The Lubrizol Corporation • 1995 • Annual Report

Responsibly Serving Our Customers...

WORLDWIDE

About the Company

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 and mechanical technologies to enhance the performance, quality and value of the products in which they are used.

Founded in 1928, the company operates manufacturing and blending facilities, laboratories and offices staffed by 4,600 employees around the world.

Among Lubrizol's strengths are its ability to develop products to meet the needs of transportation and industrial customers worldwide, its resources to test products in a coordinated and integrated manner around the world and its supply network which provides consistent, high quality products anywhere in the world. These assets make Lubrizol a global leader in the development, manufacture and distribution of its performance chemistry.

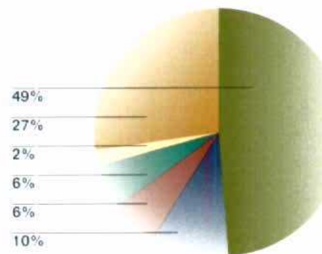
Lubrizol is a recognized leader in specialty additive systems for lubricating oils used in gasoline and diesel engines, automatic transmissions, gear drives, marine engines and tractors. The company also supplies specialty products for industrial fluids, fuel additives, process chemicals and coating additives. In addition, it develops performance chemicals and equipment for specialized markets.

On the Cover:

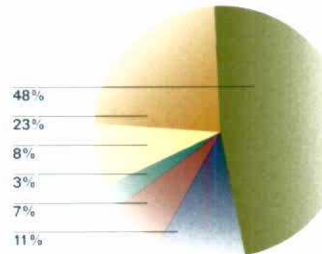
One of the many ways Lubrizol supplies its customers worldwide is through the Houston, Texas, ship channel.

1995

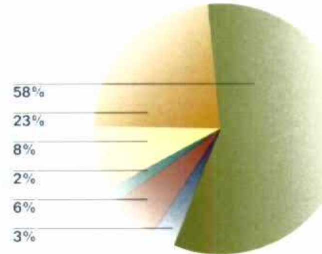
North America
$622 Million in Revenues



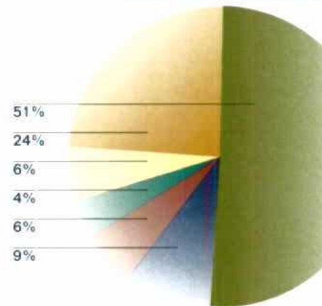
Europe
$590 Million in Revenues



Asia-Pacific, Latin America, Middle East
$451 Million in Revenues



Worldwide
$1,663 Million in Revenues



- Engine Oil Additives
- Driveline Oil Additives
- Additive Components
- Fuel Products
- Industrial Products
- Business Development

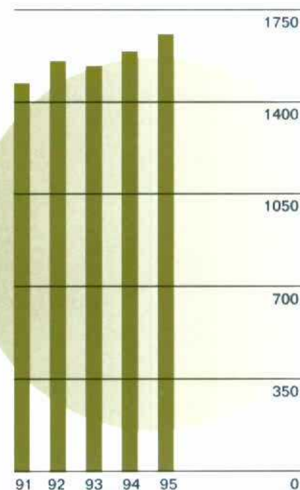
Financial Highlights

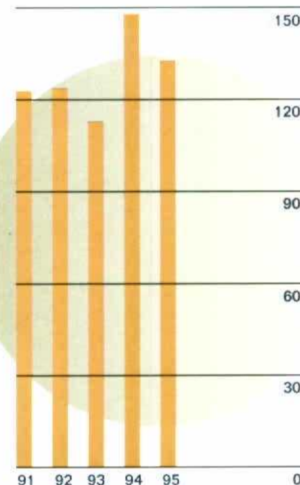
(In Millions Except Per Share and Employee Data)	1995	1994	Increase (Decrease)
OPERATIONS:			
Revenues	$1,663.6	$1,599.0	4%
Net income	151.6	175.6	(14%)
Net income before unusual items*	132.8	148.8	(11%)
Net income per share	2.37	2.67	(11%)
Net income per share before unusual items*	2.08	2.26	(8%)
Dividends per share	.93	.89	4%
Cash provided from operating activities	187.4	156.8	19%
Return on shareholders' equity before unusual items*	16%	19%	
FINANCIAL POSITION:			
Total assets	$1,492.0	$1,394.4	7%
Debt as a percent of capitalization	23%	17%	
Shareholders' equity	849.0	832.0	2%
OTHER:			
Capital expenditures	$189.3	$160.5	18%
Shares outstanding at December 31	63.0	64.9	(3%)
Number of employees	4,601	4,520	2%

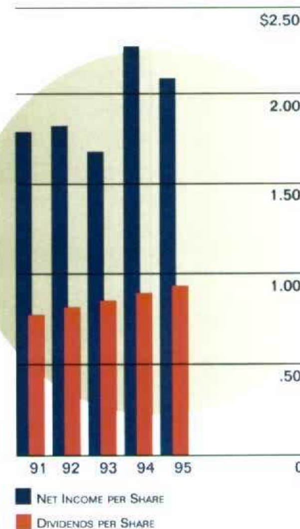
**Unusual items are Genentech gains and the 1995 asset impairment charge.*

COMMON SHARE PRICE HISTORY

	1995		1994	
	High	Low	High	Low
1st quarter	$35½	$32½	$38⅝	$32⅛
2nd quarter	36⅞	34⅛	36⅞	33⅛
3rd quarter	37⅜	30	36½	29⅞
4th quarter	33¼	25½	34	28½







**BEFORE GENENTECH GAINS, THE 1995 ASSET IMPAIRMENT CHARGE AND THE 1993 SPECIAL CHARGE AND ACCOUNTING CHANGES.

To Our SHAREHOLDERS:

Despite achieving record revenues in 1995 and our second highest level of operating income, we are disappointed with the year's results. We were unable to follow through on the excellent results achieved in 1994; consequently, net income, excluding unusual items, declined 11 percent for the year. Return on equity also fell short of our goal and shareholder value declined. Lubrizol's strong market position and financial strength continued in 1995. In spite of this, weak market conditions resulted in smaller margins because of lower volumes and higher costs. These challenges will remain in 1996.

1995 Results

Consolidated revenues for 1995 were $1.66 billion, an increase of 4 percent over 1994. Worldwide additive shipments declined 2 percent for the year. Consolidated net income in 1995 was $151.6 million, or $2.37 per share, and included after-tax gains of $25 million, or $.39 per share, from the sale of investments, and an after-tax charge of $6.2 million, or $.10 per share, for an asset impairment charge. In 1994, consolidated net income was $175.6 million, or $2.67 per share, which included investment gains. Excluding investment gains and special items, net income in 1995 was $132.8 million, or $2.08 per share, compared with 1994 net income of $148.8 million, or $2.26 per share.

Demand for lubricants and additives was weak during 1995, particularly in North America and Western Europe. This was compounded by the lack of spot sales to the Middle East which had occurred in previous years. Lubrizol successfully increased product prices at the beginning of the year to recover higher raw material and environmental costs which, along with positive currency effects, accounted for the 10 percent increase in net income before special items for the first six months of 1995 compared with the same period in 1994. Following the strong first half, net income declined sharply in the third and fourth quarters. Year over year, higher raw material, technology and interest expenses were only partially offset by higher product pricing, and gross profit and operating margins dropped. Our attention is now focused on the need to quickly improve results in 1996.

Quarterly dividends were increased 4 percent in the fourth quarter to $.24 per share, yielding an annualized rate of $.96 per share. This is the twelfth consecutive year in which dividends were raised. Dividends paid in 1995 were $59.4 million.

During the year, the company repurchased 1.98 million of its outstanding shares. At the end of 1995, 3 million shares remained in the current repurchase authorization.

Special Items

In 1995, Lubrizol sold its remaining shares of Genentech, Inc. for an after-tax gain of $25 million. The company's investments in Genentech, beginning in 1979, were $15.6 million for which it received proceeds totaling $324 million.

In September, the United States Court of Appeals for the Federal Circuit overturned a Houston, Texas, jury verdict that Lubrizol had infringed an Exxon patent pertaining to an oil soluble copper additive component. The ruling overturned a $129 million judgment against Lubrizol in this case, which included damages and attorneys' fees and costs.

L. E. COLEMAN (RIGHT) AND W. G. BARES IN THE CORPORATE CENTER BUILDING LOCATED IN WICKLIFFE, OHIO

In February 1996, Lubrizol sold its total investment in Mycogen Corporation to DowElanco for $126.2 million.

DIRECTORS AND OFFICERS

In June, Gordon D. Harnett was appointed a director to fill a vacancy. Mr. Harnett is chairman, president and chief executive officer of Brush Wellman Inc.

In November, Victoria F. Haynes was appointed a director to fill a vacancy. Dr. Haynes is vice president–research and development and chief technical officer of The BFGoodrich Company.

Effective January 1, 1996, William G. Bares was elected president and chief executive officer. He succeeds Lester E. Coleman, who is retiring on April 22, 1996, after 41 years of service. At that time, Mr. Bares will also be elected to the additional post of chairman of the board. Dr. Coleman will remain a director.

1996 OUTLOOK

We are implementing plans to increase sales to our customers in 1996 and to reduce spending. Our goal is to grow revenues and shipments while spending less in 1996 than in 1995. We expect to reduce expenses for technology, selling, administrative, purchased materials and capital. We are also confident we will grow our share of the market by improving service and value to our customers.

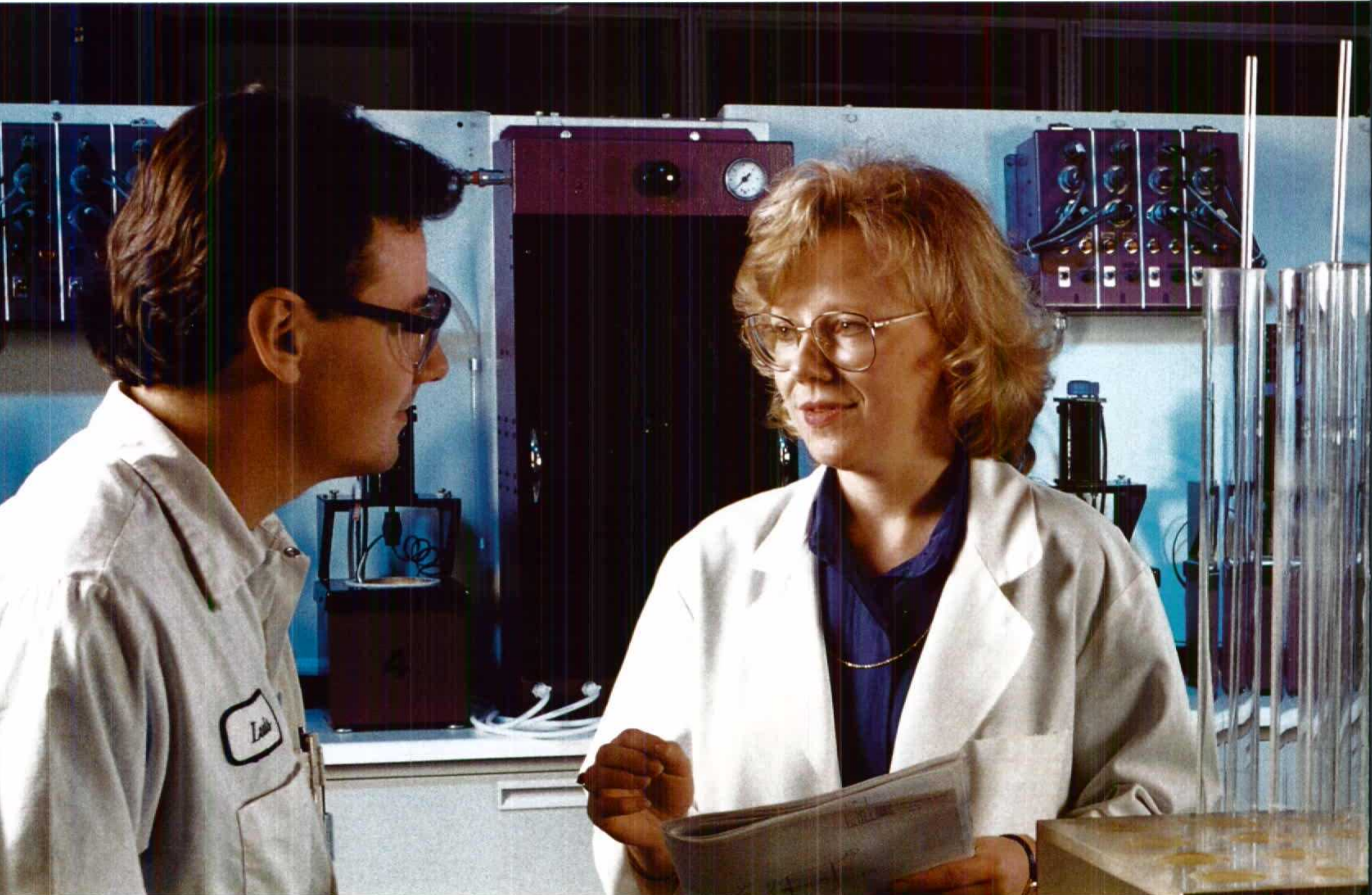
We are equally committed to improving shareholder returns. The steps we are taking should enable Lubrizol to grow net income, increase dividends and continue our share repurchases. Lubrizol's strong market position and financial strength will be focused on increasing value to both our customers and shareholders.

L. E. COLEMAN
Chairman of the Board

W. G. BARES
President and Chief Executive Officer

March 13, 1996

WORLDWIDE Responsibly Serving Our Customers...*with successful Product Dev*

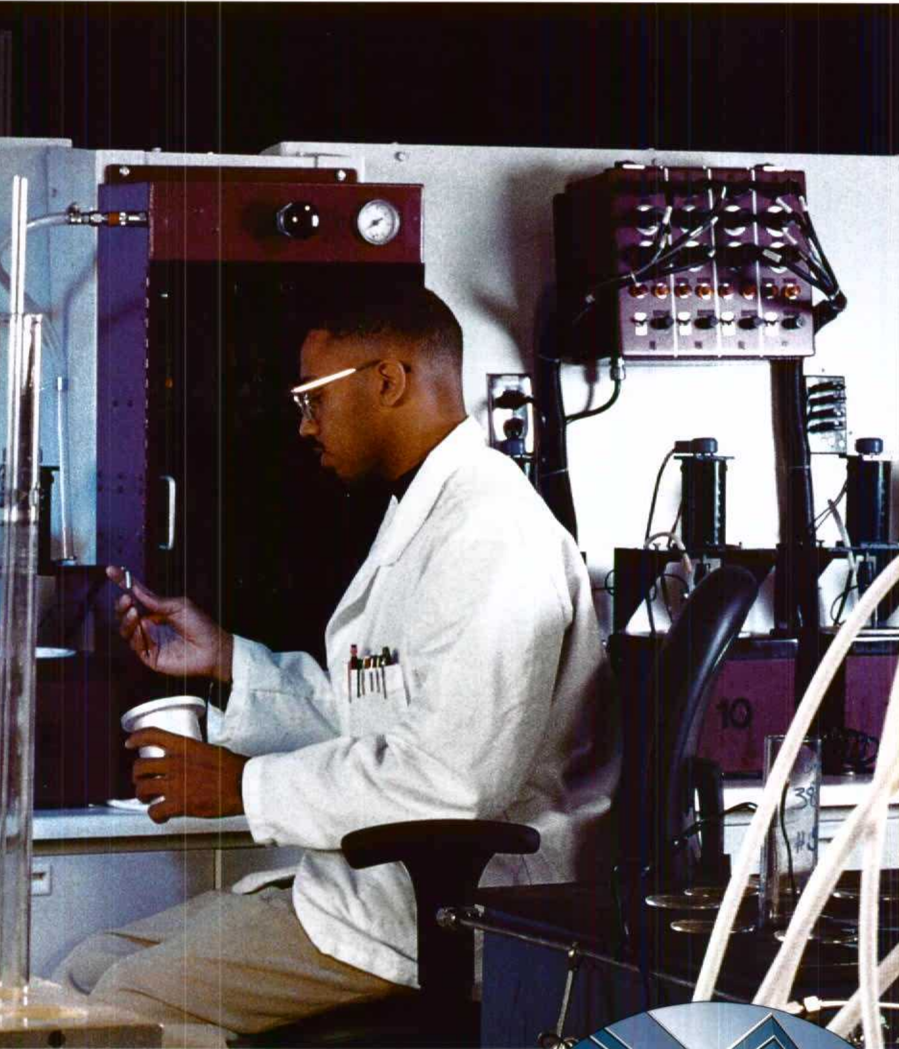


(LEFT TO RIGHT) LUIS CASTILLO, VERA MARSIC AND DARREN HOWARD IN NEW RESEARCH LABORATORY, WICKLIFFE, OHIO

Product development has been the mainstay of Lubrizol's success for over 65 years. Lubricants, which seem unchanged to the consumer, have evolved into complex, sophisticated chemical formulations. This evolution parallels the development of all types of transportation and industrial equipment in markets worldwide. As equipment builders and oil company customers defined the need for better lubricants, Lubrizol responded with enhanced chemistry. The company became recognized as the world leader in lubricant additive technology and new product development.

This process continues today as Lubrizol supplies specialty additive systems for lubricating oils used in gasoline and diesel engines, automatic transmission fluids, gear oils, marine and tractor lubricants. The company also supplies additives for industrial oils and fuels. Product development has created additional opportunities in new markets,

opment



Tsung-Fei Tang (L) - Chief Representative, Beijing, China
Chaying Gan - Managing Director, Jurong, Singapore
Makoto Iijima - Sales Manager, Tokyo, Japan

HAVING THE CUSTOMER IN CLEAR FOCUS, OVER THE SHORT, MEDIUM AND LONG TERM, IS THE STARTING POINT FOR PRODUCT DEVELOPMENT. THIS REQUIRES CLOSE RELATIONSHIPS WITH CUSTOMERS SO THAT WE CAN WORK WITH THEM TO UNDERSTAND PRESENT AND ANTICIPATE FUTURE NEEDS. DELIVERING PRODUCTS THAT WILL MAKE LUBRIZOL'S CUSTOMERS MORE SUCCESSFUL IS THE GOAL, WHEREVER THEY ARE LOCATED IN THE WORLD.

THE ASIA-PACIFIC REGION HAS THE GREATEST GROWTH OPPORTUNITY FOR LUBRIZOL AND SOME OF THE MOST UNIQUE PRODUCT DEVELOPMENT CHALLENGES. IT IS HOME TO A WIDE RANGE OF DIFFERENT ECONOMIES FROM ADVANCED TO EMERGING. LUBRICANTS AND EQUIPMENT COME IN ALL SIZES, GRADES, AGES AND SPECIFICATIONS. CUSTOMERS' NEEDS VARY WIDELY, AND PRODUCTS APPROPRIATE TO ONE MARKET CAN BE OUT OF PLACE IN ANOTHER.

TO KEEP PACE WITH THE GROWTH AND CHANGES IN ASIA-PACIFIC, LUBRIZOL HAS COMMITTED SUBSTANTIAL PRODUCT DEVELOPMENT, TESTING AND SUPPLY RESOURCES TO THE REGION. PRODUCT DEVELOPMENT AND TESTING LABS ARE LOCATED IN ATSUGI, JAPAN, AND PRODUCTS ARE MANUFACTURED IN JAPAN, SINGAPORE, AUSTRALIA, INDIA AND, SOON, IN CHINA.

such as specialty monomers and surfactants, refinery and oil field products, synthetic refrigerant lubricants, coatings and specialty vegetable oils.

Some examples of new product developments which occurred in 1995 include:

- New additive systems for passenger car motor oils which will meet the requirements of ILSAC GF-2/API SJ for the United States market in 1996.

RESEARCH SOUTH LABORATORY, WICKLIFFE, OHIO

WORLDWIDE

Product Development

George Spaid checks readings in new blend facility, Wickliffe, Ohio

• New additive systems for gasoline and diesel engine oils which meet the requirements of ACEA standards to be in place in Europe in 1996.

• Heavy-duty diesel engine oil additive systems which conform to the new API CG-4 requirements for trucks and buses in North America.

• "Antishudder" chemistry to improve the "shift-feel" of the latest generation of automatic transmissions.

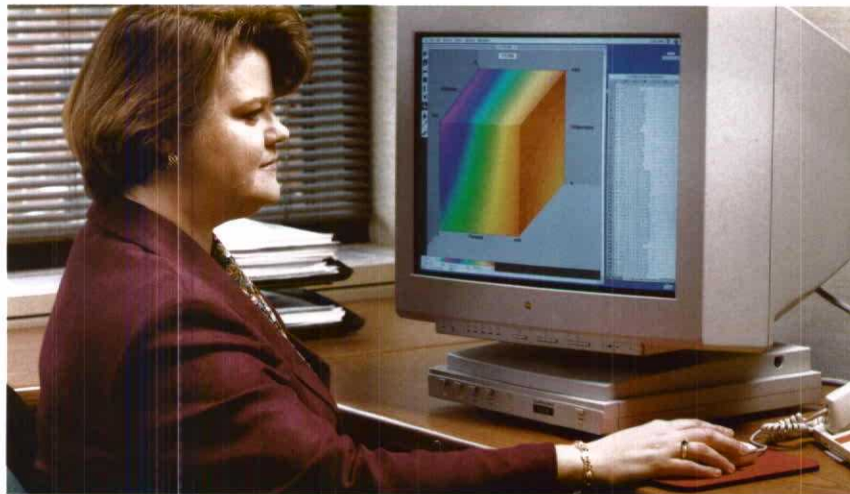
• Improved viscosity modifiers with both better shear stability and low temperature performance.

• New flow improvers, antifoulants and cloud point inhibitors for refinery and oil field products.

• Improved additive systems for industrial synthetic refrigerant lubricants to reduce wear and increase energy efficiency.

• New diesel particulate filtration systems and catalytic converters meeting requirements for reduced emissions from diesel engines.

Product development at Lubrizol is a flexible process, delivering results worldwide in a timely fashion. This requires a special relationship with customers and an ability to anticipate the needs of equipment builders. A true partner relationship is important for Lubrizol to be able to deliver products which offer customers a competitive advantage.



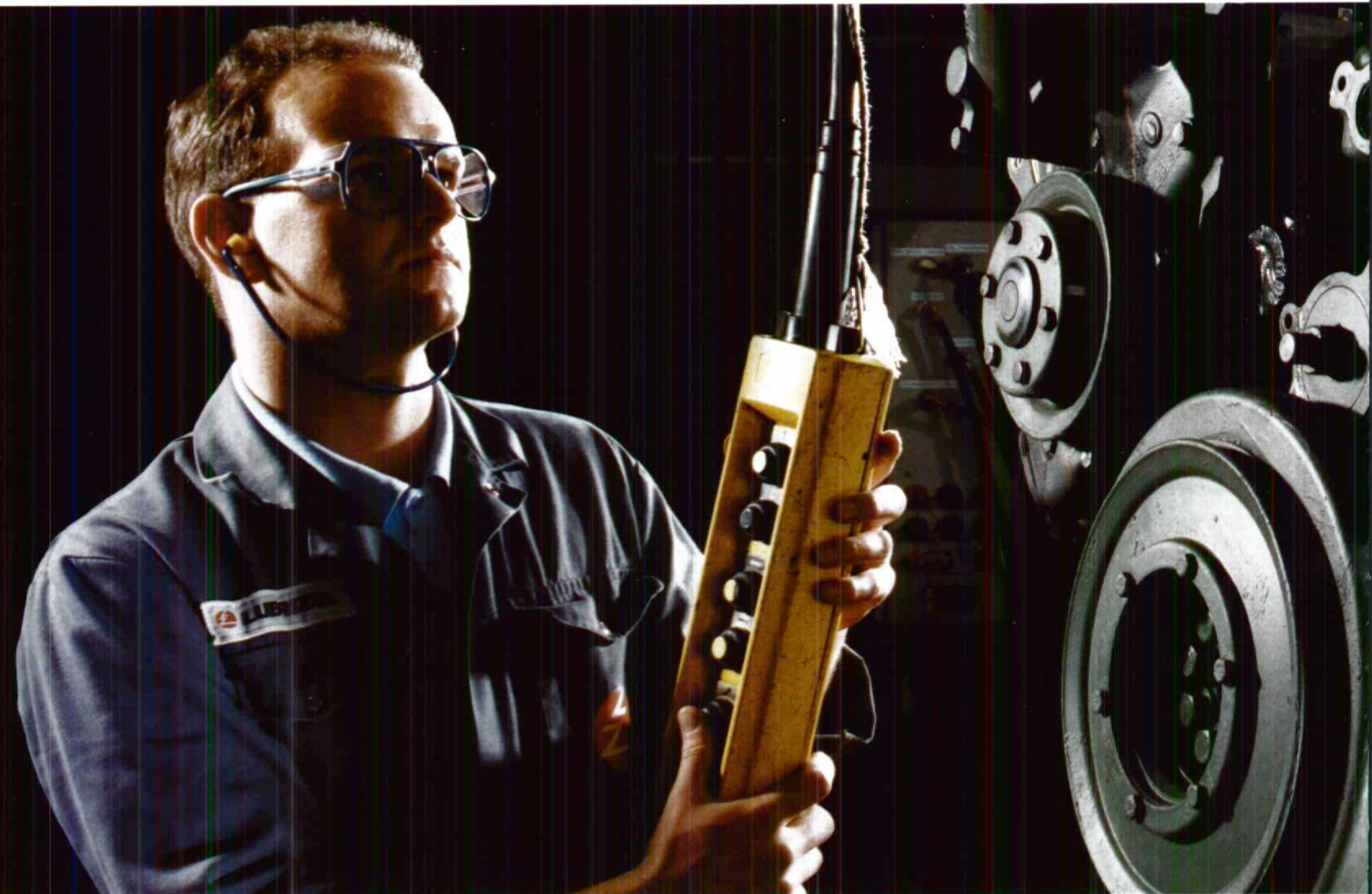
GAIL EVANS REVIEWS DATA AT PC WORKSTATION

Lubrizol must also be a steward of shareholder resources used for product development to ensure that they return high value. An example of that effort in 1995 was the completion of the new blend services facility at the Wickliffe site. This building was specifically designed around the product development process in order to increase the speed of new product introductions. It uses state-of-the-art techniques, automation and smart systems—all of which are focused on timeliness. The outcome is that the product development process has become faster and productivity has improved.

KA PI HOH, WALT COPAN, RON DESING, DIANE ARTMAN AND CHRIS SCOTT—REVIEWING TECHNICAL INFORMATION

The purpose of product development at Lubrizol continues to be the introduction of high value, innovative products which solve the problems of original equipment manufacturers (OEMs) and customers worldwide.

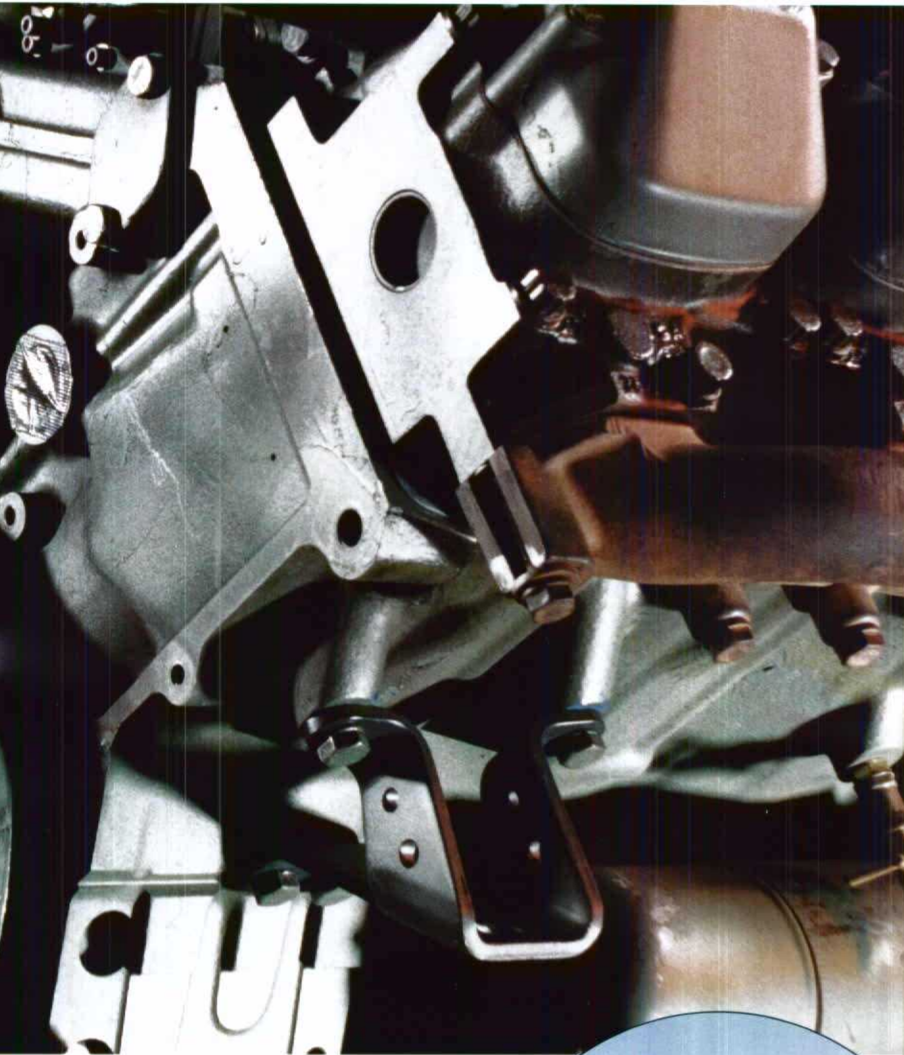
WORLDWIDE Responsibly Serving Our Customers...*with critical Product Testing*



RICHARD SKERRETT INSTALLS DIESEL ENGINE FOR TESTING AT HAZELWOOD, ENGLAND

Product approval testing is a critical component of success for Lubrizol. It is the proof of performance necessary for the sale of a new product and certification to industry specifications for lubricant quality. This certification cannot occur just in computer simulations or laboratory tests. Performance must be proven in actual engines and equipment, either in special test facilities or in the field. Testing is also diverse, involving equipment produced and operated in all regions of the world using international lubricant specifications and standards.

Lubrizol has created a coordinated and integrated worldwide testing capability. The company operates testing centers in Wickliffe, Ohio; Hazelwood, England; and Atsugi, Japan, and also contracts for outside testing services at facilities in San Antonio, Texas. This global network gives our market segment managers the flexibility to prioritize and allocate testing resources around the world.



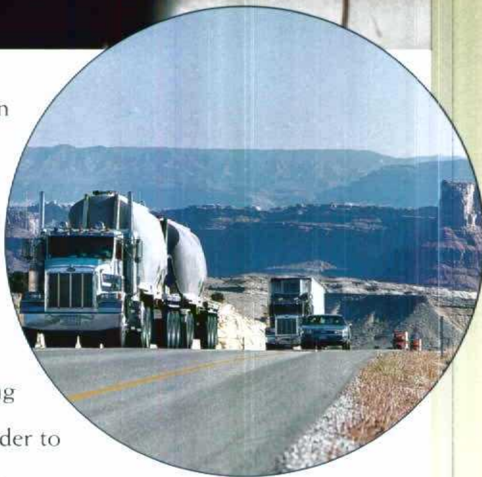
Paul Basar (L), Manager-Mechanical Testing, Wickliffe, Ohio
Heinz Berwian, Chief Engineer–North America, Southfield, Michigan

TEST DESIGN AND PRECISION IS A SKILL LUBRIZOL HAS DEVELOPED OVER MANY YEARS. IT INVOLVES THE USE OF MECHANICAL, FLUID AND ELECTRONIC CONTROL TECHNIQUES TO ELIMINATE TEST VARIATIONS SO THAT THE TRUE PERFORMANCE OF THE LUBRICANT IS MEASURED. ENGINEERS FROM LUBRIZOL, OUTSIDE LABORATORIES AND TEST MONITORING CENTERS WORK CLOSELY TOGETHER TO ACHIEVE A STANDARD TEST PROCEDURE THAT IS REPEATABLE IN ANY TEST LABORATORY.

LUBRIZOL'S GLOBAL ENGINEERING GROUP HAS THE RESPONSIBILITY TO WORK DIRECTLY WITH EQUIPMENT MANUFACTURERS AROUND THE WORLD TO ANTICIPATE CHANGES IN EQUIPMENT DESIGN AND APPLICATION AND TO PREPARE FOR NEW TESTS WHICH WILL SIMULATE THE PERFORMANCE OF EQUIPMENT IN THE FIELD.

IMPROVED TEST PROCEDURES HAVE ALLOWED THE INTRODUCTION OF AN ENGINE OIL LICENSE AND CERTIFICATION SYSTEM IN THE UNITED STATES. IN EUROPE, A NEW LUBRICANT QUALITY MANAGEMENT SYSTEM WILL BE IN PLACE IN 1996. IT WILL INCLUDE REQUIREMENTS FOR TEST REGISTRATION, DATA GENERATION AND FORMULATION MODIFICATION GUIDELINES. THESE STATISTICALLY BASED TESTING PROTOCOLS PROVIDE A NEW MEASURE OF PROOF OF PERFORMANCE FOR LUBRIZOL PRODUCTS.

For example, testing resources in Europe can be used to support product development programs in Asia-Pacific or North America. The Wickliffe test center is especially focused on product differentiation testing and new test development in order to obtain timely product approvals.



TRUCK FLEET TEST IN ARIZONA

Testing WORLDWIDE

Today, it is particularly important that testing not become an impediment to faster product development. Testing must be timely, cost-effective, high quality and proprietary. In the past, testing was generally driven by the need to respond to lubrication problems in the field, that is, equipment in use. Breakdowns, excessive wear, reduced performance or noise could all be symptoms of a lubrication or equipment design problem. To a large extent, new additive development occurred in response to these field related problems. Lubrizol provided solutions to problems, both for oil company customers and OEMs. For the past several years, testing has been driven more by the needs of the OEM than the needs in the field. Providing lubricant technology for new vehicles and equipment has become a priority for OEMs. Fuel economy, emission control, longer drain intervals and extended warranty protection for new equipment are driving product development and testing. This has presented new challenges to Lubrizol.

PAUL WALSH IN SYNTHETIC REFRIGERANT LUBRICANT TESTING LABORATORY IN WICKLIFFE, OHIO

The biggest challenge is managing these costs. Rapidly changing additive development is needed to keep pace with new engine and equipment requirements of the OEMs. Increased complexity of testing along with the demand for faster development has significantly increased the technology costs for Lubrizol. Product development and testing dollars today must be used in a judicious manner. The payback period for testing investment is shrinking and resources must now be selectively invested so that they can provide the best potential returns.

Testing is not just a competency for Lubrizol's traditional businesses. It has also become an important element to the success of several new business development segments. For example, a section of the Wickliffe test center has been dedicated to specialized testing of refrigeration compressors to evaluate new types of lubricants and additives. This capability combines Lubrizol's chemical formulation and testing skills to give the company a unique market advantage in this new business area. Formulation and testing has been a recipe for success which has worked well for Lubrizol throughout its history.

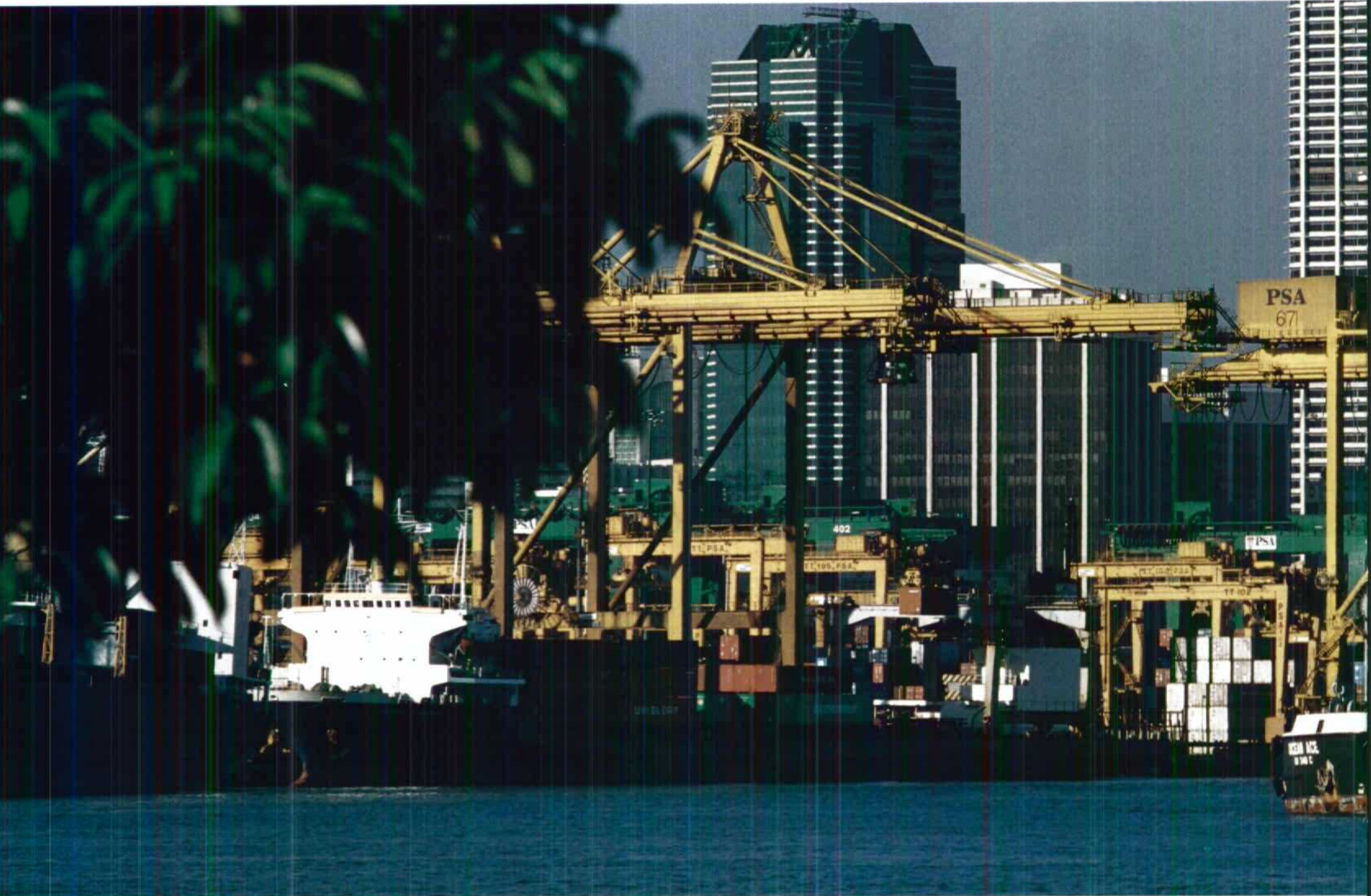
Taxi fleet test in New York City

Masahiro Kiyono and Hiroshi Ochiai

at friction tester in Atsugi, Japan

Responsibly Serving Our Customers...*with efficient Global Supply*

WORLDWIDE



SINGAPORE HARBOR HANDLES LUBRIZOL PRODUCTS FOR ASIA-PACIFIC MARKETS

Lubrizol supplies performance, not simply chemical components. Because of this, the company's supply network is designed to provide consistent products regardless of where they are produced in the world. Production intermediates must conform to the same rigid manufacturing standards at each plant and periodically must be re-evaluated in engine testing to verify performance consistency. This process gives Lubrizol great flexibility to supply products around the world from multiple manufacturing or blending sites. The company is able to take advantage of currency and raw material fluctuations to determine which plant is the best supply point at any given time. Along with terminals for bulk storage, Lubrizol's production and blending facilities provide a timely and responsive supply system in all regions of the world.

Lubrizol operates 17 manufacturing plants around the world, including those of its affiliates in Mexico, Saudi Arabia, India and

Bruno Berthon (L) - Logistics Quality Advisor, Rouen, France
Sibylle Vignale - Director of Customer Assistance and Quality Management, Rouen, France
Graham Ball - General Manager, Bromborough, England

LUBRIZOL'S SUPPLY AND DISTRIBUTION NETWORK IS AUGMENTED BY THE COMPANY'S COMMITMENT TO QUALITY MANAGEMENT PRACTICES AND STANDARDS AT ITS FACILITIES WORLDWIDE. CONSISTENT WITH THIS EFFORT, ISO 9000 SERIES QUALITY CERTIFICATIONS HAVE BEEN AWARDED TO ALL OF LUBRIZOL'S MAJOR MANUFACTURING SITES WORLDWIDE, AND THE COMPANY PARTICIPATES IN A CONTINUOUS PROCESS OF INSPECTION AND AUDIT TO MAINTAIN THESE CERTIFICATIONS.

LUBRIZOL IS ALSO A STRONG SUPPORTER OF THE CHEMICAL INDUSTRY'S RESPONSIBLE CARE® INITIATIVES TO CONTINUALLY IMPROVE HEALTH, SAFETY AND ENVIRONMENTAL PERFORMANCE WORLDWIDE. THE COMPANY STRIVES TO CONFORM TO THE CODES OF MANAGEMENT PRACTICES DEFINED BY THIS INITIATIVE, WHICH WILL ALSO SERVE TO SUPPORT AND MAINTAIN CUSTOMERS' CONFIDENCE IN THE QUALITY OF LUBRIZOL PRODUCTS.

LUBRIZOL PEOPLE THROUGHOUT THE WORLD TAKE PERSONAL PRIDE AND OWNERSHIP IN THE QUALITY OF THE PRODUCTS THEY PRODUCE, AS WELL AS THE SAFETY AND ENVIRONMENTAL IMPACT OF THE FACILITIES WHERE THEY WORK.

Venezuela. Additional subsidiary production sites for new business development segments are located in Houston, Texas; Atlanta, Georgia; Ritterhude, Germany; Newmarket, Canada; and Culbertson, Montana.

Nearly 70 percent of capital spending in 1995 went toward manufacturing operations for either new or upgraded production and blending equipment, cost

DRUMS READY FOR CUSTOMER DELIVERY IN APODACA, MEXICO

Supply WORLDWIDE

LUBRIZOL'S PLANT IN DEER PARK, TEXAS, IS A MAJOR EXPORTING FACILITY

reduction and productivity improvements, or environmental enhancements. About 60 percent of the spending occurred in the United States and 40 percent internationally.

During 1995 and early 1996, production capacity improvements were completed for:

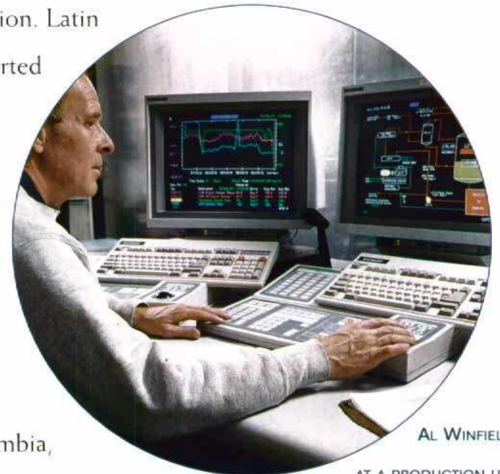
- A new calcium phenate unit for detergent additive production in LeHavre, France.
- New fuel additive capacity at Bromborough, England.
- A tertiary butyl acrylamide recovery unit in Bayport, Texas.
- Sodium AMPS® monomer salt capacity in Bromborough, England.
- Various blending plant expansions and improvements.

Lubrizol has also been shutting down smaller production units to take advantage of higher efficiencies and lower costs of larger units. This combination of consolidation and new investment should enable the company to continue to reduce its cost base for the manufacture and supply of products.

Changing markets and growing economies represent new opportunities for Lubrizol to demonstrate its supply responsiveness. Our business in the Asia-Pacific region has been growing at an 8 percent per year rate since 1992. The region is supported from sites in Singapore, Japan, Australia and India and will soon include a new joint venture facility in China. Lubrizol remains the leading supplier to Indonesia. The company is expanding regional storage facilities to keep pace with growing business in Korea.

PRODUCT LOADING IN LEHAVRE, FRANCE

Three new terminals have been added to support growth into Eastern Europe and the former Soviet Union. Latin America is also supported from a network of terminals, as well as manufacturing sites in Mexico, Brazil and Venezuela. The company has been expanding sales into Chile, Ecuador, Colombia, Argentina and Venezuela.



AL WINFIELD AT A PRODUCTION UNIT CONTROL CENTER IN PAINESVILLE, OHIO

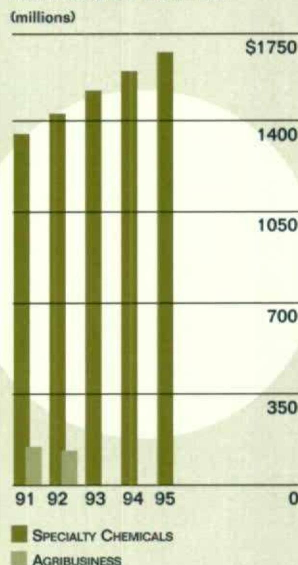
Supply of consistent performance throughout the world remains a strength and commitment of Lubrizol.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Lubrizol Corporation is a full service supplier of performance chemicals to diverse markets worldwide. These specialty chemical products are created through the application of advanced chemical and mechanical technologies to enhance the performance, quality and value of the products in which they are used. The company develops, produces and sells specialty additive systems for gasoline and diesel engine lubricating oils, for automatic transmission fluids and for gear oils and marine and tractor lubricants. The company also supplies specialty products for industrial lubricants and functional fluids, fuel additives and diversified specialty chemical products. Prior to December 1, 1992, the company had a separately reportable Agribusiness segment. As described in Note 16 to the financial statements, the company transferred substantially all of its Agribusiness segment, other than the specialty vegetable oil operations, (referred to as "Agrigenetics") to Mycogen Corporation and to a joint venture formed with Mycogen.

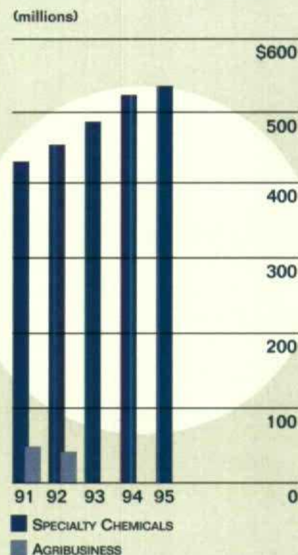
Since 1993, the company has been engaged in initiatives to eliminate its separate business unit structure and realign activities into one combined organization and to consolidate intermediate production activities, improve the timeliness of product development, simplify its product offerings and continue the restructuring of its agribusiness investments.

As discussed in Note 17 to the financial statements, the company recorded a special pretax charge of $86.3 million in 1993 primarily for the manufacturing rationalization and organizational realignment initiatives. When substantially complete near the end of 1996, the number of intermediate production units will have been reduced by one-third, and the number of employees will have been reduced by approximately 5%. Through December 31, 1995, the company has completed approximately 75% of the production unit reductions and 90% of the employee reductions. Cash of approximately $36 million has been expended to implement these initiatives, primarily for employee reductions. Future cash expenditures to complete these initiatives are estimated to be $9 million. These initiatives reduced the rate of increase in the operating costs of the company, as compared with historical trends, which resulted in estimated savings approximating $35 million in 1995 and $20 to $25 million in 1994. These cost reductions resulted from fewer employees, lower operating costs and reductions in the number of manufacturing units. When fully implemented, annual savings are expected to approximate $50 million of which $40 million will represent cash savings.



1995 RESULTS OF OPERATIONS

In 1995, the company achieved record revenues but, despite a strong first half, annual earnings declined from the record earnings of 1994. As discussed below, the primary factors contributing to the 1995 results were lower demand for engine oil additives particularly during the second half of 1995, the U.S. Government trade restrictions regarding sales to certain customers in the Middle East and the inability to maintain profit margins during a period of rising raw material costs.



Consolidated revenues were $1.66 billion, an increase of $64.6 million, or 4%, in 1995 compared with 1994. Price increases implemented in early 1995 and a more favorable product mix increased 1995 revenues by 3% and the translation of various international currencies, which strengthened during the period when compared with the U.S. dollar, increased revenues by 3%. Volume declined 2% from the 1994 level. Sequentially, revenues in the second half of 1995 were 5% lower than the first half due to lower volume (3%) and unfavorable price/product mix (2%).

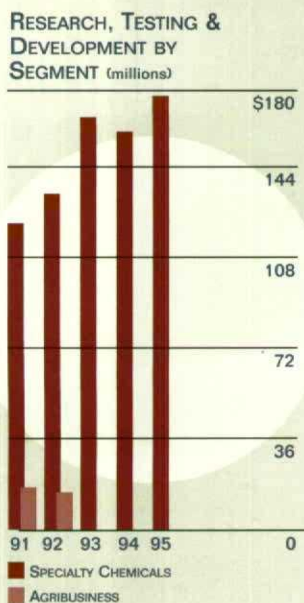
For the year, sales volume declined in 1995 compared with 1994, principally in international markets. North American

volume declined less than 1% from 1994. International volume declined 3% mainly because of the cessation of spot business with certain customers in the Middle East due to a U.S. Presidential Order restricting such trade. Excluding from the comparison this 1994 spot business, which occurred during the first half of the year, international volume increased 1% and, worldwide volume in 1995 was even with 1994. Sequentially, volume declined 3% in North America and 4% internationally in the second half compared with the first half of 1995 as demand for engine oil lubricants in North America and Europe weakened, causing lower additive shipment volumes.

Gross profit (sales less cost of sales) increased 2% to $532.4 million in 1995 from $520.7 million in 1994. Despite lower volume, the amount of gross profit increased as higher average selling prices, aided by favorable currency and mix, more than offset an increase in average material cost of 9%, over half of which was due to the effects of currency and mix. However, gross profit as a percent of sales declined to 32.1% in 1995 from 32.7% in 1994 as raw material costs increased faster than selling prices and, combined with slightly higher manufacturing costs and lower volumes, negatively impacted margin percentage. Sequentially, gross profit percentage declined to 30.5% in the second half of 1995 compared with 33.6% in the first half due to the effect of unfavorable price/mix, less favorable currency, higher raw material costs and lower volume.

The company's manufacturing rationalization and organizational realignment initiatives, which began in 1993, have slowed the rate of increase in the company's cost and expenses. The company's manufacturing expenses, as well as its selling and administrative expenses, increased 3% in 1995 as compared with 1994. Excluding increases in expenses due to currency translation and an acquisition made during 1995, manufacturing costs and selling and administrative expenses were each level with the 1994 amounts.

RESEARCH, TESTING & DEVELOPMENT BY SEGMENT (millions)



Research, testing and development expenses (technology expenses) increased 9% to $179.6 million. Technology expenses increased, as anticipated, due to worldwide testing programs for the engine oils, driveline oils and fuel products areas together with a greater emphasis on longer-term strategic research. Product standards change periodically as engine and transmission designs are improved by the equipment manufacturers to meet new emissions, efficiency, durability and other performance factors. As occurred in 1995, these changes influence the timing and amount of annual technology expenses.

Primarily as a result of the above factors, total cost and expenses increased $7.0 million more than the increase in total revenues in 1995.

The company recorded a charge for asset impairment of $9.5 million ($.10 per share after tax) in the fourth quarter of 1995. This charge related primarily to an intermediate processing unit that became permanently impaired due to a change in product formulation caused by a new industry-wide product specification.

The company sold all of its remaining shares of Genentech, Inc. common stock during the first half of 1995 and realized a pretax gain of $38.5 million ($.39 per share after tax). During 1994, the company had a pretax gain on the sale of Genentech common stock of $41.2 million ($.41 per share after tax).

Other income - net, was $7.1 million in 1995, compared with $7.3 million in 1994 (see Note 8 to the financial statements). Other income has been impacted by equity losses recognized from the company's investment in Mycogen Corporation and by other transactions involving Mycogen. Mycogen's results are seasonal with the majority of its income recorded in the first half of the calendar year and losses recorded in the second half. The company recorded equity losses from Mycogen of $5.4 million in 1995, compared with equity losses of $.1 million in 1994. In late 1995, the company recognized a noncash gain of $4.5 million, representing an increase in the value of the company's ownership interest in the net assets of Mycogen, when Mycogen issued new common shares to another investor.

Interest expense increased $7.2 million in 1995 over 1994 as a result of higher average debt outstanding to meet the requirements of the capital expenditure and share repurchase programs. The average daily balance of total debt outstanding during 1995 was $203 million as compared with $111 million for 1994.

The company transacts business in more than 100 countries around the world and has a number of operating facilities in countries outside the United States. As a result, the company is subject to business risks inherent in non-U.S. activities, including political uncertainty, import and export limitations,

exchange controls and currency fluctuations. The company believes risks related to its foreign operations are mitigated due to the political and economic stability of the countries in which its largest foreign operations are located.

While changes in the dollar value of foreign currencies will affect earnings from time to time, the longer term economic effect of these changes should not be significant given the company's net asset exposure, currency mix and pricing flexibility. Generally, the income statement effect of changes in the dollar value of foreign currencies is partially or wholly offset by the company's ability to make corresponding price changes in local currency. The company's consolidated net income will generally benefit as foreign currencies increase in value compared with the U.S. dollar and will generally decline as foreign currencies decrease in value. During 1995, the U.S. dollar weakened, primarily against the French franc, German deutsche mark and Japanese yen, when compared with exchange rates in effect during the year 1994. This resulted in 1995 net income being favorably impacted by approximately $.20 per share.

As a result of the factors discussed above, income before income taxes decreased 10%, or $25.9 million, from 1994. The company's 1995 effective tax rate was 32.8% as compared with the 1994 rate of 30.2%, which was lower than normal due to charitable donations of appreciated securities made by the company in 1994. After application of the 1995 higher effective tax rate, net income was $151.6 million in 1995, a decrease of 14% or $24.0 million from 1994.

Excluding the gains realized from sale of Genentech common stock in 1995 and 1994 and the charge for asset impairment in 1995, net income decreased 11% to $132.8 million in 1995, compared with $148.8 million in 1994. The corresponding earnings per share of $2.08 in 1995 declined 8% compared with $2.26 in 1994.

While management progressed in controlling operating expenses during 1995, the lower volume and higher material costs offset the progress the company made in its cost control efforts. The factors impacting the company's business, which accelerated during the second half of 1995, will continue to pressure earnings in 1996.

Sales volume in 1996 will also be affected in North America by a new industry specification for passenger car motor oil that requires approximately 10% less additive than the existing specification. This new specification, absent changes in market share, is expected to negatively affect the company's annual volume in North America by 4% (1.5% on worldwide volume) due to the lower additive treat rate. The company has developed additive packages that meet the new specification and expects the majority of its customers will convert to it by the middle of 1996. The company believes future specification changes will likely result in increased additive treat levels from the level in this new specification.

Recent market studies completed by the company suggest that worldwide market growth rates for lubricant additives over the next several years are slowing. This worldwide growth rate is made up of slower growth in mature economies such as North America and Western Europe partially offset by higher growth rates in developing regions such as Asia. As a part of the company's growth strategy, increasing resources will be devoted to the Asia-Pacific region in order to realize the opportunities in this higher growth environment.

In addition, management has launched initiatives relating to the cost structure of the company, both on a short-term and a long-term basis. A program has been put into place with an objective of maintaining selling, administrative and technology expenses during 1996 at an aggregate level below that of 1995. From a longer term perspective, management is evaluating the overall cost structure of the company, including the role of technology in the company's business and the appropriate level of related investment. Changing priorities of finished lubricant suppliers, along with continued consolidation of additive suppliers, are resulting in many lubricant suppliers seeking opportunities to partner with the stronger additive suppliers. These partnering arrangements are aimed at eliminating redundant cost structures and jointly pursuing business growth in developing regions of the world. The company believes it is well positioned to gain market share from these opportunities and resulting partnering arrangements.

1994 RESULTS OF OPERATIONS

In 1994, the company achieved record revenues and results of operations. As discussed below, the primary factors contributing to 1994 results were higher average selling prices, lower research, testing and development expenses and better results from agribusiness investments.

In 1994, consolidated revenues were $1.6 billion, an increase of $73.5 million or 5% from 1993. This increase was comprised of 4% higher average selling prices, including currency, and 1% volume increases. Average selling prices increased primarily as a result of price increases and new product introductions. The company implemented price increases in the first quarter of 1994 to more fully recover the costs of product technology and the costs resulting from increased requirements of environmental, health and safety regulations

at the company's facilities. Higher performing products, which carry higher selling prices, were introduced late in 1993 to meet new passenger car motor oil standards in the U.S. markets.

Gross profit increased 7% to $520.7 million in 1994 from $485.4 million in 1993. The improvement in gross profit was primarily attributable to the positive effects of implementing selling price increases, new product introductions and growth from business development activities. These improvements were partially offset by higher material costs in the second half of the year and higher manufacturing costs. Gross profit as a percentage of sales increased to 32.7% in 1994 from 32.0% in 1993. Raw material prices increased during the last half of 1994, and at year-end were approximately 7% higher than the prior year. Additionally, plant operating costs to comply with changing environmental, health and safety regulations increased during 1994. The company was able to manage the near-term impact of the higher raw material costs through operating expense control.

Selling and administrative expenses increased less than 1% to $159.5 million in 1994. This increase was significantly lower than the company's previous historical cost trend because of lower legal expenses and a decline in the number of employees as a result of early retirements related to the company's realignment initiative.

Research, testing and development expenses decreased $6.1 million or 4% to $165.5 million in 1994. This decrease was primarily attributable to completion in early 1994 of testing required for passenger car motor oil specification upgrades, the decline in the number of employees resulting from realignment and increased efficiencies in the product development process.

Primarily as a result of the above factors, consolidated revenues increased $38.8 million more than the increase in total costs and expenses in 1994.

The company continued its program of selling its investment in Genentech common stock. During 1994 and 1993, respectively, the company sold shares of Genentech common stock resulting in pretax gains of $41.2 million and $42.4 million.

Other income-net increased $6.8 million primarily due to improved equity earnings from the company's investment in Mycogen, including its agribusiness joint venture, net of a gain on the sale of an agribusiness investment in 1993.

As discussed previously, the company conducts a significant amount of its business outside of the United States and is, therefore, subject to certain related risks including currency fluctuations. In 1994, there was not a significant net earnings effect due to foreign currency fluctuations.

As a result of the above factors and a decrease in interest expense, consolidated income before taxes increased $131.8 million from 1993. Excluding the gain on the sales of Genentech stock and the 1993 special charge, income before taxes increased $46.7 million or 29% from 1993. The company made donations of Genentech common stock during 1994 (see Note 8 to the financial statements) which reduced the company's 1994 effective tax rate by 2%. This benefit is nonrecurring.

Excluding gains on the sales of Genentech common stock and the 1993 special charge and accounting changes (discussed below), net income was $148.8 million in 1994 compared with $113.5 million in 1993, and the related earnings per share amounts improved by 35% to $2.26 in 1994 from $1.67 in 1993.

1993 RESULTS OF OPERATIONS

In 1993, consolidated revenues increased $61.9 million or 4% from 1992 after excluding $88.6 million of Agrigenetics revenue in 1992. Selling prices increased 4% as a result of price increases implemented in the fourth quarter of 1992 and the introduction late in 1993 of higher performing products to meet new passenger car motor oil standards in the U.S. market. Favorable product mix (including sales by Langer & Company acquired early in 1993) of 3% was offset by unfavorable currency effects of 2% and volume decreases of 1%. North American volume decreased 9% in 1993 from the record levels of volume in 1992 as a result of a decrease in market share. The revenue impact of this volume decrease was offset by an increase in sales of more profitable products. International volume increased 6% over 1992 and accounts for approximately 60% of revenues.

Gross profit increased $30.4 million or 7% from $455.0 million in 1992 (excluding $35.3 million of Agrigenetics gross profit in 1992) primarily as a result of the higher average selling prices. Gross profit as a percentage of sales was 32.0% in 1993 compared with 31.2% (excluding Agrigenetics) in 1992.

Excluding Agrigenetics expenses of $29.1 million in 1992, selling and administrative expenses increased $6.3 million or 4% in 1993 primarily because of the acquisition of Langer. Technology expenses increased $30.3 million or 21% in 1993 after excluding Agrigenetics expenses of $13.5 million from 1992. This increase was a result of higher testing costs associated with customer test programs to meet new industry performance standards for passenger car and diesel engine oils and automatic transmission fluids.

As a result of the above factors and increased royalties, after excluding Agrigenetics from 1992, total cost and ex-

penses increased $5.9 million more than revenues increased in 1993.

During 1993, the company recorded a special pretax charge of $86.3 million and pretax gains of $42.4 million on the sale of Genentech common stock as discussed above. Other income-net was $.5 million in 1993, compared with $11.9 million in 1992. Other income includes the company's share of equity losses in Mycogen and the agribusiness joint venture. Mycogen recorded restructuring charges and incurred weather-related problems in the Midwest which adversely affected agribusiness results. The reduction in other income was attributable to increased equity losses of $18.3 million in Mycogen and the agribusiness joint venture, partially offset by increased gains on the sale of investments, excluding Genentech, of $6.7 million.

Interest income decreased $3.2 million due to lower average balances of cash and short-term investments. An increase in borrowings resulted in slightly higher interest expense in 1993.

In 1993, European currencies weakened and the Japanese yen strengthened resulting in an insignificant net earnings effect.

As a result of the above factors, income before income taxes decreased $57.5 million in 1993 compared with 1992. Net income in 1993, excluding the special charge, Genentech gain and the accounting changes discussed below, decreased 9% to $113.5 million or $1.67 per share, from $124.6 million or $1.81 per share in 1992.

As described in Note 11 to the financial statements, effective January 1, 1993, the company adopted SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The company recorded the cumulative effect of this accounting change of $79.9 million before taxes ($51.5 million or $.76 per common share after taxes) in the first quarter of 1993. As a result of this accounting change, postretirement health care and life insurance costs increased $8.1 million ($.08 per share after taxes) in 1993. This expense is allocated among the various cost and expense categories in the consolidated statements of income. SFAS 106 has no effect on cash flows since the company continues to pay claims as incurred.

As described in Note 9 to the financial statements, effective January 1, 1993, the company also adopted SFAS 109, "Accounting for Income Taxes." The cumulative effect of this accounting change reduced net deferred tax liabilities and increased net income in 1993 by $12.1 million or $.18 per share. The positive effect of adopting SFAS 109 was primarily attributable to more favorable treatment of the deferred income taxes on intercompany profit in inventory. SFAS 109 has no effect on cash flows.

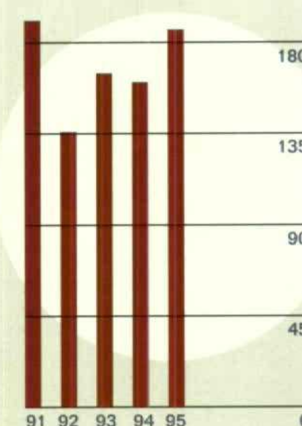
RETURN ON AVERAGE SHAREHOLDERS' EQUITY

RETURN ON EQUITY (percent)
(Excluding Genentech gains, the 1995 asset impairment charge and the 1993 special charge and accounting changes)

Return on average shareholders' equity was 18% in 1995, 22% in 1994 and 6% in 1993. Excluding Genentech gains from each year, the 1995 asset impairment charge and the 1993 special charge and accounting changes, return on average shareholders' equity was 16% in 1995, 19% in 1994 and 14% in 1993.

WORKING CAPITAL, LIQUIDITY AND CAPITAL RESOURCES

CASH PROVIDED FROM OPERATING ACTIVITIES (millions)



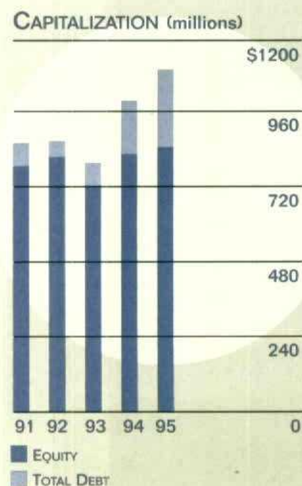
The company's cash flows for the years 1993 through 1995 are presented in the consolidated statements of cash flows. Cash provided from operating activities during 1995 was $187.4 million or 19% greater than the $156.8 million generated in 1994. This increase is primarily attributable to a positive change in the excess of cash received from customers over the amount paid to suppliers and employees and a lower amount of income taxes paid due to the timing of payments and lower income earned in 1995, which was somewhat offset by higher working capital requirements.

Net cash outflow from investing activities was $149.0 million in 1995, an increase of $31.8 million primarily due to higher capital expenditures. Capital expenditures were $189.3 million during 1995, an increase of 18% over 1994. Capital expenditures were made primarily at facilities in the United States and France. Approximately 70% of the 1995 capital expenditures pertained to manufacturing plants to enhance or maintain production capabilities, including maintaining facilities in compliance with environmental and safety regulations.

In 1995, capital spending for environmental and safety projects was $37 million, which was substantially higher than the approximate $20 million spent in both 1994 and 1993, due to the timing as to the completion of various projects. The remaining 30% of capital expenditures was largely for construction of new technical and administrative facilities at the company's headquarters. Capital spending declined from $106.0 million in the first half to $83.3 million in the second half of 1995 due to the completion of several major projects. Future capital spending will decline from the peak levels of 1995 and is expected to be lower than $140 million for 1996.

Over the past several years the company has periodically sold shares of its investment in Genentech common stock into the open market. During the first half of 1995, the company sold all of its remaining shares of Genentech common stock and received proceeds of $40.2 million. Proceeds from the sale of Genentech common stock were $43.6 million in 1994 and $44.5 million in 1993. In addition, proceeds from sale of investments in 1993 included $17.0 million from the sale and redemption of portions of the company's agribusiness investments.

In June 1995, the company publicly issued $100 million of 7.25% debentures due at the end of 30 years. The net proceeds from this debt issuance were used to repay a portion of the commercial paper borrowings then outstanding. The percent of total debt to capitalization (shareholders' equity plus short-term and long-term debt) was 23% at December 31, 1995, compared with 17% at December 31, 1994. Management plans to maintain the percentage of debt to capitalization within a range of 20 to 25 percent to leverage its financial strength while still retaining financial flexibility for future opportunities.



The company maintains an active share repurchase program and at December 31, 1995, had 3.0 million shares remaining under its current share repurchase authorizations. During the past three years, the net proceeds from the sale of Genentech common stock and a portion of cash generated from operations were used to repurchase common shares of the company. The company has expended $66.6 million, $68.3 million and $67.1 million during 1995, 1994 and 1993, respectively, to repurchase approximately 9% of its shares outstanding over the past three years. During 1996, the company's share repurchase program will consist of shares repurchased with approximately $110 million of net cash proceeds realized from the sale of its Mycogen investment as discussed below.

Primarily as a result of these activities and the payment of dividends, total debt, net of cash and short-term investments, increased $85.0 million from December 31, 1994 to $216.5 million at December 31, 1995.

The company remains in a strong financial position. The ratio of current assets to current liabilities remained relatively constant at 2.4:1 at December 31, 1995 compared with 2.5:1 at December 31, 1994. At December 31, 1995, the company had unused revolving credit agreements and other credit lines aggregating $95 million. As described in Note 5 to the financial statements, the company has the ability to refinance on a long-term basis $56.6 million of its outstanding commercial paper under existing revolving credit agreements. Management believes the company's credit facilities and internally generated funds will be sufficient to meet its future capital needs.

The company is involved in patent litigation with Exxon Corporation in various countries. In September 1995, the United States Court of Appeals for the Federal Circuit in Washington, D.C., overturned a Houston, Texas, jury verdict that the company had infringed an Exxon patent pertaining to an oil soluble copper additive component and entered judgment in favor of the company as a matter of law. This ruling also vacated an injunction and overturned a $129 million judgment entered against the company in February 1994. In February 1996, the same court in Washington, D.C., denied Exxon's request for rehearing. The company does not know whether Supreme Court review will be sought by Exxon or whether the Supreme Court would grant any such review. In a separate patent case in Canada, liability against Exxon and in favor of the company has been made by the Canadian court. However, a reasonable estimation of the company's potential recovery for damages can not be made at this time as the outcome of the appeals process for the award to the company of $15 million (Canadian) in penalty damages and the determination of the compensation damages by the Canadian courts is pending. Refer to Note 18 to the financial statements for further information regarding litigation with Exxon.

One of management's initiatives involved the continued restructuring of the company's Agribusiness investments. On February 20, 1996, the company sold all of its investment in

Mycogen Corporation to DowElanco for cash of $126.2 million, completing the divestiture of its agribusiness assets other than those relating to the specialty vegetable oil operations. The net cash proceeds from this sale, after taxes and related transaction costs, approximate $110 million. Also, on January 15, 1996, the company sold certain rights in its SVO oil seed technology to Mycogen for $8.0 million, of which $2.0 million was paid in January 1996, $2.5 million is payable in January 1997 and $3.5 million is payable in January 1998. (See Notes 4 and 16 to the financial statements.)

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, 1995 and 1994, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

As discussed in Notes 9 and 11 to the financial statements, in 1993 the Company changed its method of accounting for income taxes to conform with Statement of Financial Accounting Standards ("SFAS") No. 109 and its method of accounting for postretirement benefits to conform with SFAS No. 106.

Deloitte & Touche LLP

Cleveland, Ohio
February 20, 1996

Consolidated Statements of Income

(In Thousands of Dollars Except Per Share Data)	Year Ended December 31		
	1995	1994	1993
Net sales	**$1,657,821**	$1,592,750	$1,517,631
Royalties and other revenues	**5,773**	6,244	7,869
Total revenues	**1,663,594**	1,598,994	1,525,500
Cost of sales	**1,125,386**	1,072,025	1,032,199
Selling and administrative expenses	**163,493**	159,459	158,506
Research, testing and development expenses	**179,649**	165,480	171,540
Total cost and expenses	**1,468,528**	1,396,964	1,362,245
Asset impairment and special charge	**(9,489)**		(86,303)
Gain on sale of Genentech	**38,459**	41,235	42,443
Other income - net	**7,150**	7,332	537
Interest income	**4,764**	4,011	3,873
Interest expense	**(10,376)**	(3,149)	(4,154)
Income before income taxes	**225,574**	251,459	119,651
Provision for income taxes	**73,959**	75,884	34,676
Income before accounting changes	**151,615**	175,575	84,975
Cumulative effect of accounting changes			(39,375)
Net income	**$ 151,615**	$ 175,575	$ 45,600
Per Common Share:			
Income before accounting changes	**$2.37**	$2.67	$1.25
Cumulative effect of accounting changes			(.58)
Net income per share	**$2.37**	$2.67	$ .67
Dividends per share	**$ .93**	$ .89	$ .85

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

Consolidated Balance Sheets

(In Thousands of Dollars)	December 31 1995	December 31 1994
ASSETS		
Cash and short-term investments	$ 30,579	$ 36,379
Receivables	255,377	250,392
Inventories	310,539	298,331
Other current assets	43,199	39,286
Total current assets	639,694	624,388
Property and equipment - at cost	1,447,051	1,266,249
Less accumulated depreciation	770,235	707,505
Property and equipment - net	676,816	558,744
Investments in nonconsolidated companies	100,655	138,013
Other assets	74,855	73,219
TOTAL	$1,492,020	$1,394,364
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt and current portion of long-term debt	$ 52,685	$ 53,700
Accounts payable	125,120	114,244
Income taxes and other current liabilities	87,786	85,589
Total current liabilities	265,591	253,533
Long-term debt	194,423	114,161
Postretirement health care obligation	102,653	98,453
Noncurrent liabilities	53,223	68,799
Deferred income taxes	27,147	27,379
Total liabilities	643,037	562,325
Contingencies and commitments		
Preferred stock without par value - unissued		
Common shares without par value - Outstanding 62,951,288 shares in 1995 and 64,844,560 shares in 1994	83,254	84,059
Retained earnings	762,747	734,533
Other shareholders' equity	2,982	13,447
Total shareholders' equity	848,983	832,039
TOTAL	$1,492,020	$1,394,364

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		
	1995	1994	1993
CASH PROVIDED FROM (USED FOR):			
OPERATING ACTIVITIES:			
Net income	**$ 151,615**	$ 175,575	$ 45,600
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	**74,247**	65,934	61,674
Deferred income taxes	**16,899**	19,797	(32,751)
(Earnings) losses, from equity investees, net of distributions	**424**	(382)	18,138
Asset impairment and special charge	**9,489**		86,303
Gain on sale of investments	**(38,459)**	(41,235)	(55,617)
Cumulative effect of accounting changes			39,375
Change in current assets and liabilities:			
Receivables	**(386)**	(20,682)	(16,066)
Inventories	**(7,885)**	(3,150)	(14,043)
Accounts payable and accrued expenses	**(3,768)**	(17,745)	16,056
Other current assets	**(175)**	(12,921)	7,359
Change in noncurrent liabilities	**(2,486)**	3,246	12,370
Other items - net	**(12,153)**	(11,600)	(5,887)
Total operating activities	**187,362**	156,837	162,511
INVESTING ACTIVITIES:			
Proceeds from sale or redemption of investments	**40,160**	43,582	61,494
Capital expenditures	**(189,259)**	(160,527)	(127,855)
Acquisitions and investments in nonconsolidated companies	**(3,521)**	(1,734)	(40,346)
Other - net	**3,654**	1,488	(87)
Total investing activities	**(148,966)**	(117,191)	(106,794)
FINANCING ACTIVITIES:			
Short-term borrowing (repayment)	**(18,676)**	38,359	168
Long-term borrowing	**111,990**	56,741	36,048
Long-term repayment	**(14,672)**	(2,370)	(23,146)
Dividends paid	**(59,414)**	(58,588)	(57,608)
Common shares purchased, net of options exercised	**(64,792)**	(64,372)	(64,073)
Total financing activities	**(45,564)**	(30,230)	(108,611)
Effect of exchange rate changes on cash	**1,368**	2,743	521
Net increase (decrease) in cash and short-term investments	**(5,800)**	12,159	(52,373)
Cash and short-term investments at the beginning of year	**36,379**	24,220	76,593
Cash and short-term investments at the end of year	**$ 30,579**	$ 36,379	$ 24,220

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	Other Shareholders' Equity
		(In Thousands of Dollars)		
BALANCE, DECEMBER 31, 1992	68,450,586	$80,274	$759,906	$(20,818)
Net income 1993			45,600	
Cash dividends			(57,608)	
Translation adjustment for 1993				(11,045)
Common shares - Treasury:				
Shares purchased	(2,075,645)	(2,479)	(64,629)	
Shares issued upon exercise of stock options	215,087	3,035		
BALANCE, DECEMBER 31, 1993	66,590,028	80,830	683,269	(31,863)
Net income 1994			175,575	
Cash dividends			(58,588)	
Change in unrealized gain on marketable securities				23,169
Translation adjustment for 1994				22,141
Common shares - Treasury:				
Shares purchased	(2,007,721)	(2,528)	(65,723)	
Shares issued upon exercise of stock options	208,210	3,879		
Other	54,043	1,878		
BALANCE, DECEMBER 31, 1994	64,844,560	84,059	734,533	13,447
Net income 1995			151,615	
Cash dividends			(59,414)	
Change in unrealized gain on marketable securities				(23,169)
Translation adjustment for 1995				12,704
Common shares - Treasury:				
Shares purchased	(1,982,969)	(2,604)	(63,987)	
Shares issued upon exercise of stock options	89,697	1,799		
BALANCE, DECEMBER 31, 1995	62,951,288	$83,254	$762,747	$ 2,982

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

NOTE 1 - NATURE OF OPERATIONS

The Lubrizol Corporation is a full service supplier of performance chemicals to diverse markets worldwide. These specialty chemical products are created through the application of advanced chemical and mechanical technologies to enhance the performance, quality and value of the products in which they are used. The company develops, produces and sells specialty additive systems for gasoline and diesel engine lubricating oils, for automatic transmission fluids and for gear oils and marine and tractor lubricants. The company also supplies specialty products for industrial lubricants and functional fluids, fuel additives and diversified specialty chemical products.

The company's sales and receivables are concentrated in the oil and chemical industries. The company's additive customers consist primarily of oil refiners and independent oil blenders and are located in more than 100 countries. Approximately 60% of the company's sales are made to customers outside of North America. The ten largest customers, most of which are international oil companies and a number of which are groups of affiliated entities, comprised approximately 44% of consolidated sales in 1995, 45% in 1994 and 44% in 1993. Although the largest single group each year accounted for 10% of sales in 1995 and 9% in 1994 and 1993, these customers are made up of a number of separate entities that the company believes make independent purchasing decisions.

NOTE 2 - ACCOUNTING POLICIES

CONSOLIDATION - The consolidated financial statements include the accounts of The Lubrizol Corporation and its majority-owned subsidiaries. For nonconsolidated companies (affiliates), the equity method of accounting is used when ownership, unless temporary, exceeds 20% and when the company has the ability to exercise significant influence over the policies of the investee. Other affiliates are carried at cost or fair market value (see Note 4).

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions pending completion of related events. These estimates and assumptions affect the amounts reported at the date of the financial statements for assets, liabilities, revenues and expenses and the disclosure of contingencies. Actual results could differ from those estimates.

ACCOUNTING CHANGES - Effective January 1, 1993, the company changed its method of accounting for postretirement benefits to conform with Statement of Financial Accounting Standards (SFAS) 106 (see Note 11) and its method of accounting for income taxes to conform with SFAS 109 (see Note 9). The cumulative effect at adoption of these changes in accounting principles, net of tax, is separately reported on the Consolidated Statements of Income. Effective January 1, 1994, the company changed its method of accounting for certain investments in marketable securities to conform to SFAS 115 (see Note 4).

CASH EQUIVALENTS - 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 when purchased of less than three months.

INVENTORIES - Inventories are stated at cost which is not in excess of market. Cost of inventories is determined by the last-in, first-out (LIFO) method in the United States and the first-in, first-out (FIFO) method elsewhere. The average cost method is used for inventories of specialty vegetable oil.

DEPRECIATION AND AMORTIZATION - Accelerated depreciation methods are used in computing depreciation on certain machinery and equipment which comprise approximately 40% of the depreciable assets. The remaining assets are depreciated using the straight-line method, including all machinery and equipment placed in service after January 1, 1993. The estimated useful lives are 10 to 40 years for buildings and land improvements and range from 3 to 20 years for machinery and equipment. Amortization of intangible and other assets is on a straight-line method over periods ranging from 5 to 25 years.

For income tax purposes, different methods and rates are used in certain instances.

RESEARCH, TESTING AND DEVELOPMENT - Research, testing and development costs are expensed when incurred. Research and development expenses, excluding testing, were

$104.9 million, $90.7 million and $88.5 million in 1995, 1994 and 1993, respectively.

FOREIGN CURRENCY TRANSLATION - The assets and liabilities of 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 gains (losses) are recorded as a component of other shareholders' equity and totaled $2,982, $(9,722) and $(31,863) at December 31, 1995, 1994 and 1993, respectively.

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.

NOTE 3 - INVENTORIES

	1995	1994
Finished products	$102,628	$102,605
Products in process	96,061	98,105
Raw materials	89,267	77,626
Supplies and engine test parts	22,583	19,995
	$310,539	$298,331

Inventories on the LIFO method were 26% and 27% of consolidated inventories at December 31, 1995 and 1994, respectively. The current replacement cost of these inventories exceeded the LIFO cost at December 31, 1995 and 1994, by $51.0 million and $49.9 million, respectively.

NOTE 4 - INVESTMENTS IN NONCONSOLIDATED COMPANIES

	1995	1994
Investments carried at equity	$ 60,029	$ 60,523
Investments carried at cost	40,626	37,890
Investments classified as available-for-sale		39,600
	$100,655	$138,013

Included within investments carried at equity is the company's common stock investment in Mycogen Corporation and Agrigenetics Inc. (AGI), a joint venture between the company and Mycogen, which have a book carrying value of $40.3 million at December 31, 1995. The company's investment in Mycogen Series A Preferred Stock is included in investments carried at cost in the amount of $31.5 million, including preferred dividends, at December 31, 1995. (Refer to Note 16 for subsequent event related to sale of these investments.)

The company also holds investments in nonconsolidated companies, including certain investments in securities of publicly traded companies that are accounted for on the cost basis due to restrictions placed on such securities. These marketable investments have quoted market values which exceed the book carrying values by $1.1 million at December 31, 1995.

The company's investment in Genentech Inc. redeemable common stock comprised substantially all of its investments classified as available-for-sale. Over the past several years the company periodically sold its shares of Genentech common stock into the open market. During the first half of 1995, the company sold all of its remaining shares of Genentech common stock and received proceeds of $40.2 million, generating gross realized gains of $38.5 million. Sales of Genentech common stock generated proceeds of $43.6 million and $44.5 million and gross realized gains of $41.2 million and $42.4 million in 1994 and 1993, respectively. On an after-tax basis these gains contributed $.39 per share in 1995 and $.41 per share in 1994 and 1993, respectively. The company determined the gross realized gains using the average cost method.

At December 31, 1994, investments classified as available-for-sale had an aggregate fair value of $39.6 million resulting in gross unrealized gains of $36.2 million and unrealized losses of $.6 million which increased shareholders' equity by $23.2 million after tax.

NOTE 5 - SHORT-TERM AND LONG-TERM DEBT

	1995	1994
Long-term debt consists of:		
7.25% debentures, due 2025	$100,000	
Debt supported by long-term banking arrangements:		
Commercial paper at weighted average rates of approximately 6%	56,625	$ 56,625
6.5% Marine terminal refunding revenue bonds, due 2000	18,375	18,375
7.875% Industrial development revenue bonds, due 2000	1,000	1,000
Term loans:		
Yen denominated, at 3.8% to 5.8%, due 1996-2002	21,508	24,898
Deutsche mark denominated, at 6.78%, due 1996	16,748	15,484
Other (5.0% in 1995 and 1994)	365	325
	214,621	116,707
Less current portion	(20,198)	(2,546)
	$194,423	$114,161
Short-term debt consists of:		
Commercial paper at weighted average rates of approximately 6%	$ 17,375	$ 46,375
Other short-term debt at weighted average rates of 2.1% and 5.2%	15,112	4,779
Current portion of long-term debt	20,198	2,546
	$ 52,685	$ 53,700

On June 26, 1995, the company publicly issued debentures in the aggregate principal amount of $100 million. The debentures are unsecured, senior obligations of the company that mature on June 15, 2025, and bear interest at an annualized rate of 7.25% payable semi-annually on June 15 and December 15 of each year. The debentures are not redeemable prior to maturity and are not subject to any sinking fund requirements.

Commercial paper debt is due within one year. The company has credit facilities, which were unused at December 31, 1995, aggregating $95 million, including $75 million in committed revolving credit agreements which would permit the company to borrow at or below the U.S. prime rate. These facilities permit the company to refinance for a period beyond one year the Marine Terminal Refunding Revenue Bonds, whose bondholders have the right to put the bonds back to the company, and $56.6 million of commercial paper outstanding. Accordingly, the company has classified these balances as long-term debt.

Amounts due on long-term debt are $20.2 million in 1996, $2.5 million in 1997, $11.6 million in 1998, $3.4 million in 1999, $75.5 million in 2000, which includes $56.6 million of commercial paper, and $101.4 million thereafter.

The company has an interest rate swap agreement that effectively converts floating rate interest payable on $18.4 million of Marine Terminal Refunding Revenue Bonds due July 1, 2000, to a fixed rate of 6.5%. In addition, during 1995, the company entered into interest rate swap agreements that convert $50 million of variable rate borrowings to a fixed rate of 7.6% for up to 10 years.

Interest paid, net of amounts capitalized, amounted to $9.8 million, $3.0 million and $3.9 million during 1995, 1994 and 1993, respectively. The company capitalizes interest on qualifying capital projects. The amount of interest capitalized during 1995, 1994 and 1993 amounted to $4.3 million, $3.8 million and $2.1 million, respectively.

NOTE 6 - OTHER BALANCE SHEET INFORMATION

Receivables:	1995	1994
Customers	$ 221,557	$ 219,475
Affiliates	9,993	9,174
Other	23,827	21,743
	$ 255,377	$ 250,392

Receivables are net of allowance for doubtful accounts of $2.2 million in 1995 and $2.6 million in 1994.

Other Current Assets:	1995	1994
Deferred income taxes	$ 23,844	$ 20,232
Other	19,355	19,054
	$ 43,199	$ 39,286

Property and Equipment:	1995	1994
Land and improvements	$ 101,457	$ 90,069
Buildings and improvements	264,580	217,002
Machinery and equipment	971,965	828,340
Construction in progress	109,049	130,838
	$1,447,051	$1,266,249

Depreciation expense was $68.8 million in 1995, $61.3 million in 1994 and $59.6 million in 1993.

Other Assets:	1995	1994
Goodwill and other intangibles	$ 45,943	$ 41,381
Deferred income taxes	9,928	18,229
Other	18,984	13,609
	$ 74,855	$ 73,219

Accumulated amortization of intangible and other assets was $24.5 million and $19.0 million at December 31, 1995 and 1994, respectively.

Accounts Payable:	1995	1994
Trade	$ 118,639	$ 109,151
Affiliates	6,481	5,093
	$ 125,120	$ 114,244

Income Taxes and Other Current Liabilities:	1995	1994
Employee compensation	$ 33,256	$ 33,763
Income taxes	10,707	10,504
Taxes other than income	13,912	11,030
Other	29,911	30,292
	$ 87,786	$ 85,589

Noncurrent Liabilities:	1995	1994
Employee benefits	$ 33,998	$ 35,687
Other	19,225	33,112
	$ 53,223	$ 68,799

NOTE 7 - SHAREHOLDERS' EQUITY

The company has 147 million authorized shares consisting of 2 million shares of Serial Preferred Stock, 25 million shares of Serial Preference Shares and 120 million Common Shares, each of which is without par value. The outstanding Common Shares shown on the balance sheets exclude Common Shares held in treasury of 23,244,606 and 21,351,334 at December 31, 1995 and 1994, respectively.

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 one dollar 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 8 - OTHER INCOME

Other income - net consists of the following:

	1995	1994	1993
Equity earnings (losses) of nonconsolidated companies	$ (2,081)	$ 2,972	$(15,966)
Gain on donations of Genentech stock		13,967	
Donations of Genentech stock to The Lubrizol Foundation		(14,581)	
Gain on sale of investments, excluding Genentech			13,174
Gain on investee stock issuance (Note 16)	4,530		
Other - net	4,701	4,974	3,329
	$ 7,150	$ 7,332	$ 537

The gain (loss) pertaining to activity with Mycogen Corporation (see Note 16), reflected within the above table of other income, amounted to $.6 million in 1995, $1.4 million in 1994 and $(5.8) million in 1993.

NOTE 9 - INCOME TAXES

Effective January 1, 1993, the company adopted SFAS 109, which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the company's financial statements and tax returns. In estimating future tax consequences, SFAS 109 generally considers all expected future events other than changes in tax laws or rates not yet enacted. The cumulative effect of adopting SFAS 109 at January 1, 1993, increased net income by $12.1 million, or $.18 per share.

Income before income taxes consists of the following:

	1995	1994	1993
United States	$136,801	$163,508	$ 68,673
Foreign	88,773	87,951	50,978
Total	$225,574	$251,459	$119,651

The provision for income taxes consists of the following:

	1995	1994	1993
Current:			
United States	$ 28,294	$ 28,698	$ 31,560
Foreign	28,766	27,389	34,774
	57,060	56,087	66,334
Deferred:			
United States	8,334	12,605	(15,306)
Foreign	8,565	7,192	(16,352)
	16,899	19,797	(31,658)
Total	$ 73,959	$ 75,884	$ 34,676

Foreign taxes include withholding taxes. The United States tax provision includes the U.S. tax on foreign income distributed to the company. U.S. and foreign income tax rate changes occurring during the periods presented did not have a material effect on the company's provision for income taxes. The differences between the provision for income taxes at the U.S. statutory rate and the tax shown in the consolidated statements of income are summarized as follows:

	1995	1994	1993
Tax at statutory rate of 35%	$ 78,951	$ 88,011	$ 41,878
Foreign sales corporation earnings	(4,389)	(3,885)	(2,964)
Equity income	(856)	(812)	(1,551)
Contribution of appreciated property		(5,050)	
Other - net	253	(2,380)	(2,687)
Provision for income taxes	$ 73,959	$ 75,884	$ 34,676

The components of deferred tax assets (liabilities) as of December 31 are as follows:

	1995	1994	1993
Accrued compensation and benefits	$ 40,313	$ 42,468	$ 42,425
Intercompany profit in inventory	13,285	12,055	11,208
Net operating losses carried forward, net of valuation allowance	5,519	5,660	6,668
Equity investments and partnerships	3,864	1,495	(2,003)
Depreciation and other basis differences	(55,094)	(40,111)	(28,238)
Marketable securities valuation		(12,476)	
Undistributed foreign equity income	(4,458)	(4,124)	(3,877)
Other - net	(309)	3,174	13,892
Net deferred tax assets	$ 3,120	$ 8,141	$ 40,075

At December 31, 1995, certain foreign subsidiaries have net operating loss carry forwards of $21.4 million for income tax purposes, of which $11.6 million expires in years 1997 through 2000 and $9.8 million has no expiration. After evaluating tax planning strategies and historical and projected profitability, a valuation allowance of $3.6 million has been recognized in 1995 to reduce the deferred tax assets related to those carryforwards to the amount expected to be realized.

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 $320.2 million at December 31, 1995. Determination of the net amount of unrecognized U.S. income tax with respect to these earnings is not practicable.

Income taxes paid during 1995, 1994 and 1993 amounted to $56.9 million, $70.9 million and $61.2 million, respectively.

NOTE 10 - PENSION AND PROFIT SHARING PLANS

The company has retirement plans, including noncontributory defined benefit pension plans and a profit sharing plan, covering most 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 marketable equity securities and fixed income instruments.

Expense for all retirement plans was $20.7 million in 1995, $24.1 million in 1994 and $25.1 million in 1993, including profit sharing contributions in the U.S. of $4.4 million in 1995, $5.7 million in 1994 and $3.8 million in 1993.

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

	1995	1994	1993
Service cost - benefits earned during period	$ 10,089	$ 11,454	$ 10,107
Interest cost on projected benefit obligation	17,804	16,769	16,115
Actual return on plan assets	(47,965)	1,510	(24,830)
Net amortization and deferral	31,833	(14,695)	16,363
Net periodic pension cost	$ 11,761	$ 15,038	$ 17,755

Net periodic pension cost for 1993 reflects higher charges resulting from the company's realignment and early retirement programs accounted for in the special charge (see Note 17).

The weighted average assumptions used at December 31 were:

	1995	1994	1993
Discount rate for determining funded status	7.3%	8.2%	7.2%
Compensation increase	4.8%	5.2%	5.1%
Return on plan assets	8.8%	8.6%	8.5%

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

	1995		1994	
	Assets Exceed Accum. Benefits	Accum. Benefits Exceed Assets	Assets Exceed Accum. Benefits	Accum. Benefits Exceed Assets
Fair value of plan assets	$234,819	$ 6,328	$180,905	$ 6,273
Projected benefit obligation	(211,709)	(31,724)	(186,988)	(36,599)
Plan assets in excess of (less than) projected benefit obligation	23,110	(25,396)	(6,083)	(30,326)
Unrecognized net transition obligation (asset)	(13,206)	4,513	(14,871)	3,531
Unrecognized net loss (gain)	(7,508)	(611)	14,408	1,670
Unrecognized prior service cost	14,208	3,210	15,299	4,222
Minimum liability adjustment		(906)		(983)
Accrued pension asset (liability)	$ 16,604	$(19,190)	$ 8,753	$(21,886)
Accumulated benefit obligation	$152,714	$ 23,928	$138,258	$ 26,020
Vested benefits	$146,672	$ 20,170	$133,880	$ 21,901

NOTE 11 - POSTRETIREMENT HEALTH CARE

The company provides certain postretirement benefits other than pensions, primarily health care, for retired employees. Currently, substantially all of the company's full-time employees in the U.S. become eligible for these benefits after attaining specified years of service and age 55 at retirement. Participants contribute a portion of the cost of such benefits. The company's postretirement health care plans are not funded.

Effective January 1, 1993, the company adopted SFAS 106 which requires the company to accrue the estimated cost of retiree benefit payments during the years the employee provides services. The company elected to immediately recognize the cumulative effect at January 1, 1993 of this change in accounting principle and recorded a liability for the accumulated postretirement benefit obligation of $79.9 million, an increase in deferred income tax assets of $28.4 million and a decrease in net income of $51.5 million ($.76 per share).

The status of the U.S. health care plans at December 31 is as follows:

	1995	1994
Accumulated postretirement benefit obligations:		
Retirees	$ 27,915	$33,778
Fully eligible active plan participants	16,104	16,941
Other active plan participants	20,004	18,724
Total accumulated postretirement benefit obligation	64,023	69,443
Unrecognized net (loss) gain	(3,503)	7,949
Unrecognized net reduction in prior service costs	40,274	20,036
Accrued postretirement health care costs	$100,794	$97,428

In late 1994, the company amended its U.S. health care plan, including several changes with effective dates into the future. These amendments changed eligibility requirements and changed the cost sharing provisions of the plan by indexing deductibles and co-payments and introducing a cap on the company's share of future premium costs. These changes reduced the accumulated postretirement benefit obligation at December 31, 1994, by $20.0 million. In 1995, the company incorporated assumptions within its health care plan regarding participation in Medicare Risk HMO plans for its current and future retirees, which reduced the company's postretirement benefit obligation by $21.9 million. These reductions in prior service cost do not immediately reduce the accrued postretirement liability, but are amortized as a reduction of expense over the participant's average future service period to full eligibility (approximately 13 years).

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 9.75% in 1995 (10.50% in 1994), with subsequent annual decrements of .75% to an ultimate trend rate of 6%. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation by approximately 16% and net postretirement benefit cost by approximately 22%. The discount rate used in determining the accumulated postretirement benefit obligation was 7.50% and 8.75% at December 31, 1995 and 1994, respectively.

Net postretirement health care cost consists of the following components for the company's U.S. plans:

	1995	1994	1993
Service cost - benefits earned during the year	$ 1,361	$ 2,916	$2,620
Interest cost on accumulated postretirement benefit obligation	6,066	7,131	6,724
Amortization of unrecognized net gains	(1,766)		
Net postretirement health care cost	$ 5,661	$10,047	$9,344

The company also provides postretirement health care benefits at several of its international locations. Accumulated benefits and net postretirement health care costs for these locations were not significant.

NOTE 12 - LEASES

The company has commitments under operating leases primarily for office space, terminal facilities, land, railroad tank cars and various office equipment. Rental expense was $19.5 million in 1995, $19.3 million in 1994 and $19.0 million in 1993. Future minimum rental commitments under operating leases having initial or remaining non-cancelable lease terms exceeding one year are $12.8 million in 1996, $6.8 million in 1997, $5.1 million in 1998, $3.0 million in 1999, $2.5 million in 2000 and $23.2 million thereafter.

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:

	1995	1994	1993
Revenues from customers:			
United States	$ 722,879	$ 707,103	$ 660,674
Europe	533,920	512,279	501,551
Far East	225,773	215,632	203,327
Other	181,022	163,980	159,948
	1,663,594	1,598,994	1,525,500
Intercompany transfers:			
United States	319,671	296,693	290,487
Europe	37,556	28,835	22,276
Far East	301	360	496
Other	30,905	27,717	26,707
	388,433	353,605	339,966
Gross revenues	2,052,027	1,952,599	1,865,466
Less: Intercompany transfers	(388,433)	(353,605)	(339,966)
Consolidated revenues	$1,663,594	$1,598,994	$1,525,500
Operating profit:			
United States	$ 138,398	$ 145,971	$ 105,591
Europe	51,172	49,783	58,781
Far East	9,731	15,486	14,374
Other	17,476	14,251	11,392
Eliminations	(2,555)	(2,249)	(129)
	214,222	223,242	190,009
General corporate expenses	(19,156)	(21,212)	(26,754)
Asset impairment and special charge	(9,489)		(86,303)
Gain on sale of Genentech	38,459	41,235	42,443
Other income - net	7,150	7,332	537
Interest - net	(5,612)	862	(281)
Income before income taxes	$ 225,574	$ 251,459	$ 119,651
Identifiable assets:			
United States	$ 804,045	$ 731,651	$ 637,919
Europe	395,053	337,457	289,649
Far East	154,992	157,344	143,542
Other	82,708	74,768	71,651
Eliminations	(82,310)	(81,640)	(88,012)
	1,354,488	1,219,580	1,054,749
Corporate assets	137,532	174,784	127,831
Total assets	$1,492,020	$1,394,364	$1,182,580

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 and Asia in 1995 and also in the Middle East for 1994 and 1993, were $138 million, $139 million and $119 million, respectively.

Net assets of non-U.S. subsidiaries at December 31, 1995 and 1994 were $446 million and $388 million, respectively. Net income of these subsidiaries was $52 million in 1995, $55 million in 1994 and $42 million in 1993; and dividends received from the subsidiaries were $7 million, $8 million and $34 million, respectively.

NOTE 14 - FINANCIAL INSTRUMENTS

The company has various financial instruments, including cash and short-term investments, investments in nonconsolidated companies, foreign currency forward contracts, 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 generally accepted valuation methodologies. The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair value amounts. The company believes the carrying values of financial instruments approximate their fair values, except for certain investments in marketable securities (see Note 4) and certain interest rate swaps discussed below. The company uses derivative financial instruments only to manage well-defined foreign currency, interest rate and commodity price risks, as described below. The company does not use derivative financial instruments for trading purposes.

The company is exposed to the effect of changes in foreign currency rates on its earnings and cash flow as a result of doing business internationally. In addition to working capital management, pricing and sourcing, the company selectively uses foreign currency forward contracts to lessen the potential effect of these changes. Such contracts are generally in connection with transactions with maturities of up to one year. The maximum amount of foreign currency forward contracts outstanding at any one time was $16.6 million in 1995 and $25.7 million in 1994.

Realized and unrealized gains or losses on these contracts are recorded in the statement of income, or in the case of transactions designated as hedges of net foreign investments, in the cumulative translation adjustment account in other shareholders' equity. Additionally, foreign currency forward contract gains and losses on certain future transactions may be deferred until the future transaction is recorded. The company had no deferred currency gains or losses on foreign exchange contracts at December 31, 1995.

At December 31, 1995, the company had short-term forward contracts to sell currencies at various dates during 1996 for $2.2 million.

The company has entered into interest rate swap agreements to effectively convert floating rate debt to fixed rates (see Note 5). The company would pay approximately $9.2 million if it had terminated these interest rate swap agreements at December 31, 1995. The company also uses commodity futures contracts to reduce its exposure to fluctuations in raw material costs for its specialty vegetable oils. Realized gains and losses on these commodity future contracts are included in inventory cost.

NOTE 15 - STOCK OPTIONS

The Financial Accounting Standards Board has issued SFAS 123 - Accounting for Stock-Based Compensation, which is effective for the company's fiscal year beginning January 1, 1996. SFAS 123 encourages the fair-value based method of accounting for stock compensation plans under which the value of stock options is estimated at the date of grant using valuation formulas, but permits the continuance of intrinsic-value accounting (measured as the difference between the option exercise price and the market value of the stock at date of grant). The company will continue to use intrinsic-value accounting for stock-based compensation.

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, 100% after three years, and expire up to ten years after grant. "Reload options," which are options to purchase additional shares if a grantee uses already-owned shares to pay for an option exercise, are granted automatically under the 1991 Plan and may be granted in the discretion of the administering committee under the 1985 Employee Stock Option Plan. The 1991 Plan generally supersedes the 1985 Plan, although options outstanding under the 1985 Plan remain exercisable until the expiration dates. The option price under both plans is the fair market value of the shares on the date of grant. Both 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 to each outside

director of the company an automatic annual grant of an option to purchase 2,000 Common Shares, with terms generally comparable to employee stock options.

Information regarding these option plans is as follows:

	Number of Shares		
	1995	1994	1993
Outstanding, January 1	2,583,721	2,338,875	2,147,263
Granted at $28.13 to $37.50 per share	528,210	614,815	624,546
Exercised at $10.97 to $33.34 per share	(148,887)	(364,519)	(394,178)
Surrendered at $16.66 to $37.50 per share	(4,628)	(5,450)	(38,756)
Outstanding, December 31	2,958,416	2,583,721	2,338,875
Exercisable, December 31	1,975,878	1,652,012	1,341,767
Available for grant, December 31	1,998,149	1,873,286	1,816,751

The 1985 Plan options expire June 1996 to February 2005, with an average option price of $25.50. The 1991 Plan options expire April 2001 to April 2005, with an average option price of $33.86.

NOTE 16 - SUBSEQUENT EVENTS AND TRANSACTIONS WITH MYCOGEN

Subsequent Events

Pursuant to a definitive agreement to sell all of its interest in Mycogen Corporation (Note 4) to DowElanco for $126.2 million in cash, on January 15, 1996, the company exchanged its remaining interest in AGI and all of its Mycogen Series A Preferred Stock into Mycogen Common Stock. This action, together with common shares previously owned, increased the company's ownership of the outstanding common shares of Mycogen from 27% to 37%. Due to this pending sale and the company assigning certain shareholder rights to DowElanco until the sale was completed, the company suspended using the equity method of accounting for its investment in Mycogen. On February 20, 1996, the sale of the company's interest in Mycogen to DowElanco was completed, and the company realized a pretax gain of approximately $50 million, after transaction and other related costs.

In addition, on January 15, 1996, the company sold certain rights to its SVO oil seed technology to Mycogen for $8.0 million; of which $2.0 million was collected in January 1996 with $2.5 million due in January 1997 and $3.5 million due January 1998.

Transactions with Mycogen

As described below, the company has completed several transactions with Mycogen Corporation related to the company's former Agribusiness assets. In December 1992, the company transferred certain Agribusiness assets to Mycogen in exchange for 2,294,590 shares of Mycogen Common Stock and $39.4 million par value Series A Preferred Stock which earned dividends at 5% per year. The remainder of the company's Agribusiness assets plus cash of $4.6 million, and exclusive of specialty vegetable operations, were transferred to a separate joint venture (AGI) with Mycogen, of which the company retained a 49% interest.

On December 1, 1993, Mycogen mandatorily redeemed $10.0 million of the Preferred Stock for cash. On December 31, 1993, the company sold 30% of AGI to Mycogen in exchange for $7.0 million in cash and 2 million shares of Mycogen Common Stock.

On December 13, 1995, Mycogen issued new shares of its common stock at a price which exceeded the company's carrying amount per share of Mycogen Common Stock. The company's ownership percentage in Mycogen was diluted, and the company recognized in other income a noncash gain of $4.5 million, which represents the increase in the value of the company's ownership interest in the net assets of Mycogen.

At December 31, 1995, the company owned approximately 27% of Mycogen Common Stock and 19% of AGI Common Stock with a book carrying value aggregating $40.3 million. In addition, the company's investment in Mycogen Series A Preferred Stock has a book carrying value at December 31, 1995, of $31.5 million, including accumulated preferred dividends.

NOTE 17 - SPECIAL CHARGE AND ASSET IMPAIRMENT

The company recorded a special charge of $86.3 million ($.83 per share after tax) in the third quarter of 1993 in connection with manufacturing rationalization and organizational realignment initiatives. When complete, these initiatives will have reduced the number of the company's production units by approximately one-third, and approximately 5% of the employees will have left the company through early retirement programs or attrition. The manufacturing rationalization plan will be substantially complete near the end of 1996 and through consolidation is resulting in cost savings from a reduced number of employees, lower operating costs and fewer manufacturing units used to produce intermediate products.

Approximately $48 million of the special charge relates to the manufacturing rationalization of which $25 million relates to asset write-downs, including $16 million for the shutdown of manufacturing units used to produce intermediate products. The remainder of the manufacturing rationalization portion of the special charge relates to expected employee reduction at manufacturing locations through early retirements, equipment cleanup and dismantling, employee relocation and other transitional costs.

The organizational realignment relates to the consolidation of the company's nonmanufacturing activities. This portion of the special charge is approximately $38 million and includes $17 million for employee early retirement and relocation. The remainder of this portion of the special charge relates to asset write-downs of $15 million, primarily in the company's Agribusiness investments and accruals for transitional costs.

Through December 31, 1995, the company has completed approximately 75% of the production unit reductions and 90% of the employee reductions under these initiatives. At December 31, 1995, $22.7 million remains in the special charge. Cash outlays related to the special charge were approximately $14 million in 1995, $18 million in 1994 and $4 million in 1993. Included in liabilities at December 31, 1995, are future cash outlays of $9 million, primarily for employee reductions and lease terminations.

During the fourth quarter of 1995, the company recorded a charge of $9.5 million for the write-down of assets. This charge is primarily related to an intermediate processing unit that became permanently impaired due to product formulation changes caused by a new industry-wide specification.

NOTE 18 - LITIGATION

In November 1993, a federal court jury in Houston, Texas, awarded Exxon Corporation $48 million in damages in a patent case brought, in 1989, against the company. The damages award related to a December 1992 verdict that the company willfully infringed an Exxon patent pertaining to an oil soluble copper additive component. In February 1994, the trial court judge doubled the damages amount and awarded prejudgment interest, court costs and additional attorneys' fees to Exxon. The total amount of the judgment, including previously awarded attorneys' fees, was $129 million.

In September 1995, the United States Court of Appeals for the Federal Circuit in Washington, D.C., which has jurisdiction over all patent cases, overturned the jury verdict that the company infringed the Exxon patent and entered judgment in favor of the company as a matter of law. The ruling also vacated an injunction against the company and the $129 million judgment. In February, 1996, the same court in Washington, D.C., denied Exxon's request for rehearing. The company does not know whether Supreme Court review will be sought by Exxon or whether the Supreme Court would grant any such review. The company's management continues to believe that it has not infringed the Exxon patent, that the patent is invalid, and that no portion of the overturned judgment will be reinstated. Therefore, no amount related to the matter has been recorded in the company's financial statements.

The company has prevailed in a separate case brought in Canada against Exxon's Canadian affiliate, Imperial Oil, Ltd., for infringement of the company's patent pertaining to dispersant, the largest additive component used in motor oils. A 1990 trial court verdict in favor of the company regarding the issue of liability was upheld by the Federal Court of Appeals of Canada in December 1992, and in October 1993, the Supreme Court of Canada dismissed Imperial Oil's appeal of the Court of Appeals' decision. The case has returned to the trial court for an assessment of damages. In October 1994, the trial court judge awarded the company $15 million (Canadian) in special penalty damages, plus attorneys' fees, against Imperial Oil for disregarding an earlier injunction for the manufacture or sale of the dispersant which is the subject of this case. Imperial Oil commenced proceedings to appeal the award of penalty damages. The company has not reflected the award of penalty damages within its financial statements pending the outcome of the appeal process. The penalty damages are in addition to compensation damages, as to which no date has been set for a determination. A reasonable estimation of the company's potential recovery for compensation damages cannot be made at this time.

Quarterly Financial Data (Unaudited)

	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In Thousands of Dollars Except Per Share Data)			
1995				
Net sales	$414,931	$436,774	$412,428	$393,688
Gross profit	137,375	148,865	129,985	116,210
Genentech gain (net of tax)	8,519	16,479		
Net income	49,102	61,251	27,942	13,320
Net income per share	$.76	$.96	$.44	$.21
1994				
Net sales	$397,816	$407,163	$396,478	$391,293
Gross profit	125,210	134,721	134,601	126,193
Genentech gain (net of tax)	7,483	7,719	7,812	3,789
Net income	43,281	49,132	47,933	35,229
Net income per share	$.65	$.74	$.73	$.54

In the fourth quarter of 1995, the company recognized an asset impairment charge which decreased net income by $6.2 million ($.10 per share).

Historical Summary

(In Millions, Except Shareholders, Employees and Per Share Data)	**1995**	1994	1993
Operating Results:			
Revenues	**$1,663.6**	$1,599.0	$1,525.5
Total cost and expenses	**1,468.5**	1,397.0	1,362.2
Other income (charges)	**30.5**	49.4	(43.6)
Net income	**151.6**	175.6	45.6
- Before unusual items and accounting changes	**132.8**	148.8	113.5
Net income per share	**2.37**	2.67	.67
- Before unusual items and accounting changes	**2.08**	2.26	1.67
Financial Ratios:			
Gross profit percentage	**32.1**	32.7	32.0
Percent of revenues:			
Selling and administrative expenses	**9.8**	10.0	10.4
Research and testing expenses	**10.8**	10.3	11.2
Return on average shareholders' equity (%)	**18.0**	22.5	5.9
- Before unusual items and accounting changes (%)	**15.8**	19.0	14.6
Debt to capitalization (%)	**22.5**	16.8	8.7
Current ratio	**2.4**	2.5	2.5
Other Information:			
Dividends declared per share	**$ .93**	$ .89	$ .85
Average common shares outstanding	**63.8**	65.7	67.7
Capital expenditures	**$ 189.3**	$ 160.5	$ 127.9
Depreciation expense	**68.8**	61.3	59.6
At Year End:			
Total assets	**$1,492.0**	$1,394.4	$1,182.6
Total debt	**247.1**	167.9	69.6
Total shareholders' equity	**849.0**	832.0	732.2
Shareholders' equity per share	**13.48**	12.83	11.00
Common share price	**27.75**	33.88	34.13
Number of shareholders	**6,304**	6,494	6,616
Number of employees	**4,601**	4,520	4,613

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

1992	1991	1990	1989	1988	1987	1986	1985
$1,552.2	$1,476.3	$1,452.7	$1,227.9	$1,125.7	$1,022.3	$985.2	$913.4
1,390.5	1,308.7	1,288.4	1,109.7	1,009.9	916.4	875.7	817.5
15.4	10.5	106.9	19.5	69.9	23.3	19.2	7.6
124.6	123.7	190.0	94.0	140.0	81.3	78.2	60.2
124.6	123.7	133.5	94.0	88.4	73.7	78.2	60.2
1.81	1.79	2.67	1.26	1.81	1.03	.99	.74
1.81	1.79	1.87	1.26	1.14	.94	.99	.74
31.7	32.4	30.3	29.2	29.9	29.6	28.8	27.0
11.7	11.7	10.9	10.8	10.5	10.8	10.3	10.1
10.0	9.8	8.5	9.2	9.6	9.1	8.1	7.3
15.4	16.2	27.2	14.2	21.8	13.6	14.3	12.1
15.4	16.2	18.0	14.2	13.7	12.0	14.3	12.1
5.6	7.9	8.3	8.5	8.4	10.1	9.0	16.8
2.9	2.7	2.7	3.0	3.1	3.0	2.8	2.5
$ .81	$ .77	$ .73	$ .69	$ .65	$ .61	$ .59	$ .58
69.0	69.3	71.1	74.7	77.4	79.1	79.4	80.8
$ 95.8	$ 82.4	$ 77.4	$ 64.7	$ 54.6	$ 42.0	$ 40.5	$ 39.5
58.4	54.6	54.0	48.7	46.6	47.2	42.6	44.6
$1,127.1	$1,171.7	$1,114.6	$ 960.2	$ 970.7	$ 939.4	$877.9	$854.4
48.4	67.8	66.6	61.2	60.8	69.7	56.9	104.9
819.4	794.5	736.2	663.3	664.3	621.6	572.7	519.3
11.97	11.51	10.61	8.96	8.74	7.98	7.21	6.55
27.25	28.25	23.63	18.75	17.75	16.44	15.75	14.00
6,822	6,767	6,692	7,370	7,782	8,335	9,240	10,803
4,609	5,299	5,169	5,030	4,781	4,817	4,802	5,205

THE CORPORATE CENTER BUILDING LOCATED IN WICKLIFFE, OHIO

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President and Chief Executive Officer

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PEGGY GORDON ELLIOTT
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GORDON D. HARNETT
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KARL E. WARE
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Transfer Agent, Registrar and Dividend Disbursing Agent

KeyCorp Shareholder Services, Inc.
P.O. Box 6477
Cleveland, Ohio 44101-1477
(216) 813-5745 (800) 542-7792

Annual Meeting

The Annual Meeting of Shareholders will be held at the Clarion Hotel & Conference Center, Eastlake, Ohio, on April 22, 1996.

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 6,305 as of February 9, 1996.

Lubrizol offers shareholders of record an opportunity to purchase additional shares of stock through a dividend reinvestment program. Interested shareholders should contact our transfer agent, KeyCorp Shareholder Services, Inc., at the address and telephone number listed above.

Officers

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Chairman of the Board

W.G. Bares
President and Chief Executive Officer

George R. Hill
Senior Vice President

Ray A. Andreas
Vice President and Chief Financial Officer

Joseph W. Bauer
Vice President and General Counsel

J.G. Bulger
Vice President

Stephen A. Di Biase
Vice President

Joe E. Hodge
Vice President

K.H. Hopping
Vice President and Secretary

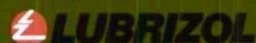
S.F. Kirk
Vice President

Yannick Le Couédic
Vice President

Mark W. Meister
Vice President

J. Alun Thomas
Vice President

William R. Jones
Treasurer



29400 Lakeland Boulevard
Wickliffe, Ohio 44092-2298
216 943-4200

Principal Subsidiaries and Branches

Lubrizol Australia
Lubrizol do Brasil Aditivos, Ltda.
Lubrizol Canada Limited
Lubrizol de Chile Limitada
Lubrizol China, Inc.
Lubrizol Española, S.A.
Lubrizol France S.A.
Lubrizol Gesellschaft m.b.H. (Austria)
Lubrizol G.m.b.H. (Germany)
Lubrizol International Inc.
Lubrizol International Management Corporation
Lubrizol Italiana, S.p.A.
Lubrizol Japan, Limited
Lubrizol Korea
Lubrizol Limited (England)
Lubrizol de Mexico, S. de R.L.
Lubrizol Overseas Trading Corporation
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.
Anedco Inc.
Engine Control Systems, Ltd.
Gate City Equipment Company, Inc.
Langer & Company G.m.b.H. (Germany)
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
Houston, Texas
Atlanta, Georgia
Culbertson, Montana
Sydney, Australia
Rio de Janeiro, Brazil
Newmarket, Canada
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

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Hazelwood, England
Wickliffe, Ohio