforts. No matter what the job, no matter what the level of responsibility, Lubrizol employees consistently demonstrate the superior performance which keeps the company the leader in its industry.

Lubrizol has prided itself on its ability to create the kind of working environment which encourages creativity, continuous improvement and employee trust. All employees in the United States, no matter what their job level, are salaried. Even with this all-salaried concept, the absentee rate is well below industry averages.

PEOPLE AS INDIVIDUALS

In the United States, the company functions in a non-union environment at all of its locations. Management works hard to foster the ideals of fairness. Employees are treated as individuals, each with unique challenges and opportunities for growth.

At Lubrizol facilities, there are very few work rules to preempt the good judgement of the employee. On the contrary, there is a certain high level of expectation with regard to performance, which results in people being willing to do what is necessary to complete their assignments successfully and in a timely fashion.

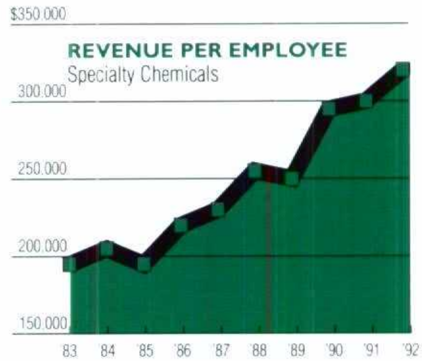
The company also encourages a balance among an employee's work, family and community activities. Families participate in many company-related events. Employees also are actively involved in various civic, political, health and human service voluntary efforts within their communities. Lubrizol supports these important activities and contributes financially to community initiatives in the vicinity of its facilities around the world.

DIVERSIFIED ORGANIZATION

Lubrizol's worldwide organization is culturally diversified. It brings together the backgrounds and customs of many different nations and their individual business and economic climates. This facilitates the company's overall international operations and enables it to function in individual geographic areas as a local or regional business.

Because of the importance of gaining international experience, the company often interchanges its people overseas and also between its various divisions to provide them with a better understanding of the many aspects of Lubrizol's business. Language training is provided in preparation for overseas assignments.

In addition, there is a growing awareness and respect for the diversity of Lubrizol employees. Workforce 2000 studies indicate the need to continue to develop the skills of managers as the company approaches the twenty-first century. Lubrizol fully understands that it makes good business sense to be well prepared for the workforce issues of the future.



EMPLOYEE DEVELOPMENT

The company values the career development of its people. In addition to training within the organization, Lubrizol encourages its employees to pursue continuing academic programs, including the earning of advanced degrees, particularly in the sciences and business management. This benefits both the person and the company.

Clearly, Lubrizol is moving beyond the quality management training phase into the implementation phase. The emphasis on external customer needs will take the company's quality management efforts to a new level of achievement. The need for continual training in the concepts of quality management is an ongoing endeavor which will never end.

ROLE OF COMMUNICATION

Another vital link between management and employees is effective communication, and Lubrizol uses several different ways to accomplish this. It continually monitors and improves both the content and methods used to keep people informed. More and more, employees desire face-to-face communications, coming primarily from their immediate supervisor. Management routinely makes themselves available and encourages employees to use the "open door" policy. In addition, senior management participates regularly in informal gatherings with Lubrizol people. Questions are welcomed and answers given.

EMPLOYEES ARE IMPORTANT

Lubrizol has been fortunate to be able to provide a measure of job stability, with no significant layoffs in the history of the company. In hard times and when necessary, other means of controlling personnel costs have been implemented. Though never guaranteed, this security continues today even at a time when similar philosophies are being challenged throughout the industrial world. Excluding retirements, the company's employee turnover averages less than 2 percent per year worldwide. Today, over 25 percent of the worldwide work force has 20 or more years of service.

Although Lubrizol's specialty chemical revenues have nearly doubled over the past ten years worldwide, employment has remained

PERSPECTIVE ON PERFORMANCE... PEOPLE

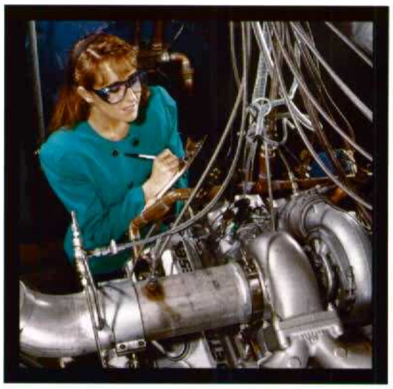
relatively constant. Employee productivity has significantly increased, due to their own efforts and the growing utilization of innovative technology. Employment levels are constantly monitored, however, to ensure that all facilities are adequately staffed.

The company is competitive in the important areas of compensation and employee benefits. This is necessary for the maintenance and improvement of a work force that continually delivers high quality performance. For example, a portion of United States employees' direct compensation comes in the form of what is called quarterly pay. Once each quarter, Lubrizol employees receive an additional amount of pay, based on a formula which increases slightly with each additional year of service to the company. This amount is in addition to regular pay, which has been judged to be very competitive through careful market studies.

Indirect compensation programs also are reviewed on an ongoing basis. For example, the company initiated a family leave plan long before it was mandated through federal legislation. Better managed health care systems will also continue to provide top quality medical care for employees, while at the same time decreasing the rate of cost increases Lubrizol pays for health care.

Lubrizol people have a high degree of pride and respect for their company and are contributors to the company's positive image in the communities where they live.

NEARLY TWO THIRDS OF LUBRIZOL'S EMPLOYEES ARE INVOLVED IN RESEARCH AND DEVELOPMENT (TOP) OR OTHER TECHNICAL ACTIVITIES. • ENGINE TESTS (CENTER) ARE RUN 24 HOURS A DAY, SEVEN DAYS A WEEK. • MONITORING FIELD TESTS IS AN IMPORTANT FUNCTION WITHIN LUBRIZOL'S RESEARCH ACTIVITIES.



MANAGEMENT'S PHILOSOPHY

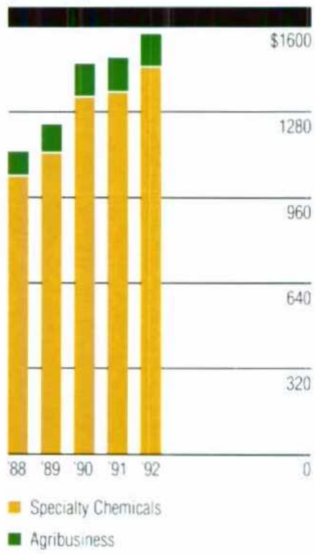
It is important to note that none of the foregoing is new at Lubrizol. They are practices established with the company's founding back in 1928. Of the six key management principles enunciated at that time, several pertained directly to perspectives on employees.

First, there is to be equity of effort and responsibility. This is the fundamental building block of Lubrizol's quality management teamwork philosophy. Second, this sharing philosophy also pertains to participation in the profits generated by the company from year-to-year and the extent to which this contributes to making Lubrizol a highly desirable place to work.

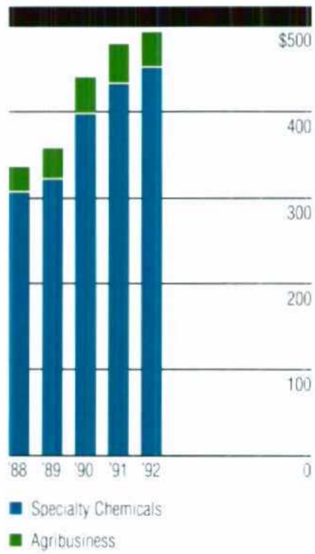
These principles are equally valid today and continue to play an important role in creating and fostering a positive work environment for all Lubrizol people.

In a highly technical, innovative business, Lubrizol's employee teamwork and enthusiasm are the life blood of every successful project. Customers recognize — and frequently comment — on the quality of Lubrizol personnel.

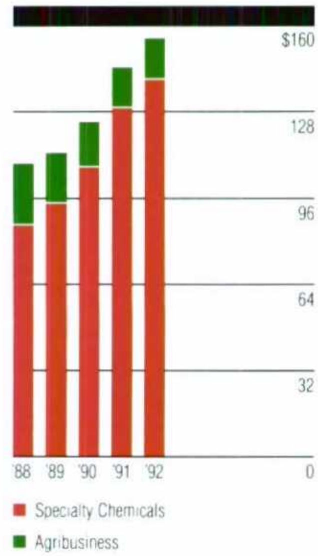
Revenues by Segment
(millions)



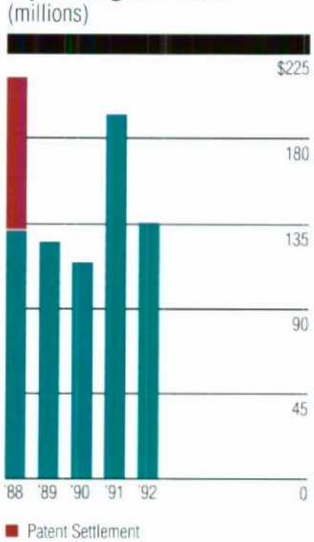
Gross Profit by Segment
(millions)



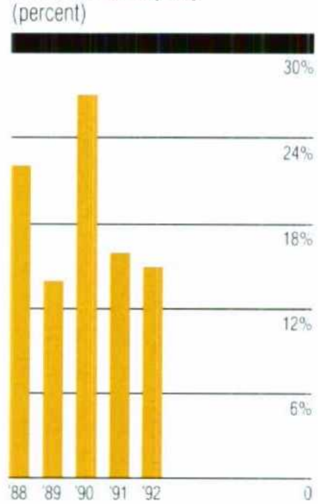
Research Testing & Development by Segment
(millions)



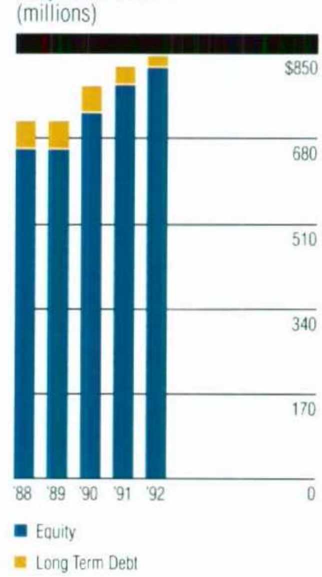
Cash Provided from Operating Activities
(millions)



Return on Equity
(percent)



Capitalization
(millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Lubrizol Corporation is a full service supplier of specialty chemicals to diverse markets worldwide. These specialty chemical products are created through the application of advanced chemical, mechanical and biological technologies to enhance the performance and quality of the customer products in which they are used. The company's business segments are Specialty Chemicals and, prior to December 1, 1992, Agribusiness. The Specialty Chemicals segment develops, produces and sells chemical additives for transportation and industrial lubricants and functional fluids, fuel additives and diversified specialty chemical products. The Agribusiness segment included traditional operations which develop, produce and market planting seeds and specialty vegetable oils, and also included strategic biotechnology research and development. As described in Note 16 to the financial statements, on December 1, 1992, the company transferred substantially all of the Agribusiness segment, other than the specialty vegetable oil operations, to Mycogen Corporation and a joint venture partnership formed with Mycogen. The Agribusiness assets retained by the company will not be reportable as a separate segment after 1992.

Results of operations of the company are discussed below, first on a summary consolidated basis and then in more detail by business segment.

Results of Operations

In 1992, consolidated revenues increased $75.9 million or 5% compared to 1991 primarily as a result of record volume in the Specialty Chemicals segment. The increased revenues were partially offset by increased manufacturing costs in Specialty Chemicals, and higher specialty vegetable oil production costs, with the result that gross profit (Sales less Cost of Sales) increased $14.7 million or 3%. Gross profit as a percentage of sales was 31.7% in 1992, compared to 32.4% in 1991 and 30.3% in 1990. Selling, administrative and technology (research, testing and development) expenses increased $19.7 million or 6% (all in the Specialty Chemicals segment), more than offsetting the higher gross profit. As a result of these factors and reduced royalties, total cost and expenses increased $5.8 million more than revenues.

Other income-net increased $2.4 million in 1992, primarily as a result of a gain on sales of investments of $6.5 million, partially offset by the company's share of losses related to the new Agribusiness joint venture and expenses related to closing facilities in the mining chemicals market. Accordingly, combined segment income was $3.4 million lower in 1992 than in 1991. As explained in the segment discussions, this consisted of a $6.0 million increase in Specialty Chemicals and a $9.4 million decrease in Agribusiness.

Net interest income increased $2.4 million primarily as a result of the repayment of debt early in the year. As a result of the above factors, income before income taxes was $1 million or 1% lower than 1991. However, the company had a lower income tax rate in 1992 than in 1991, due principally to increased tax benefits from foreign dividends, and net income in 1992 increased $1.0 million or 1% over 1991.

In 1991, consolidated revenues increased $23.6 million or 2% compared to 1990 with both of the company's business segments achieving record revenues. Gross profit increased $37.2 million or 8% over 1990 primarily due to higher average selling prices in Specialty Chemicals. Selling, administrative and technology expenses, predominantly in the Specialty Chemicals segment, increased $34.4 million or 12% in 1991 and largely offset the higher gross profit.

Other income-net increased $9 million in 1991 primarily because the prior year included an asset write-off of $9.7 million in the Agribusiness segment. Net interest income decreased by $3.5 million in 1991 due to lower interest rates and lower average investment balances during the year.

Income before income taxes increased $3.7 million or 2% in 1991, after excluding the 1990 gain on the Genentech transaction net of $5.1 million of related expenses. However, the company had a higher effective income tax rate in 1991 compared to 1990 because of benefits in 1990 from settlements of tax audits. As a result, net income in 1991 decreased $3.4 million or 3% from 1990, after excluding the effects of the Genentech transaction.

In 1990, consolidated revenues increased $224.8 million or 18% compared to 1989. The Specialty Chemicals segment accounted for 94% of this increase. Gross profit increased $82.6 million or 23% over 1989. Increased selling, administrative and technology expenses in the Specialty Chemicals segment partially offset the increased gross profit. Thus, in 1990, the increase in revenues was $46.1 million more than the increase in total cost and expenses.

In 1990, the company recorded a pre-tax gain of $101.9 million from the exchange of its Genentech stock as a result of a merger between Genentech and Roche Holdings, Inc. This gain, after taxes and $5.1 million of related expenses, contributed $62.9 million or $.90 per share to net income. Other income-net decreased $7.8 million in 1990 primarily due to an asset write-off of $9.7 million in the Agribusiness segment. Net interest income decreased by $6.7 million in 1990 primarily due to lower interest accrued on federal income tax refunds and lower average funds invested.

Income before income taxes increased $133.5 million in 1990. Excluding the gain on the Genentech transaction net of related expenses, the increase in income before taxes was 27% over 1989. In addition, the company had a lower effective income tax rate in 1990, primarily due to settlements of several income tax audits with U.S. and foreign tax authorities covering the years 1981 through 1988. As a result, net income before the Genentech transaction increased 35% in 1990 over 1989.

Return on average shareholders' equity was 15% in 1992, 16% in 1991 and 27% in 1990 (18% excluding the Genentech gain).

Specialty Chemicals Segment

In 1992, the Specialty Chemicals segment accounted for 92% of consolidated revenues. The segment's revenues increased $84.6 million or 6% in 1992 as a volume increase of 8% and favorable currency effects of 2% were partially offset by unfavorable product and geographic mix of 4%. Volume was at a record level for the year. North American volume was up 21% for the year as a result of market share gains and a comparatively weak first half of 1991. International volume, which accounts for approximately 60% of revenues, was flat for the year, as first half increases were offset by declines in the second half resulting from lower shipments to the former Soviet Union and the Middle East. Average selling prices declined slightly during the first three quarters. In the fourth quarter, the company announced price increases which increased revenues for part of the period and which will continue to be reflected in 1993.

Gross profit increased $21.1 million or 5% compared to 1991. The increase in gross profit resulting from higher revenues was partially offset by higher manufacturing costs that reflected the effects of higher volume, increased

OPERATING RESULTS BY BUSINESS SEGMENT

(In Thousands of Dollars)	**1992**	1991	1990
Revenues:			
Specialty Chemicals	**$1,433,358**	$1,348,804	$1,335,471
Agribusiness	**118,890**	127,502	117,230
Total	**$1,552,248**	$1,476,306	$1,452,701
Gross profit:			
Specialty Chemicals	**$ 450,967**	$ 429,902	$ 398,238
Agribusiness	**39,327**	45,724	40,179
Total	**$ 490,294**	$ 475,626	$ 438,417
Selling and administrative expenses:			
Specialty Chemicals	**$ 147,653**	$ 139,947	$ 127,284
Agribusiness	**33,673**	32,471	30,669
Total	**$ 181,326**	$ 172,418	$ 157,953
Research, testing and development expenses:			
Specialty Chemicals	**$ 139,810**	$ 127,675	$ 107,449
Agribusiness – Traditional	**7,240**	7,751	7,697
– Strategic	**7,712**	8,557	8,951
Total	**14,952**	16,308	16,648
Total	**$ 154,762**	$ 143,983	$ 124,097
Segment income (loss):			
Specialty Chemicals	**$ 185,148**	$ 179,160	$ 179,359
Agribusiness – Traditional	**(1,562)**	7,482	(4,960)
– Strategic	**(9,897)**	(9,512)	(9,585)
Total	**(11,459)**	(2,030)	(14,545)
Total	**$ 173,689**	$ 177,130	$ 164,814
Identifiable assets:			
Specialty Chemicals	**$ 871,401**	$ 862,235	$ 886,619
Agribusiness	**104,339**	158,747	137,598
Corporate investments	**151,380**	150,701	90,379
Total	**$1,127,120**	$1,171,683	$1,114,596

Segment income is before interest and income taxes and, in 1990, the gain on sale of Genentech.

pension and health care costs, certain product recovery costs and environmental costs. As a percentage of sales, gross profit decreased in 1992 to 31.6% from 32.1% in 1991.

Selling and administrative expenses increased $7.7 million or 6% primarily due to higher international selling expenses and higher pension and health care costs. Technology expenses increased $12.1 million or 10% as a result of increased operating and staffing levels necessary to meet customer and product development needs relating to new performance standards for gasoline engine oil effective in July 1993 and diesel engine oils in 1994. This increased activity is due to continuing engine equipment design changes and new government requirements related to fuel economy and emissions, which are compressing the time frame for new product development.

This segment's results are affected by the strengthening or weakening of the U.S. dollar against other currencies in which the company transacts business. In 1992, the U.S. dollar weakened against other currencies, resulting in a net favorable effect on the company due to increased revenues and expenses when international transactions were translated into U.S. dollars.

The increase in gross profit was greater than the increase in expenses, and when combined with a $5.6 million increase in other income-net (primarily the gain on sales of investments mentioned previously), Specialty Chemicals segment income was $6 million or 3% higher than in 1991. Management anticipates that technology and manufacturing costs (in particular, environmental-related costs) will remain at high levels. These higher costs, combined with weak overseas economies, are expected to exert pressure on segment income during the first half of 1993.

In 1991, Specialty Chemicals revenues increased 1% as higher average selling prices (net of mix and currency effects) of 4% were partially offset by volume decreases of 3%. The volume decreases were solely in international markets as shipments in North America for 1991 were at the same level as 1990. The worldwide recession weakened product demand and, during the first half of the year, customers reduced inventory levels which had been built up in the last half of 1990 during the Middle East crisis. Volume improved during each successive quarter of 1991 and in the fourth quarter was 6% above the same period of 1990. Selling prices were higher during the first part of the year as a result of price increases implemented during 1990 in response to higher raw material costs associated with the Middle East crisis. Prices were reduced at the end of the first quarter of 1991 in response to lower material costs.

Gross profit increased $31.7 million or 8% because of higher selling prices, lower cost of sales due to the volume decrease and a $5.0 million provision in 1990 for the closure of a manufacturing facility in Spain. As a percentage of sales, gross profit improved to 32.1% in 1991 from 30.0% in 1990.

Selling and administrative expenses increased $12.7 million or 10% primarily due to increases in personnel, higher international selling expenses and legal expenses associated with protection of proprietary technology and potential acquisitions. Technology expenses increased $20.2 million or 19%. This was a result of increases in testing and new product development costs relating to changing lubricant standards and testing procedures as well as customer programs related to new business opportunities.

In 1991, foreign currencies weakened slightly against the U.S. dollar resulting in a net unfavorable effect on the company due to decreased revenues and expenses when international transactions were translated into U.S. dollars.

Increased gross profit was offset by the higher expenses discussed previously, with the result that Specialty Chemicals segment income was approximately the same as 1990.

In 1990, Specialty Chemicals segment revenues increased 19% and volume increased 6%. Higher shipments to international customers, part of which was due to the effect of consolidating the Brazilian affiliate, contributed approximately 40% of the revenue increase. Uncertainty about the crisis in the Middle East, coupled with the increasing prices for all lubricant components, caused some inventory build-up by customers and partially explained the increase in the volume of shipments. The remainder of the revenue increase was due to favorable currency effects and higher selling prices, which were increased during 1990 to recover increased costs related to research and performance testing and in response to higher raw material costs associated with the Middle East crisis.

In 1990, gross profit increased 24% due to higher volume and the ability to maintain gross profit percentages during periods of escalating costs. Selling and administrative expenses increased 26% primarily due to planned increases in personnel because of new business development, increased legal expenses associated with protection of proprietary technology and increased international sales activities. Technology expenses increased 14% in 1990. Most of this increase related to additional activity with respect to engine oils, gear oils and fuel products. Specialty Chemicals segment income was $179.4 million, which was a 27% increase over 1989.

Agribusiness Segment

In 1992, Agribusiness revenues decreased $8.6 million or 7% as a result of lower specialty vegetable oil volume due to more competition in international markets and a fire at a customer's plant in Asia. Gross profit decreased $6.4 million or 14% as a result of the lower sales, costs associated with inventory market adjustments and higher storage costs, all of which related to specialty vegetable oil operations. Gross profit as a percentage of sales decreased in 1992 to 33.1% compared to 35.9% in 1991.

Selling, administrative and research expenses were approximately the same as 1991. Lower specialty vegetable oil selling expenses and lower research expenses offset costs associated with the company's partnership with Mycogen. Agribusiness segment loss increased $9.4 million due to the lower gross profit and the company's share of losses in Agrigenetics, L.P. and Mycogen.

As discussed in Note 16 to the financial statements, on December 1, 1992, the company transferred substantially all of the Agribusiness segment, other than the specialty vegetable oil operations, to Mycogen Corporation and a joint venture partnership (Agrigenetics, L.P.) formed with Mycogen. As a result of these transactions, the company's 1993 consolidated revenues, costs and expenses will continue to include specialty vegetable oil operations, but will not include amounts related to the transferred assets (see Note 16 to the financial statements). The company's investments in Agrigenetics, L.P. and Mycogen are accounted for by the equity method, under which the company recognizes its share of the earnings or losses of such entities.

In 1991, Agribusiness revenues increased 9% to $128 million due to increased specialty vegetable oil volume. Gross profit increased 14% to $45.7 million due to higher revenues and improved margins. Gross profit as a percentage of sales was 35.9% in 1991 compared to 34.3% in 1990. Higher gross profit was partially offset by a 3% increase in expenses, primarily marketing.

Traditional operations in the Agribusiness segment contributed $7.5 million to segment income in 1991. Strategic activities, mostly research, had net expense of $9.5 million, resulting in an Agribusiness segment loss of $2.0 million compared to a loss of $14.5 million in 1990. Included in 1990 was a $9.7 million write-off of receivables and inventory in the traditional operations relating to the company's former affiliate in Italy which was unable to meet its financial obligations to the company. Excluding this write-off, Agribusiness improved $2.8 million in 1991 compared to 1990.

In 1990, Agribusiness revenues increased 13% to $117 million due primarily to increased specialty vegetable oil volume, aided by the acquisition of an oilseed crushing and refining business. Gross profit improved by 15% to $40 million as a result of higher revenues and lower seed production costs in the normal growing season of 1989 compared to the drought impacted 1988 season. In 1990, selling and administrative expenses declined 4% and research expense declined 9%. These declines were primarily due to discontinuance of certain contract research programs and cost efficiencies from combining strategic research activities. This was possible because of the settlement with Agrigenetics Research Associates Limited and the acquisition of Sungene Technologies Corporation during 1989. The Agribusiness segment lost $14.5 million in 1990, approximately the same as in 1989, primarily due to the $9.7 million write-off of receivables and inventories.

Working Capital, Liquidity and Capital Resources

The company's cash flows for the years 1990 through 1992 are presented in the consolidated statements of cash flows. Cash provided from operating activities during 1992 was $135.2 million, a decrease of $57.0 million compared to 1991. This decrease was primarily the result of a $27.8 million increase in payments to suppliers and employees (net of the growth in receipts from customers), a $7.5 million net increase in tax payments and $20.4 million in tax refunds received in 1991 for settlement of tax audits.

The company spent $88.2 million for investing activities in 1992 compared to $80.0 million in 1991. Increased capital expenditures were partially offset by proceeds received from the sale of investments.

The company repurchased 835,200 of its common shares for $23.0 million compared to 570,000 common shares for $12.8 million in 1991. At December 31, 1992, there was Board authorization remaining for the repurchase of 1.2 million common shares. During 1992, the company repaid $23.8 million in debt primarily related to a 1988 borrowing.

During 1992, the company's working capital requirements, capital expenditures, dividends and share repurchases were financed by internally generated funds, cash and short-term investments on hand at the beginning of the year and short-term borrowings to meet seasonal needs of Agribusiness. As a result of the activities discussed above, cash and short-term investments at December 31, 1992, decreased by $49.6 million compared to December 31, 1991.

The company's financial position continues to be strong. The ratio of current assets to current liabilities was 2.9:1 at December 31, 1992, compared to 2.7:1 at December 31, 1991. Aggregate debt as a percent of total capitalization (shareholders' equity plus short-term and long-term debt) was approximately 6% at the end of 1992 compared to 8% at the end of 1991.

At December 31, 1992, the company had unused revolving credit agreements and other credit lines aggregating $55 million. Management believes the company's credit facilities and internally generated funds will be sufficient to meet its capital needs during 1993. Capital expenditures, primarily to provide manufacturing, administrative and technical support, are anticipated to approximate $150 million in 1993. The planned increase in capital expenditures relates primarily to improvements and additions at the company's Wickliffe facility amounting to $34 million, an increase of $12 million (to $22 million) for environmental projects and increases in manufacturing expenditures.

On January 4, 1993, the company acquired Langer & Company, located in Germany, for approximately $27 million. Langer is a recognized, worldwide manufacturer and supplier of performance chemical additives for the coatings industry, with annual revenues of $23 million. The acquisition will be financed through borrowings and is not expected to have a material impact on the results of operations in 1993.

In December 1990, the Financial Accounting Standards Board issued SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The company will adopt SFAS 106 as of January 1, 1993. This statement focuses primarily on postretirement health care and requires accrual of the expected costs of providing these benefits over the years the employee provides services to become eligible to receive the benefits upon retirement. Management believes that this new accounting standard will not have a significant impact on the company's liquidity or ability to borrow funds. The transition obligation will be recorded as the cumulative effect of a change in accounting principle in the consolidated statement of income. Refer to Note 10 to the financial statements for the estimated effects of such accruals on the company's financial condition and results of operations.

In February 1992, the Financial Accounting Standards Board issued SFAS 109, "Accounting for Income Taxes," which supersedes SFAS 96. The company will adopt SFAS 109 as of January 1, 1993. Adoption of this new statement will reduce the company's net deferred tax liabilities, and the resulting favorable impact will be separately recorded in the consolidated statement of income as the cumulative effect of a change in accounting principle. Refer to Note 8 to the financial statements for the estimated effect of adopting this new standard.

The company is involved in patent litigation with Exxon in various countries. Determinations of liability against the company in the U.S. and against Exxon in Canada have been made by the courts, subject to appeal, but money damages have not been determined. In the U.S. case, the company was enjoined in early 1993 from selling products containing an oil-soluble copper additive. Management does not believe the injunction will have a material impact on revenues because substantially all customers have been converted to alternative products. A reasonable estimation of the company's potential liability, if any, cannot be made at this time, and thus management is unable to determine whether the litigation will have a material effect on results of operations or financial condition. Refer to Note 17 for further information regarding this litigation.

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands of Dollars Except Per Share Data)	Year Ended December 31 1992	1991	1990
Net sales	**$1,544,670**	$1,467,901	$1,444,758
Royalties and other revenues	**7,578**	8,405	7,943
Total revenues	**1,552,248**	1,476,306	1,452,701
Cost of sales	**1,054,376**	992,275	1,006,341
Selling and administrative expenses	**181,326**	172,418	157,953
Research, testing and development expenses	**154,762**	143,983	124,097
Total cost and expenses	**1,390,464**	1,308,676	1,288,391
Gain on sale of Genentech			101,921
Other income — net	**11,905**	9,500	504
Interest income	**7,070**	8,748	10,526
Interest expense	**(3,615)**	(7,738)	(6,049)
Income before income taxes	**177,144**	178,140	271,212
Provision for income taxes	**52,498**	54,481	81,166
Net income	**$ 124,646**	$ 123,659	$ 190,046
Net income per share	**$1.81**	$1.79	$2.67

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

CONSOLIDATED BALANCE SHEETS

(In Thousands of Dollars)	December 31 1992	1991
Assets		
Cash and short-term investments	**$ 76,593**	$ 126,147
Receivables	**221,094**	240,382
Inventories	**272,418**	306,993
Other	**20,911**	28,049
Total current assets	**591,016**	701,571
Property and equipment – at cost	**958,692**	962,261
Less accumulated depreciation	**583,105**	582,231
Property – net	**375,587**	380,030
Investments in non-consolidated companies	**139,660**	52,441
Intangible and other assets	**20,857**	37,641
TOTAL	**$1,127,120**	$1,171,683
Liabilities and Shareholders' Equity		
Short-term debt	**$ 25,140**	$ 32,801
Accounts payable	**105,237**	126,140
Income taxes and other current liabilities	**75,871**	103,221
Total current liabilities	**206,248**	262,162
Long-term debt	**23,258**	34,982
Non-current liabilities	**41,217**	41,979
Deferred income taxes	**37,035**	38,094
Total liabilities	**307,758**	377,217
Common shares without par value – Outstanding 68,450,586 shares in 1992 and 69,031,464 shares in 1991	**80,274**	77,423
Retained earnings	**759,906**	713,229
Accumulated translation adjustment	**(20,818)**	3,814
Total shareholders' equity	**819,362**	794,466
TOTAL	**$1,127,120**	$1,171,683

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of Dollars)	Year Ended December 31 1992	1991	1990
Cash provided from (used for):			
Operating activities:			
Received from customers	**$1,549,848**	$1,480,776	$1,395,667
Paid to suppliers and employees	**(1,361,971)**	(1,265,058)	(1,206,060)
Income taxes paid	**(62,576)**	(55,116)	(87,713)
Interest and dividends received	**12,071**	9,960	10,181
Interest paid	**(5,245)**	(7,129)	(6,058)
Tax refund received, including interest		20,418	
Other – net	**3,036**	8,266	8,302
Total operating activities	**135,163**	192,117	114,319
Investing activities:			
Proceeds from sale of investments	**8,512**		105,843
Capital expenditures	**(95,814)**	(82,398)	(77,407)
Investments in non-consolidated companies	**(2,402)**	(751)	(6,690)
Acquisitions — net of cash acquired		(392)	(8,134)
Other – net	**1,541**	3,589	1,912
Total investing activities	**(88,163)**	(79,952)	15,524
Financing activities:			
Short-term borrowing (repayment)	**(3,837)**	2,587	3,240
Long-term borrowing	**3,690**	18,400	34
Long-term repayment	**(20,000)**	(18,660)	
Dividends paid	**(55,883)**	(53,322)	(52,257)
Common shares purchased, net of options exercised	**(19,235)**	(10,327)	(86,980)
Total financing activities	**(95,265)**	(61,322)	(135,963)
Effect of exchange rate changes on cash	**(1,289)**	(796)	579
Net increase (decrease) in cash and short-term investments	**(49,554)**	50,047	(5,541)
Cash and short-term investments at the beginning of year	**126,147**	76,100	81,641
Cash and short-term investments at the end of year	**$ 76,593**	$ 126,147	$ 76,100

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of Shares Outstanding	Shareholders' Equity Common Shares	Retained Earnings	Accumulated Translation Adjustment
		(In Thousands of Dollars)		
Balance, December 31, 1989	74,016,216	$78,221	$601,612	$(16,569)
Net income for 1990			190,046	
Cash dividends ($.73 per share)			(52,257)	
Translation adjustment for 1990				22,138
Common shares – Treasury:				
Shares purchased	(4,789,514)	(5,097)	(84,410)	
Shares issued upon exercise of stock options	170,046	2,527		
Balance, December 31, 1990	69,396,748	75,651	654,991	5,569
Net income for 1991			123,659	
Cash dividends ($.77 per share)			(53,322)	
Translation adjustment for 1991				(1,755)
Common shares – Treasury:				
Shares purchased	(570,000)	(651)	(12,099)	
Shares issued upon exercise of stock options	204,716	2,423		
Balance, December 31, 1991	**69,031,464**	**77,423**	**713,229**	**3,814**
Net income for 1992			**124,646**	
Cash dividends ($.81 per share)			**(55,883)**	
Translation adjustment for 1992				**(24,632)**
Common shares – Treasury:				
Shares purchased	**(835,200)**	**(957)**	**(22,086)**	
Shares issued upon exercise of stock options	**254,322**	**3,808**		
Balance, December 31, 1992	**68,450,586**	**$80,274**	**$759,906**	**$(20,818)**

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

NOTES TO FINANCIAL STATEMENTS

(In Thousands of Dollars Unless Otherwise Indicated)

Note 1 — Accounting Policies

CONSOLIDATION — The consolidated financial statements include the accounts of The Lubrizol Corporation and its majority-owned subsidiaries. For non-consolidated companies (affiliates), the equity method of accounting is used when ownership exceeds 20% or when the company has the ability to exercise significant influence over the policies of the investee. Other affiliates are carried at cost. Agribusiness includes certain operations only for 11 months in 1992 as described in Note 16.

INVENTORIES — Inventories are stated at cost which is not in excess of market. Cost of Specialty Chemicals segment inventories is determined by the last-in, first-out (LIFO) method in the United States and the first-in, first-out (FIFO) method elsewhere. Agribusiness inventory cost is determined by the average cost method.

DEPRECIATION AND AMORTIZATION — Accelerated depreciation methods are used in computing depreciation on approximately 73% of the depreciable assets. The remaining assets are depreciated using the straight-line method. Amortization of intangible and other assets is on a straight-line method over periods ranging from 5 to 15 years. For income tax purposes, different methods and rates are used in certain instances.

FOREIGN CURRENCY TRANSLATION — The assets and liabilities of most non-U.S. subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Operating results are translated at weighted average exchange rates in effect during the period. Net unrealized translation adjustments are recorded as a separate component of shareholders' equity.

PER SHARE AMOUNTS — Net income per share has been computed by dividing net income by the average number of common shares outstanding during the period. Net income per share has not been adjusted for the effect of stock options as the dilution effect would be less than 3% in any year. All share and per share data have been restated to reflect the 2-for-1 stock split effected on August 31, 1992.

RESEARCH, TESTING AND DEVELOPMENT — Beginning in 1992, testing expense has been combined with research and development expenses for presentation on the Consolidated Statement of Income. The Consolidated Statements of Income for 1991 and 1990 have been reclassified to conform to the current presentation. Research and development expenses, excluding testing, were $91.2 million, $80.0 million and $74.4 million in 1992, 1991 and 1990.

RECLASSIFICATIONS — Certain previously reported amounts have been reclassified to conform with current presentation.

Note 2 — Inventories

	1992	1991
Finished products	$ 97,221	$117,546
Products in process	85,640	103,851
Raw materials and supplies	89,557	85,596
	$272,418	$306,993

Inventories on the LIFO method at December 31, 1992 and 1991 were 25% and 19% of consolidated inventories. The current replacement cost of these inventories exceeded the LIFO cost at December 31, 1992 and 1991 by $46.3 million and $41.7 million. At December 31, 1992 and 1991, inventories of the Specialty Chemicals segment were $226.6 million and $217.6 million, and Agribusiness inventories, which consisted only of specialty vegetable oil in 1992, were $45.8 million and $89.4 million.

Note 3 — Investments in Non-Consolidated Companies

	1992	1991
Investments carried at equity	$ 92,265	$ 31,046
Investments carried at cost	47,395	21,395
	$139,660	$ 52,441

Investments carried at equity exceeded the company's equity in the underlying book values by $8.9 million and $7.0 million at December 31, 1992 and 1991. The excess is being amortized over periods not exceeding 7 years. Accumulated amortization of this excess was $7.5 million and $6.5 million at December 31, 1992 and 1991.

Included within investments in non-consolidated companies are marketable equity securities having a book carrying value of $31.2 million in 1992 and $18.6 million in 1991. The fair value of these securities based upon quoted market prices exceeded the book carrying value by $139 million and $106 million at December 31, 1992 and 1991.

Note 4 — Short-Term and Long-Term Debt

Short-term debt consists of short-term bank loans and the current portion of long-term debt.

Long-term debt consists of:

	1992	1991
7.875% Marine terminal/Industrial development revenue bonds, due 2000	$ 1,000	$ 1,000
6.5% Marine terminal refunding revenue bonds, due 2000	18,375	18,375
Term loans		
7.99% due 1992		20,000
5.8% yen denominated, due 1993	15,323	15,200
4.7% yen denominated, payable in equal semi-annual installments through 2002	4,193	
Other (various rates)	109	407
	39,000	54,982
Less current portion	(15,742)	(20,000)
	$23,258	$34,982

The company has available $55 million under revolving credit agreements and other credit lines which would permit the company to borrow at or below the U.S. prime rate. These facilities, which were unused at December 31, 1992, may be used to support commercial paper borrowings.

The Marine Terminal Refunding Revenue Bonds have a variable interest rate. The company has entered into an interest rate swap agreement that effectively fixes the interest rate at 6.5%. The bondholders may put the bonds back to the company; however, the bonds are classified as non-current due to a remarketing agreement and credit facilities which permit the company to refinance for a period beyond one year.

Note 5 — Other Balance Sheet Information

Receivables:	1992	1991
Customers	$191,451	$216,908
Affiliates	9,141	7,028
Other	20,502	16,446
	$221,094	$240,382

Receivables are net of allowance for doubtful accounts of $2.8 million in 1992 and 1991.

Property and Equipment:	1992	1991
Land and improvements	$ 75,997	$ 75,348
Buildings and improvements	153,232	168,186
Machinery and equipment	659,574	658,966
Construction in progress	69,889	59,761
	$958,692	$962,261

Depreciation expense was $58.4 million in 1992, $54.6 million in 1991 and $54.0 million in 1990.

Intangible and Other Assets:	1992	1991
Goodwill and other intangibles	$ 15,595	$ 17,328
Other assets	5,262	10,138
Plant science technology		10,175
	$ 20,857	$ 37,641

Accumulated amortization of intangible and other assets was $10.2 million and $28.4 million at December 31, 1992 and 1991.

Accounts Payable:	1992	1991
Trade	$ 98,662	$116,619
Affiliates	6,575	9,521
	$105,237	$126,140

Income Taxes and Other Current Liabilities:	1992	1991
Employee compensation	$ 28,524	$ 35,269
Income taxes	19,184	36,137
Taxes other than income	8,893	9,220
Other	19,270	22,595
	$ 75,871	$103,221

Non-current Liabilities:	1992	1991
Employee benefits	$ 24,194	$ 24,074
Other	17,023	17,905
	$ 41,217	$ 41,979

Note 6 — Shareholders' Equity

The company has 147,000,000 authorized shares consisting of 2,000,000 shares of serial preferred stock without par value designated Serial Preferred Stock; 25,000,000 shares of serial preference shares without par value designated Serial Preference Shares; and 120,000,000 Common Shares without par value. No Serial Preferred Stock or Serial Preference Shares have been issued. The outstanding Common Shares shown on the balance sheets exclude Common Shares held in treasury of 17,745,308 and 17,164,430 at December 31, 1992 and 1991. The company effected a 2-for-1 stock split on August 31, 1992.

The company has a shareholder rights plan under which one right to buy one-half Common Share has been distributed for each Common Share held. The rights may become exercisable under certain circumstances involving actual or potential acquisitions of 20% or more of the Common Shares by a person or affiliated persons who acquire such stock without complying with the requirements of the company's articles of incorporation. The rights would entitle shareholders, other than such person or affiliated persons, to purchase Common Shares of the company or of certain acquiring persons at 50% of then current market value. At the option of the directors, the rights may be exchanged for Common Shares, and may be redeemed in cash, securities or other consideration. The rights will expire in 1997 unless earlier redeemed.

Under another shareholder rights plan, each holder of Common Shares has one right to buy shares of Serial Preferred Stock for each Common Share held. The rights may become exercisable under certain circumstances involving actual or potential acquisitions of 20% or more of the company's Common Shares by a person or affiliated persons. The rights would entitle shareholders, other than such person or affiliated persons, to purchase shares of Serial Preferred Stock at the purchase price of $1 plus 25 rights per share. The dividend and redemption value of the Serial Preferred Stock would be determined in relation to after-tax amounts which have been or may be recovered by the company from Exxon or its affiliates as a result of certain patent claims. The rights will expire in November 1996 unless earlier redeemed.

Note 7 — Other Income and Genentech Gain

Other income—net consists of the following:

	1992	1991	1990
Gain on sales of investments — net	$ 6,484		
Equity earnings of non-consolidated companies	1,798	$4,791	$ 3,431
Agribusiness charge			(9,734)
Gain on investee stock issuance			1,000
Other — net	3,623	4,709	5,807
	$11,905	$9,500	$ 504

The Agribusiness charge in 1990 of $9.7 million relates to the write-off of receivables due from a former affiliate of Agrigenetics in Italy and for inventories which were dedicated to the market which this affiliate served. The write-off was necessary because the former affiliate did not meet its financial obligations to the company.

On September 7, 1990, a merger between Genentech, Inc. and Roche Holdings, Inc. was completed. As a result of this transaction, the company's 5.8 million common shares of Genentech and its warrant to purchase an additional 180,000 common shares were exchanged for $105.8 million in cash and 3.0 million shares of newly issued Genentech redeemable common stock. The company realized a gain of $101.9 million on this transaction. After taxes, and related expenses of $5.1 million, the Genentech gain contributed $62.9 million or $.90 per share to net income. At the option of Genentech, the newly issued common stock may be redeemed in whole, but not in part, at various redemption prices per share that range from $48.75 at January 1, 1993, and increase to $60 through June 30, 1995.

Note 8 — Income Taxes

Income taxes have been determined using the liability method in accordance with Statement of Financial Accounting Standards (SFAS) 96. In January

1993, the company will adopt SFAS 109, which supersedes SFAS 96 and establishes new financial accounting and reporting standards for income taxes. The new standard will reduce the company's deferred tax liabilities by $12.1 million. This benefit will be reported as the cumulative effect of a change in accounting principle in the 1993 consolidated statement of income.

Income before income taxes consists of the following:

	1992	1991	1990
United States	$ 80,248	$ 93,088	$171,278
Foreign	96,896	85,052	99,934
Total	$177,144	$178,140	$271,212

The provision for income taxes consists of the following:

	1992	1991	1990
Current:			
United States	$ 13,981	$ 25,169	$ 42,281
Foreign	37,791	31,755	41,929
	51,772	56,924	84,210
Deferred:			
United States	1,603	(2,084)	(4,924)
Foreign	(877)	(359)	1,880
	726	(2,443)	(3,044)
Total	$ 52,498	$ 54,481	$ 81,166

Foreign taxes include withholding taxes. The United States tax provision includes the U.S. tax on foreign income distributed to the company. The differences between the provision for income taxes at the statutory rate of 34% and the tax shown in the consolidated statements of income are summarized as follows:

	1992	1991	1990
Tax at statutory rate	$ 60,229	$ 60,568	$ 92,212
Foreign sales corporation earnings	(3,702)	(4,042)	(2,837)
Settlement of U.S. and foreign tax audits			(6,000)
Equity income	(1,955)	(2,405)	(1,390)
Other — net	(2,074)	360	(819)
Provision for income taxes	$ 52,498	$ 54,481	$ 81,166

The components of deferred income tax expense are as follows:

	1992	1991	1990
Depreciation	$ (2,443)	$ (1,720)	$ (543)
Employee compensation	1,557	(452)	(1,564)
Partnership expense allocations	43	(41)	(1,165)
Other — net	1,569	(230)	228
	$ 726	$ (2,443)	$ (3,044)

U.S. income taxes or foreign withholding taxes are not provided on undistributed earnings of foreign subsidiaries which are considered to be indefinitely reinvested in the operations of such subsidiaries. The amount of such earnings was approximately $246 million at December 31, 1992. Determination of the net amount of unrecognized U.S. income tax with respect to these earnings is not practicable. If such earnings were to be repatriated, foreign withholding taxes of approximately $17 million would be incurred. A portion or all of such withholding taxes may be offset by credits in the United States.

Note 9 — Supplemental Cash Flow Information

The company generally invests its excess cash in short-term investments with various banks and financial institutions. Short-term investments are cash equivalents as they are part of the cash management activities of the company and are comprised primarily of investments having maturities of less than three months.

The following is a reconciliation of net income to net cash provided by (used for) operating activities:

	1992	1991	1990
Net income	$124,646	$123,659	$190,046
Depreciation and amortization	62,013	59,473	59,529
Deferred income taxes	(37)	(2,716)	3,749
Distributed (undistributed) earnings of non-consolidated companies	2,792	(3,743)	(4,178)
Write-down of assets			14,734
Gain on sales of investments	(6,484)		(101,921)
Change in current assets and liabilities:			
Receivables	(2,400)	4,470	(57,034)
Inventories	(30,807)	(14,187)	(32,244)
Accounts payable and accrued expenses	(13,693)	1,780	39,716
Other current assets	(316)	15,304	(2,146)
Increase in non-current liabilities	714	1,554	4,126
Other items — net	(1,265)	6,523	(58)
Net cash provided by operating activities	$135,163	$192,117	$114,319

In 1990, net cash provided by operating activities is after deducting $31.2 million of income taxes paid resulting from the gain on sale of Genentech, the proceeds from which are included in investing activities.

As described in Note 16, substantially all of the net assets of the Agribusiness segment totaling $88.7 million plus consideration of $4.6 million were transferred or exchanged for $39.4 million of Mycogen preferred stock, 2,294,590 shares of Mycogen common stock with a carrying value of $13.1 million and a 49 percent interest in a joint venture (partnership) with a carrying value of $40.8 million.

Note 10 — Postretirement Benefits

The company has retirement plans, including non-contributory defined benefit pension plans and a profit sharing plan, covering most full-time employees in the United States and at non-U.S. subsidiaries. Pension benefits are based on years of service and the employee's compensation. The company's funding policy in the United States is to contribute amounts to satisfy the Internal Revenue Service funding standards and elsewhere to fund amounts in accordance with local regulations. Several defined benefit plans are unfunded. Plan assets are invested principally in listed equity securities and fixed income instruments.

The U.S. defined benefit pension plan was amended effective October 1, 1991 resulting in an increase in the net periodic pension cost of $3.7 million in 1992 and $.9 million for the period October to December 1991.

Expense for all retirement plans was $20.0 million in 1992, $13.3 million in 1991 and $12.7 million in 1990, including profit sharing contributions in the U.S. of $3.9 million in 1992, $4.7 million in 1991 and $6.6 million in 1990.

Net periodic pension cost of the U.S. and significant international defined benefit plans consists of:

	1992	1991	1990
Service cost — benefits earned during period	$ 9,814	$ 7,820	$ 6,540
Interest cost on projected benefit obligation	14,787	11,480	9,578
Actual return on plan assets	(17,926)	(28,630)	6,816
Net amortization and deferral	5,779	15,830	(18,816)
Net periodic pension cost	$ 12,454	$ 6,500	$ 4,118

The weighted average assumptions used at December 31 were:

	1992	1991	1990
Assumed discount rate	8.0%	8.1%	8.0%
Assumed rate of compensation increase	5.8%	5.8%	5.8%
Expected rate of return on plan assets	8.9%	8.9%	8.2%

The funded status of such defined benefit pension plans and the amounts recognized in the consolidated balance sheets at December 31 are as follows:

	1992		1991	
	Assets Exceed Accum. Benefits	Accum. Benefits Exceed Assets	Assets Exceed Accum. Benefits	Accum. Benefits Exceed Assets
Fair value of plan assets	$165,152	$ 4,229	$154,506	$ 4,040
Projected benefit obligation	(160,675)	(26,914)	(150,669)	(24,139)
Plan assets in excess of (less than) projected benefit obligation	4,477	(22,685)	3,837	(20,099)
Unrecognized net transition obligation (asset)	(19,297)	2,907	(22,051)	3,228
Unrecognized net loss (gain)	(2,728)	5,282	(3,803)	3,053
Unrecognized prior service cost	20,205	2,126	22,468	2,198
Minimum liability adjustment		(2,478)		(1,831)
Accrued pension asset (liability)	$ 2,657	$ (14,848)	$ 451	$ (13,451)
Actuarial present value of accumulated benefit obligation	$119,099	$ 17,600	$110,450	$ 16,009
Vested benefits	$115,239	$ 14,675	$107,194	$ 13,259

The company provides certain postretirement benefits other than pensions, primarily health care, for retired employees. Substantially all of the company's full-time Specialty Chemicals segment employees in the U.S. become eligible for these benefits after five years of service and attainment of age 55 at retirement. Participants will contribute 25% to 50% of the cost of such benefits. These postretirement health care benefits are not funded and are expensed as benefits are paid. The expense for these benefits to retired participants and their beneficiaries was $1.8 million in 1992, $1.5 million in 1991 and $1.4 million in 1990. Generally, the company's non-U.S. employees are covered by government sponsored plans.

In December 1990, the Financial Accounting Standards Board issued SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This statement will require accrual of postretirement benefits (such as health care) over the years of employee service. The company will adopt SFAS 106 as of January 1, 1993. The company's transition obligation for such postretirement benefits is $79.9 million, before tax effects, and will be recorded in the 1993 consolidated statement of income as the cumulative effect of a change in accounting principle. The annual expense accrual required by SFAS 106 will be $9.5 million in 1993 compared to current expense of $1.8 million on a pay as you go basis.

Note 11 — Leases

The company has commitments under operating leases primarily for office space, terminal facilities, land and various office equipment. Rental expense was $18.3 million in 1992; $16.5 million in 1991; and $15.2 million in 1990. Future minimum rental commitments under operating leases having initial or remaining non-cancelable lease terms exceeding one year are $11.7 million in 1993; $8.0 million in 1994; $6.9 million in 1995; $4.7 million in 1996; $3.9 million in 1997; and $23.5 million thereafter.

Note 12 — Fair Value of Financial Instruments

The company has various financial instruments, including cash and short-term investments, investments in non-consolidated companies, forward exchange contracts for currencies, interest rate swaps and short- and long-term debt. The company has determined the estimated fair value of these financial instruments by using available market information and appropriate valuation methodologies which require judgment. Accordingly, the use of different market assumptions or estimation methodologies could have a material effect on the estimated fair value amounts. Except for investments in marketable equity securities and investments in non-consolidated companies as described in Note 3, the company believes that the carrying values of financial instruments approximate their fair values.

The company periodically enters into forward exchange contracts to manage currency exposure. At December 31, 1992, the company had short-term forward contracts to sell currencies at various dates during 1993 for $18.3 million. The value of these contracts is adjusted monthly to reflect market value and the gains or losses are recognized immediately and offset the exchange adjustment related to the exposed currency position.

Note 13 — Operations in Geographic Areas

Financial data by geographic area, based on the location of the subsidiary which shipped and billed the product, is as follows:

	1992	1991	1990
Revenues from customers:			
United States	$ 734,273	$ 687,654	$ 631,492
Europe	472,982	446,699	470,910
Far East	178,702	173,351	171,171
Other	166,291	168,602	179,128
	1,552,248	1,476,306	1,452,701
Intercompany transfers:			
United States	258,673	273,037	240,087
Europe	20,657	10,004	8,522
Other	32,674	23,554	10,193
	312,004	306,595	258,802
Gross revenues	1,864,252	1,782,901	1,711,503
Less: Intercompany transfers	(312,004)	(306,595)	(258,802)
Consolidated revenues	$1,552,248	$1,476,306	$1,452,701
Operating profit:			
United States	$ 94,800	$ 123,058	$ 99,245
Europe	63,141	67,630	70,544
Far East	9,493	7,927	11,069
Other	13,640	4,675	8,837
Eliminations	6,500	(7,718)	(1,280)
	187,574	195,572	188,415
General corporate expenses	(25,790)	(27,942)	(24,105)
Gain on sale of Genentech			101,921
Other income — net	11,905	9,500	504
Interest — net	3,455	1,010	4,477
Income before income taxes	$ 177,144	$ 178,140	$ 271,212
Identifiable assets:			
United States	$ 548,601	$ 650,410	$ 655,664
Europe	248,723	283,526	282,589
Far East	124,132	132,038	123,930
Other	73,836	80,144	80,992
Eliminations	(88,619)	(159,027)	(154,106)
	906,673	987,091	989,069
Corporate assets	220,447	184,592	125,527
Total assets	$1,127,120	$1,171,683	$1,114,596

Notes:

A. Intercompany transfers are made at prices comparable to normal unaffiliated customer sales for similar products.

B. Affiliated companies are not allocated to geographic segments.

C. Corporate assets consist of short-term investments and investments in affiliated companies.

Export sales from the United States to customers, primarily in Latin America, the Middle East and Asia, were $136 million in 1992, $161 million in 1991 and $125 million in 1990.

Net assets of non-U.S. subsidiaries at December 31, 1992 and 1991, were $310 million and $319 million, respectively. Net income of these subsidiaries was $59 million in 1992, $50 million in 1991 and $57 million in 1990; and dividends received from the subsidiaries were $26 million, $12 million and $79 million, respectively.

Note 14 — Business Segment Information

A description of the company's segments and a summary of operating results and identifiable assets by segment are contained on pages 25 and 26. Following is additional industry segment information:

	Capital Expenditures	Depreciation & Amortization
1992		
Specialty Chemicals	$89,172	$55,024
Agribusiness	6,642	6,989
	$95,814	$62,013
1991		
Specialty Chemicals	$76,547	$51,791
Agribusiness	5,851	7,682
	$82,398	$59,473
1990		
Specialty Chemicals	$70,543	$50,767
Agribusiness	6,864	8,762
	$77,407	$59,529

The company's Specialty Chemicals segment has a concentration of sales and receivables in the oil and chemical industries. The ten largest customers in the Specialty Chemicals segment, most of which are international oil companies and a number of which are groups of affiliated entities, accounted for approximately 44% of consolidated sales in 1992, 43% in 1991 and 46% in 1990. Although the largest single group accounted for 10% of sales in 1992 and 11% in 1991 and 1990, this group is made up of a number of separate entities that the company believes make independent purchasing decisions with respect to specialty chemicals.

Note 15 — Stock Options

The 1991 Stock Incentive Plan provides for granting of options to buy Common Shares intended either to qualify as "incentive stock options" under the Internal Revenue Code or "non-statutory stock options" not intended to so qualify, up to an amount equal to one percent of the outstanding Common Shares at the beginning of any year, plus any unused amount from prior years. Under the 1991 Plan, options generally become exercisable 50% one year after grant, 75% after two years, and 100% after three years, and expire up to ten years after grant. The 1985 Employee Stock Option Plan and the 1991 Plan also provide for "reload options," which are options to purchase additional shares if a grantee uses already-owned shares to pay for an option exercise. The 1991 Plan generally supersedes the 1985 Plan, which replaced the 1981 Incentive Stock Option Plan. A 1975 Employee Stock Option Plan expired by its terms in 1985. Options remain outstanding and exercisable under the 1975 Plan, the 1981 Plan and the 1985 Plan. The option price under all plans is the fair market value of the shares on the date of grant. All plans permit or permitted the granting of stock appreciation rights in connection with the grant of options, and the 1991 Plan also permits the grant of restricted and unrestricted shares. In addition, the 1991 Plan provides for an automatic annual grant to each outside director of the company of an option to purchase 2,000 Common Shares, with terms generally comparable to employee stock options. When Agrigenetics was acquired, options outstanding under a stock option plan of that company became fully vested and were converted to options to purchase Common Shares.

Information regarding these option plans is as follows:

	Number of Shares		
	1992	1991	1990
Outstanding, January 1	1,970,446	1,671,602	1,357,924
Granted at $16.66 to $33.34 per share	596,290	620,380	486,700
Exercised at $9.31 to $26.41 per share	(407,697)	(313,796)	(165,746)
Surrendered at $11.69 to $32.81 per share	(11,776)	(7,740)	(7,276)
Outstanding, December 31	2,147,263	1,970,446	1,671,602
Exercisable, December 31	1,210,767	1,014,556	791,174
Available for grant, December 31	1,718,036	1,612,230	1,530,904

The 1975 Plan options expire through November 1994, with an average option price of $11.31. The 1981 Plan options expire November 1993 to November 1994, with an average option price of $11.51. The 1985 Plan options expire June 1995 to November 2002, with an average option price of $21.36. The 1991 Plan options expire April 2001 to April 2002, with an average option price of $32.69. The Agrigenetics options expire May 1993 to August 1993, with an average option price of $19.87.

Note 16 — Agribusiness Transaction

In separate transactions, the company transferred on December 1, 1992, certain of its Agribusiness assets to Mycogen Corporation in exchange for 2,294,590 shares of Mycogen Common Stock and $39.4 million par value of Mycogen Series A Preferred Stock. The remainder of its Agribusiness assets, exclusive of the specialty vegetable oil operations, was transferred to Agrigenetics, L.P., a newly-formed partnership with Mycogen, in exchange for a 49% partnership interest. There was no gain or loss resulting from the transactions.

The company's investment in Agrigenetics, L.P. was recorded at $40.8 million which represents 49% of the net assets transferred and is accounted for by the equity method. The investment in Preferred Stock was recorded at par value of $39.4 million, which was its fair value as agreed by the parties at the transaction date. The investment in Mycogen Common Stock was recorded at $13.1 million which was equivalent to the remaining book value of net assets transferred, and is accounted for by the equity method, since the company now owns approximately 25% of the outstanding Mycogen Common Stock.

The Preferred Stock received by the company pays cumulative dividends of 5% per year through December 1, 1996, and 8½% from December 1, 1996 through December 1, 2000. Such dividends may be paid in cash or in additional shares of Preferred Stock, at Mycogen's option. Mycogen may redeem the Preferred Stock at any time and is required to redeem $10 million par value of the Preferred Stock for cash on December 1, 1993, unless it acquires, with the company's consent, a business or assets complementary to Agrigenetics, L.P. and contributes such business or assets to Agrigenetics, L.P. All Preferred Stock must be redeemed by Mycogen for cash on or before December 1, 2000. The Preferred Stock is convertible into Mycogen Common Stock at the company's option at a price of $17.96 per share of Mycogen Common Stock through December 1, 1996, and $18.71 per share during the period December 1, 1996 through December 1, 2000.

In connection with the transactions, the company entered into a Technology and Development Agreement with Agrigenetics, L.P. whereby the company is required to provide a minimum of $12 million of funding over a five-year period to support the development of plant varieties to produce specialty oils. The company retains exclusive commercial rights with respect to the resulting specialty oils.

The consolidated financial statements include the following summary results of operations of the transferred assets for 1992 (eleven months), 1991 and 1990:

	1992	1991	1990
Total revenues	$ 86,243	$ 87,365	$ 87,512
Total cost and expenses	(91,870)	(90,614)	(93,689)
Other income — net	(518)	1,505	(6,876)
Segment loss	$ (6,145)	$ (1,744)	$(13,053)

Note 17 — Litigation

In December 1992, a federal court jury in Houston, Texas, rendered a verdict that the company's use of an oil-soluble copper additive, used in small amounts in passenger car motor oil additive packages, infringed an Exxon patent. In early 1993, the court prohibited the company from making or selling any additive packages in the United States that contained this component and awarded Exxon $18.1 million for attorneys' fees. None of the company's additive packages subsequently manufactured or sold in the United States contain this component. The company's products made and sold in other countries are not affected.

The company continues to believe that it has not infringed the Exxon patent, and that the patent is invalid. The company will appeal the verdict and attorneys' fees award to the Federal Court of Appeals in Washington, D.C., which reviews judgments in patent cases. The issue of money damages will be addressed in a separate proceeding at a later date. A reasonable estimation of the company's potential liability, if any, including any damages arising from the jury's finding of willful infringement, cannot be made at this time.

Separately, on December 4, 1992, the Federal Court of Appeals of Canada ruled in favor of the company in its case against Exxon for infringement of the company's patent pertaining to dispersant, the largest additive component used in motor oils. Damages in this case will be determined at a later date. A reasonable estimation of the company's potential recovery, if any, cannot be made at this time.

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
The Lubrizol Corporation

We have audited the accompanying consolidated balance sheets of The Lubrizol Corporation and its subsidiaries as of December 31, 1992 and 1991, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Lubrizol Corporation and its subsidiaries at December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles.

Deloitte & Touche
Cleveland, Ohio
February 16, 1993

QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In Thousands of Dollars Except Per Share Data)			
1992				
Net sales:				
Specialty Chemicals	$357,868	$369,932	$354,801	$343,179
Agribusiness	57,033	44,783	7,576	9,498
Total	$414,901	$414,715	$362,377	$352,677
Gross profit:				
Specialty Chemicals	$121,568	$123,824	$103,394	$102,181
Agribusiness	23,917	16,164	(468)	(286)
Total	$145,485	$139,988	$102,926	$101,895
Net income	$ 44,096	$ 44,806	$ 19,019	$ 16,725
Net income per share	$.64	$.65	$.28	$.24
1991				
Net sales:				
Specialty Chemicals	$314,435	$325,676	$346,469	$353,819
Agribusiness	57,800	44,454	11,120	14,128
Total	$372,235	$370,130	$357,589	$367,947
Gross profit:				
Specialty Chemicals	$104,792	$101,855	$110,495	$112,760
Agribusiness	23,584	15,364	2,558	4,218
Total	$128,376	$117,219	$113,053	$116,978
Net income	$ 35,318	$ 27,597	$ 28,844	$ 31,900
Net income per share	$.51	$.40	$.42	$.46

Most of the sales of the Agribusiness segment were made during the first half of the year, and operating losses were recorded in the third and fourth quarters as a result of incurring operating expenses with low sales. Agribusiness' cost of sales includes certain period costs and, therefore, may exceed sales in a quarter which has low volume.

All share and per share data have been restated to reflect the 2-for-1 stock split effected on August 31, 1992.

HISTORICAL SUMMARY

(In Thousands of Dollars Except Per Share Data)	1992	1991
Summary of Operations		
Revenues	**$1,552,248**	$1,476,306
Cost of sales	**1,054,376**	992,275
Selling, administrative, research, testing and development expenses	**336,088**	316,401
Total cost and expenses	**1,390,464**	1,308,676
Other income (charges)	**15,360**	10,510
Income before income taxes	**177,144**	178,140
Provision for income taxes	**52,498**	54,481
Change in accounting for income taxes		
Net income	**$ 124,646**	$ 123,659
For the Year:		
Net income per share	**$1.81**	$1.79
Dividends declared per share	**.81**	.77
Average Common Shares outstanding (in thousands)	**68,966**	69,260
Consolidated Statement of Financial Position		
Current assets	**$ 591,016**	$ 701,571
Current liabilities	**206,248**	262,162
Working capital	**384,768**	439,409
Property – net	**375,587**	380,030
Other assets	**160,517**	90,082
Total	**920,872**	909,521
Less:		
Long-term debt	**23,258**	34,982
Non-current liabilities	**41,217**	41,979
Deferred income taxes	**37,035**	38,094
Net assets – Shareholders' equity	**$ 819,362**	$ 794,466
Other Data		
Return on average shareholders' equity	**15%**	16%
Total assets	**$1,127,120**	$1,171,683
Capital investments	**98,216**	83,541
Depreciation	**58,435**	54,614
At End of Year:		
Number of employees	**4,609**	5,299
Number of shareholders	**6,822**	6,767
Common Shares outstanding (in thousands)	**68,451**	69,031
Shareholders' equity per share	**$ 11.97**	$ 11.51

All share and per share data have been restated to reflect the 2-for-1 stock split effected on August 31, 1992.

1990	1989	1988	1987	1986	1985	1984	1983	1982
$1,452,701	$1,227,910	$1,125,731	$1,022,277	$985,182	$913,351	$844,175	$800,303	$812,247
1,006,341	864,576	783,113	713,152	695,068	659,130	627,378	588,266	610,717
282,050	245,132	226,776	203,236	180,650	158,358	114,501	113,363	107,470
1,288,391	1,109,708	1,009,889	916,388	875,718	817,488	741,879	701,629	718,187
106,902	19,544	69,908	23,310	19,200	7,582	12,788	15,032	(6,739)
271,212	137,746	185,750	129,199	128,664	103,445	115,084	113,706	87,321
81,166	43,766	54,544	47,864	50,479	43,221	47,353	48,962	39,760
		8,751						
$ 190,046	$ 93,980	$ 139,957	$ 81,335	$ 78,185	$ 60,224	$ 67,731	$ 64,744	$ 47,561
$2.67	$1.26	$1.81	$1.03	$.99	$.74	$.87	$.83	$.61
.73	.69	.65	.61	.59	.58	.56	.54	.54
71,121	74,665	77,391	79,117	79,356	80,817	78,276	78,390	78,384
$ 668,810	$ 543,166	$ 573,002	$ 513,342	$462,982	$447,441	$376,050	$361,964	$304,542
248,351	180,908	184,888	169,166	162,797	182,543	132,252	129,766	115,255
420,459	362,258	388,114	344,176	300,185	264,898	243,798	232,198	189,287
353,551	316,493	298,670	297,573	289,078	290,298	251,735	274,337	288,504
92,235	100,525	98,999	128,463	125,847	116,706	74,189	46,563	50,698
866,245	779,276	785,783	770,212	715,110	671,902	569,722	553,098	528,489
54,023	53,180	55,339	56,138	52,616	73,444	30,416	27,213	19,428
39,663	29,320	26,851	23,952	16,806	13,161	11,480	10,038	8,961
36,348	33,512	39,285	68,489	73,009	65,999	53,483	44,326	38,056
$ 736,211	$ 663,264	$ 664,308	$ 621,633	$572,679	$519,298	$474,343	$471,521	$462,044
27%	14%	22%	14%	14%	12%	14%	14%	10%
$1,114,596	$ 960,184	$ 970,671	$ 939,378	$877,907	$854,445	$701,974	$682,864	$643,744
92,231	82,720	71,891	56,460	52,986	103,990	49,001	27,961	64,044
53,960	48,682	46,598	47,229	42,591	44,605	38,723	37,038	37,168
5,169	5,030	4,781	4,817	4,802	5,205	4,176	4,165	4,322
6,692	7,370	7,782	8,335	9,240	10,803	10,804	11,277	10,615
69,397	74,016	76,020	77,922	79,382	79,321	78,221	78,390	78,390
$ 10.61	$ 8.96	$ 8.74	$ 7.98	$ 7.21	$ 6.55	$ 6.06	$ 6.02	$ 5.89

Transfer Agent, Registrar, and Dividend Disbursing Agent

Society National Bank
Corporate Trust Division P-2
P.O. Box 6477
Cleveland, Ohio 44101-1477
(216) 737-5745
(800) 542-7792

Annual Meeting

The Annual Meeting of Shareholders will be held at the Clarion Hotel & Conference Center, Eastlake, Ohio, on April 26, 1993.

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 without charge upon written request to the Secretary of the Corporation.

Shareholder Information

The Common Shares of The Lubrizol Corporation are listed on the New York Stock Exchange under the symbol LZ. The number of shareholders of record of Common Shares was 6,860 as of February 10, 1993.

DIRECTORS

L. E. COLEMAN
Chairman of the Board and Chief Executive Officer

W. G. BARES
President and Chief Operating Officer

EDWARD F. BELL
Retired President and Chief Executive Officer of Ohio Bell, an Ameritech subsidiary, which provides telephone service, data transmission and other advanced telecommunications services to residential and business customers in Ohio. The company serves approximately three-fifths of the state's population.

ANDRE GILLET
Retired Chairman and Chief Executive Officer of International Multifoods Corporation, a diversified food company.

DAVID H. HOAG
Chairman, President and Chief Executive Officer of The LTV Corporation and Chief Executive Officer of LTV Steel Company. The LTV Corporation is a diversified company engaged in the production of steel and the manufacture and distribution of oil field supplies.

THOMAS C. MacAVOY
Professor of Business Administration, Darden School, University of Virginia and Retired Vice Chairman of the Board of Corning, Inc., a diversified glass and glass products company.

WILLIAM P. MADAR
President and Chief Executive Officer of Nordson Corporation, a company which manufactures and markets industrial equipment, along with the software and application technologies that enhance its use.

RICHARD A. MILLER
Retired Chairman and Chief Executive Officer of Centerior Energy Corporation, an electric utility holding company with operating subsidiaries in Northern Ohio.

RONALD A. MITSCH
Executive Vice President, Industrial and Consumer Sector and Corporate Services of 3M, a manufacturer of products for industrial, commercial, health care and consumer markets.

RENOLD D. THOMPSON
Vice Chairman and a Director of Oglebay Norton Company, a raw materials and Great Lakes marine transportation company.

KARL E. WARE
Chairman and Chief Executive Officer of Ware Industries, Inc., a company which designs, manufactures and markets a broad range of specialty wire forms and steel components.

OFFICERS

L. E. COLEMAN
Chairman of the Board and Chief Executive Officer

W. G. BARES
President and Chief Operating Officer

GEORGE R. HILL
Senior Vice President

WILLIAM D. MANNING
Senior Vice President

ROBERT W. SCHER
Senior Vice President

R. JOHN SENZ
Senior Vice President

RAY A. ANDREAS
Vice President and Chief Financial Officer

JOSEPH W. BAUER
Vice President and General Counsel

K. H. HOPPING
Vice President and Secretary

JOHN R. AHERN
Controller

WILLIAM R. JONES
Treasurer

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

PRINCIPAL SUBSIDIARIES AND BRANCHES

Lubrizol A.G. (Switzerland)
Lubrizol Australia
Lubrizol do Brasil Aditivos, Ltda.
Lubrizol Canada Limited
Lubrizol de Chile Limitada
Lubrizol Eastern Pacific Limited (Hong Kong)
Lubrizol Enterprises, Inc.
Lubrizol Española, S.A.
Lubrizol France S.A.
Lubrizol Gesellschaft m.b.H. (Austria)
Lubrizol G.m.b.H. (Germany)
Lubrizol Great Britain Limited
Lubrizol International Inc.
Lubrizol Italiana, S.p.A.
Lubrizol Japan, Limited
Lubrizol Korea
Lubrizol Limited (England)
Lubrizol de Mexico, S. de R.L.
Lubrizol S.A. (Belgium)
Lubrizol Scandinavia AB
Lubrizol Servicios Tecnicos S. de R.L. (Mexico)
Lubrizol South Africa (Pty.) Limited
Lubrizol Southeast Asia (Pte.) Ltd. (Singapore)
Lubrizol de Venezuela C.A.
Gate City Equipment Company, Inc.
Langer & Company G.m.b.H. (Germany)
Resource Development, Inc.
SVO Specialty Products, Inc.

AFFILIATES

Lubrizol India Limited
Industrias Lubrizol S.A. de C.V. (Mexico)
Lubrizol Transarabian Company Limited (Saudi Arabia)
C.A. Lubricantes Quimicos L.Q. (Venezuela)
Solub Product Application Laboratory (Russia)

MANUFACTURING PLANTS

Painesville, Ohio
Bayport, Texas
Deer Park, Texas
Atlanta, Georgia
Culbertson, Montana
Sydney, Australia
Rio de Janeiro, Brazil
Niagara Falls, Canada
Bromborough, England
LeHavre, France
Rouen, France
Mourenx, France
Ritterhude, Germany
Bombay, India
Kinuura, Japan
Apodaca, Mexico
Yanbu, Saudi Arabia
Jurong, Singapore
Durban, South Africa
Valencia, Venezuela

LABORATORIES

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

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