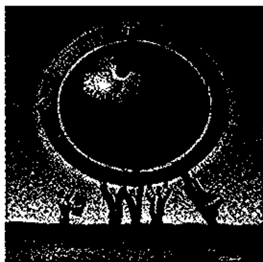
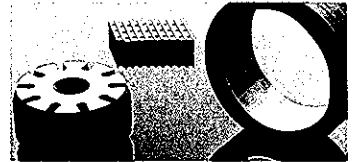
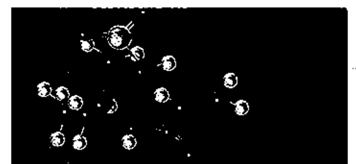
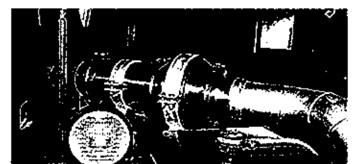
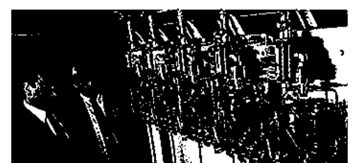
The Lubrizol Corporation

1996 Annual Report



Building on Our Competencies

End-Use Markets	Lubrizol Products	
ANTIWEAR HYDRAULIC FLUIDS	Additive packages to prevent wear, rust, oxidation, corrosion and viscosity loss in functional fluids meeting the requirements of hydraulic pump, valve and cylinder manufacturers.	
METALWORKING FLUIDS	Chemistry to control acidity, foam, mist, metal staining, friction, tool breakage, odor and oxidation in fluids used in metalworking machinery.	
FUEL PRODUCTS	Additive packages for fuels to control deposits, wear, lubricity, emissions, rust and foam in gasoline and diesel engines. Also, additives to ensure storage stability and cold weather flow of gasoline and diesel fuels.	
PAINTS, COATINGS & INKS	Additive technology for industrial coatings, paints and inks to improve physical properties, such as sag resistance, scratch and abrasion resistance, color development and adhesion.	
FIBER DYE, WATER TREATMENT CHEMICALS, PERSONAL CARE PRODUCTS	Sulfonic acid acrylic monomers that impart hydrophilicity, stability and lubricity to a wide variety of products, including acrylic fiber, premium water treatment chemicals, personal care products and conductive gels for medical applications.	
EMISSION CONTROL	Catalyst and filter systems for bus engines to help buses meet clean air standards in retrofit and rebuild applications. Also, exhaust aftertreatment systems for mining, materials handling, construction and highway equipment.	
REFINERY AND OIL FIELD PRODUCTS	Specialty chemicals to improve combustion and flow, prevent deposits and fouling, regenerate catalysts, inhibit corrosion and scale and enhance oil field operations.	
COMPRESSOR LUBRICANTS	Synthetic based compressor lubricants for use with non-CFC refrigerants in air conditioning systems and air compressor applications.	
PRECISION METERING	Blending and additive injection metering equipment for bulk fluid loading, mining, water and sewage treatment, chemical manufacturing and oil refining applications.	
MINING EXPLOSIVES	Specialty surfactant technology that provides superior stability in water-in-oil invert emulsions used in a variety of applications worldwide. Compatible with vegetable, synthetic and mineral oils.	

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 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 4,350 employees around the world.

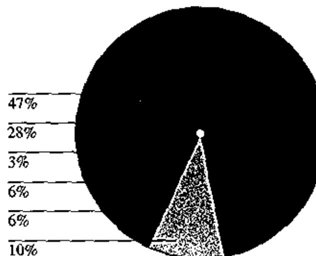
Among Lubrizol's competencies are its ability to solve problems for customers, to combine components into useful products that meet the needs of transportation and industrial customers worldwide, and to supply consistent, high-quality products anywhere in the world. These capabilities make Lubrizol a global leader in the development, manufacture and distribution of 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, Lubrizol markets equipment and performance chemicals for other specialized markets.

1996

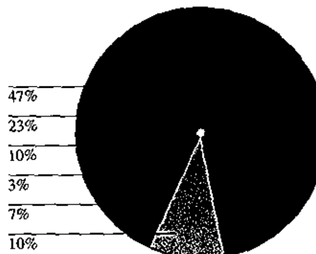
NORTH AMERICA

$623.2 Million in Revenues



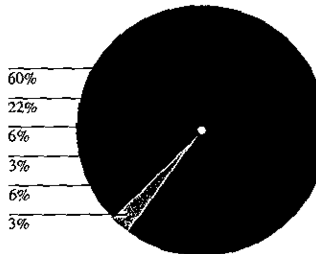
EUROPE

$529.0 Million in Revenues



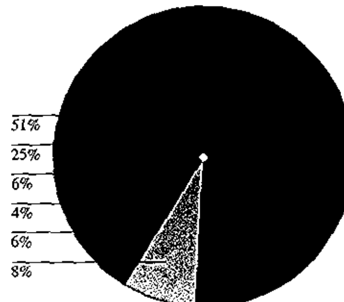
ASIA-PACIFIC, LATIN AMERICA, MIDDLE EAST

$445.4 Million in Revenues



WORLDWIDE

$1,597.6 Million in Revenues



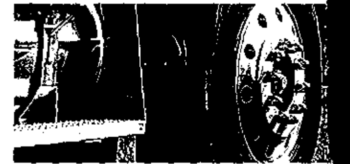
End-Use Markets | **Lubrizol Products**

PASSENGER CAR MOTOR OILS

Additive packages to improve fuel economy and control deposits, sludge, varnish, rust, corrosion, wear, viscosity, oxidation and cold temperature flow in oils meeting industry and original equipment manufacturers specifications worldwide.

HEAVY-DUTY ENGINE OILS

Performance chemistry to control piston deposits, lacquer, soot, oxidation, sludge, wear and oil consumption in oils meeting industry and original equipment manufacturers specifications worldwide.



TWO-STROKE ENGINE OILS

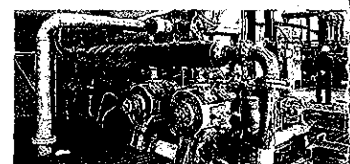
Technology to protect against piston and cylinder scuffing, ring stick, exhaust port blocking, preignition and rust in oils meeting worldwide industry and original equipment manufacturers specifications.

MARINE DIESEL ENGINE OILS

Additives for cylinder, crosshead and trunk piston oils that neutralize acids and control scuffing, deposits, wear, lacquer, ring sticking, sludge, oxidation and rust in meeting the requirements of major engine builders.

STATIONARY GAS ENGINE OILS

Performance chemistry to prevent deposits, wear, valve recession, ring sticking, plug fouling, catalyst masking, port blocking, oxidation, nitration and rust in oils meeting the requirements of major engine builders worldwide.



AUTOMATIC TRANSMISSION FLUIDS

Technology to maintain shift quality and prevent wear, deposits, oxidation, viscosity loss and foam in automatic transmission fluids meeting specifications issued by major automotive manufacturers around the world.

AUTOMOTIVE & INDUSTRIAL GEAR OILS

Chemistry for manual transmissions, rear axles and industrial gearboxes to prevent wear, pitting, spalling, scoring, tooth breakage, deposits, oxidation, rust, copper corrosion, foam and water retention.

TRACTOR FLUIDS

Additives to control wear, deposits, oxidation, friction, brake squawk, foaming, rust and corrosion in farm tractor transmissions, final drives, wet brakes, clutches and hydraulic systems.

OFF-HIGHWAY EQUIPMENT

Additive chemistry for the engine oils, gear lubricants, hydraulic fluids and diesel fuels meeting the specifications of heavy-duty equipment builders worldwide.

GREASES

Thickeners, rust inhibitors, extreme pressure agents and antioxidants used in greases to meet the specifications of industry organizations and original equipment manufacturers around the world.

Financial Highlights

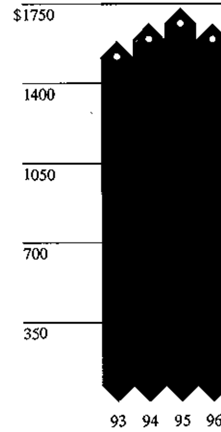
(In Millions Except Per Share and Employee Data)	1996	1995	Increase (Decrease)
OPERATIONS:			
Revenues	**$1,597.6**	$1,663.6	(4%)
Net income	**169.8**	151.6	12%
Net income before unusual items*	**135.2**	132.8	2%
Net income per share	**2.80**	2.37	18%
Net income per share before unusual items*	**2.23**	2.08	7%
Dividends per share	**.97**	.93	4%
Cash provided from operating activities	**231.0**	187.4	23%
Return on shareholders' equity before unusual items*	**16%**	16%	
FINANCIAL POSITION:			
Total assets	**$1,402.1**	$1,492.0	(6%)
Shareholders' equity	**819.4**	849.0	(3%)
Debt as a percent of capitalization	**20%**	23%	
OTHER:			
Capital expenditures	**$94.3**	$189.3	(50%)
Shares outstanding at December 31	**58.5**	63.0	(7%)
Number of employees	**4,358**	4,601	(5%)

** Unusual items are gains on investments and provision for asset impairment.*

COMMON SHARE PRICE HISTORY

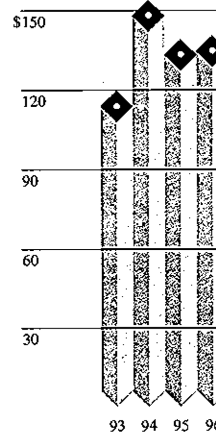
	1996		1995	
	High	Low	High	Low
1st quarter	$31	$26⅝	$35½	$32½
2nd quarter	30½	27¼	36⅞	34⅛
3rd quarter	30½	27⅞	37⅜	30
4th quarter	32⅜	28½	33¼	25½

REVENUES *(millions)*



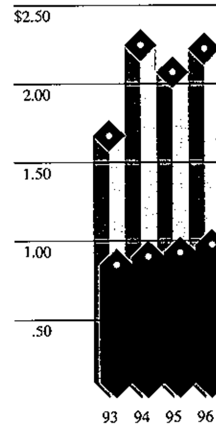
NET INCOME *(millions)*

(Before Investment Gains, the 1995 provision for Asset Impairment and the 1993 Special Charge and Accounting Changes.)



NET INCOME PER SHARE/ DIVIDENDS PER SHARE**

*** (Before Investment Gains, the 1995 provision for Asset Impairment and the 1993 Special Charge and Accounting Changes.)*



NET INCOME PER SHARE**

DIVIDENDS PER SHARE

To Our Shareholders:

W. G. Bares

As anticipated, the challenges to Lubrizol's business described in last year's annual report continued in 1996. Flat sales volume and competitive market conditions combined to produce lower revenues for the year. However, we successfully took action early in the year to offset these effects through aggressive cost and asset management. Operating costs were reduced by $40 million, capital spending was cut in half, working capital declined by $16 million and operating cash flow increased by $44 million. Proceeds from the sale of investments along with improved operating cash flows enabled Lubrizol to repurchase 4.5 million of its outstanding shares in 1996. These steps resulted in a 7 percent increase in earnings per share, before unusual items, despite a 4 percent decline in revenues. In addition, these steps have helped the company to improve its competitiveness. The challenges in our industry will continue in 1997, but Lubrizol's opportunities for growth and profitability have been enhanced.

1996 Results

Consolidated revenues for 1996 were $1.60 billion, a decrease of 4 percent from 1995. Worldwide additive shipments were the same as 1995. Consolidated net income in 1996 was $169.8 million, or $2.80 per share, and included after-tax gains of $34.6 million, or $.57 per share, from gains on investments. In 1995, consolidated net income was $151.6 million, or $2.37 per share, which included investment gains and an asset impairment charge. Excluding these unusual items, net income in 1996 was $135.2 million, or $2.23 per share, compared with 1995 net income of $132.8 million, or $2.08 per share.

Revenue growth was challenging in 1996. The lower demand for finished lubricants, which began in 1995, remained a problem all year and caused a more competitive marketplace in certain product lines. During the early part of the year, lower additive shipments, weaker product pricing and product mix and a stronger U.S. dollar all combined to depress the company's operating results. As the year progressed, results benefited from the company's programs to modify its cost structure and reduce expenses. Manufacturing, selling, testing, administrative and research expenses were all lower compared with 1995. Although the soft demand for lubricant additives continued, Lubrizol's relationships with customers strengthened and product shipments increased in the second half compared to the previous year and ended flat for the full year.

Quarterly dividends were increased 4 percent in the fourth quarter, yielding an annualized rate of $1.00 per share. This is the thirteenth consecutive year in which dividends were raised. Dividends paid in 1996 were $59 million.

After repurchasing 4.5 million of its outstanding shares for $135 million in 1996, 2.6 million shares remained in the current repurchase authorization at the end of the year.

Events in 1996

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

In April, Lubrizol announced an agreement to form a joint venture for the manufacturing, marketing and sale of high performance lubricant additive packages in China. Lubrizol's partner is Sinopec Lanzhou Petroleum Processing Complex.

"THE SECOND HALF OF 1996 BENEFITED FROM THE COMPANY'S PROGRAMS TO MODIFY ITS COST STRUCTURE AND REDUCE EXPENSES."

In May, the company announced that it had acquired 100 percent control of the manufacturing operations of its Latin American joint ventures in Mexico and Venezuela.

In September, Lubrizol completed the sale of its single remaining agribusiness unit, SVO Specialty Products, Inc., for $20.8 million in cash.

In December, the company acquired CPI Engineering Services, Inc., a formulator of specialty synthetic lubricants used by original equipment manufacturers in air and refrigeration compressors.

Directors and Officers

In April, Richard A. Miller, Renold D. Thompson and Karl E. Ware retired as Directors having served since 1984, 1970 and 1983, respectively.

L. E. Coleman retired as Chairman in April after 41 years of service and remains a Director.

James G. Bulger retired as Vice President after 29 years of service.

W. G. Bares was elected Chairman in April.

R. D. Robins was elected Vice President in April.

In January 1997, Forest J. Farmer, Sr., was appointed a Director to fill a vacancy. Mr. Farmer is President and Chief Executive Officer of Bing Manufacturing, Inc.

1997 Opportunities

We have committed to continue to increase shareholder value and modify our cost structure to enhance our competitiveness. This is enabling us to strengthen relationships with our customers and to grow our market share. We have been focusing on building on our competencies of problem solving, combining components and global supply. These activities are the foundation for growing our business, improving our cost structure and building our franchise.

In 1997, our expectation is to increase sales to targeted customers, expand geographically and grow in selected market segments. At the same time, we will be working aggressively to reduce complexity and manufacturing conversion costs and to improve our information systems. To build our franchise, we will be choosing new markets to serve, redefining the role of technology within the company and building a culture for success.

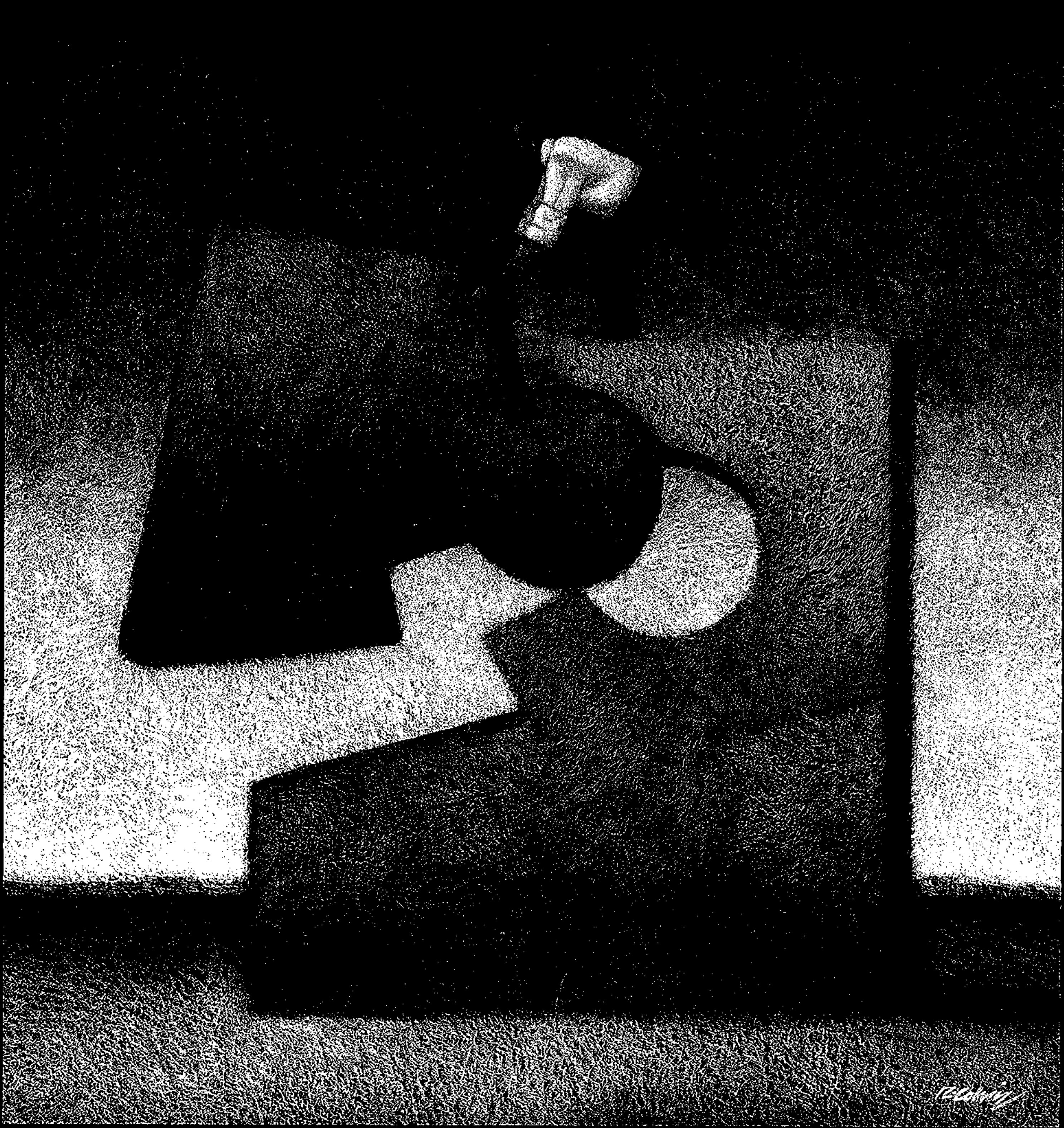
We believe we can grow our shipment volumes by 4 percent in 1997 and increase our earnings per share by 10 percent. Executive compensation plans, as described in the Proxy Statement, have been changed to more closely align pay with the Corporation's performance and shareholder interests, including establishing a new measure of value-added per share and share price growth targets to enhance shareholder value.

All of these actions will enable Lubrizol to remain the market leader in our industry and the compelling supplier of choice for our customers. In this way, we will also increase value for our shareholders.

March 19, 1997

W. G. Bares
Chairman, President and
Chief Executive Officer

Solving



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"LUBRIZOL APPROACHES PROBLEMS FROM A STRONG BASE IN RESEARCH, PRODUCT DEVELOPMENT AND TESTING ACCUMULATED FROM MANY YEARS OF 'SELLING SOLUTIONS TO PROBLEMS.'"

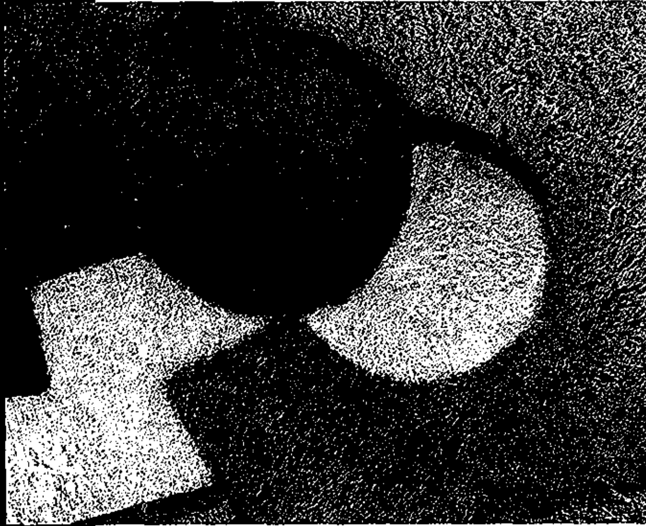
Lubrizol's first product was a graphite and oil dispersion used to lubricate squeaky leaf springs in the Model T Ford. And over the past 68 years, each subsequent product has been designed to solve a new problem. Advances in automotive and equipment development have brought new challenges for lubrication and additive performance to be solved by Lubrizol. This problem solving competency results from a blend of curiosity, knowledge, persistence and teamwork on the part of the company's employees. It has made Lubrizol unique among its competitors.

The early lubrication problems were generally one-dimensional: noise, wear, deposits, pumpability, corrosion or stress. The solution to the problem was usually a new product containing new chemistry developed by Lubrizol. As a result, the company has recorded a long list of "firsts" in additive product development which continues today.

But today's problems are multidimensional and complex. They involve more than a simple product solution. Thermal stability, emissions compatibility, fuel economy, durability, biodegradability and operability are some of the issues faced by lubricant and additive suppliers as they respond to new challenges from equipment manufacturers. The answers to these problems can include new and traditional additive chemistry, polymers, new highly refined base oils, synthetic oils and even mechanical or equipment solutions. Lubrizol approaches these problems from a strong base in research, product development and performance testing accumulated from many years of "selling solutions to problems."

The year 1996 was no exception in this evolution of new products. New passenger car engine oil additives were introduced to meet changing United States performance standards requiring better fuel economy, lower volatility and different high temperature oxidation parameters. Likewise in Europe, a new matrix of performance standards for gasoline and diesel engines required the development and introduction of a new series of Lubrizol products to meet more

Solving Prob



stringent requirements demanded by European equipment manufacturers. Lubrizol is beginning to prepare for additional new performance specifications expected in 1998 for heavy-duty diesel engine oils and, in 2000, for passenger car engine oils. Fuel economy, long-drain durability and emission system compatibility are problems which must be solved with new chemistry and measurement tools. Performance test development for these standards is already under way at the company's testing laboratories.

Product development opportunities are abundant, and Lubrizol continually searches for new problems which need solutions. Today, the company has or is developing technology in areas such as thermally stable driveline (transmission and gear) oils, consumable engine oils, automatic transmission shudder reduction, fuel economy performance for both lubricants and fuels, antimisting metalworking fluids, particulate emission reductions in trucks and buses and continuously variable belt-driven transmissions.

The company has extended its problem solving ability into areas beyond its traditional lubricant additives business. Lubrizol's Business Development Division focuses on problem solving in new areas where it can apply the knowledge and skills which have been learned from the lubricant business. Building on this problem solving competency, Lubrizol has entered new markets, such as coatings additives, refinery and oil field chemicals, specialty monomers, process chemicals, synthetic compressor lubricants, fuel metering devices and particulate emission trap devices. In each case, the company was attracted by the opportunity to solve a problem in a new way. In 1996, Business Development introduced new products accounting for 30 percent of its product line. These included new flow improvers, pre-sulfiding agents for refineries, specialty surfactants, digital fuel meter controls, rheology control agents, antifoulants and a new particulate emission trap system recently approved by the EPA for use in urban buses. And late in 1996, the company acquired CPI Engineering Services, Inc. in order to expand and grow its technology for synthetic refrigerant compressor lubricants. This specialty lubricant business is an ideal combination of Lubrizol's problem solving approach with

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"CUSTOMERS ARE SEARCHING FOR STRONGER RELATIONSHIPS WITH A FEW KEY SUPPLIERS AS THEY LOOK FOR HELP IN MANAGING THE PROBLEMS PRESENTED IN THEIR BUSINESS."

CPI's very strong service and product support capabilities.

Problem solving at Lubrizol goes beyond product technology alone. Slower market growth rates and higher costs have created new challenges for the company's customers. In 1996, there were numerous announcements of acquisitions, mergers and joint ventures within the lubricant industry. Customer downstream lubricant and fuel product sales are being merged to reduce costs and increase market share. They are looking to their suppliers for help not only in reducing costs but also in improving the quality and performance of their products and services. Customers are searching for stronger relationships with a few key suppliers as they look for help in managing the problems presented in their business.

Lubrizol realized, in order to meet the needs of its customers, it needed to increase its commitment to reduce cost and eliminate inefficiencies and complexities. Therefore, the company initiated a significant program of cost and complexity reduction which resulted in $40 million lower operating cost in 1996 compared to 1995. At the same time, the company was striving to provide better products and services on a more timely basis to its customers. To accomplish this, resources were redeployed, processes were changed, the product line was narrowed and employees created better ways to do work at lower costs. Through this effort, Lubrizol is demonstrating that it can provide strong commercial solutions as well as technical solutions to problems and is becoming an even more valuable supplier to its customers.

Lubrizol intends to continue to provide solutions beyond the minimum requirements and to solve problems beyond the technical. However, technology will remain critical to the vitality of the company. The company will not abandon investment in technology which will allow it to continue to solve problems. This is a competency which has always been fundamental to Lubrizol's success.

onents

"PUTTING THINGS TOGETHER SO THAT THE SUM IS GREATER THAN THE PARTS IS WHAT LUBRIZOL DOES BEST."

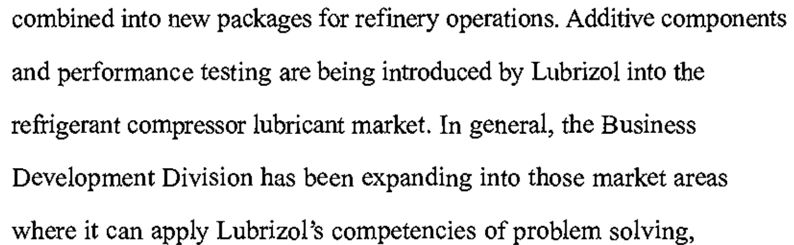
Lubrizol takes individual chemical components, reacts and combines them into a total additive package and sells performance. At first glance, the concept is simple, but the science and the art of additives is the knowledge and skill to effectively combine these components. Putting things together so that the sum is greater than the parts is what Lubrizol does best.

Lubrizol manufactures over 250 individual chemical components in 117 production units around the world. Each component performs a specific function, such as dispersant, detergent, antioxidant, corrosion inhibitor, antiwear additive, viscosity modifier, friction modifier, deposit control or extreme pressure agent. Using this portfolio of components, our product development formulators determine the optimum combination needed to meet the customer's specification for performance and cost. Formulation science is complex and requires thorough knowledge and experience in the performance and interaction of chemical components. This skill is then supported by comprehensive product testing capabilities to prove the performance of the additive package formulation.

Historically, component technology has been skewed toward engine oil additives, Lubrizol's largest business area. While components may be developed at first for use in engine oils, they are used broadly in other business lines or markets. The company's product line is diverse, with packages produced and sold into over 20 separate market areas. However, all market areas are based on combining components into packages supported by testing. Chemistry, formulation and performance testing expertise, service and differentiation are common to all of Lubrizol's businesses.

The Business Development Division has been successful in leveraging Lubrizol's invention stream of components into new areas. Dispersants are being used in coatings for rheology control and as stabilizers in mining explosives. Flow improvers and cloud point depressants are being

Combining Comp



combined into new packages for refinery operations. Additive components and performance testing are being introduced by Lubrizol into the refrigerant compressor lubricant market. In general, the Business Development Division has been expanding into those market areas where it can apply Lubrizol's competencies of problem solving, combining components and global supply.

This ability to produce and combine a wide variety of components provides formulation flexibility and enhances product differentiation. However, this flexibility, if not effectively managed, can lead to greater product complexity and costs. Too many components in an additive package can create inefficiencies in blending and distribution, quality assurance and inventory management. The product development formulator works closely with both the customer and the production plant to obtain the optimum balance of performance, cost and value. During 1996, Lubrizol took further steps to reduce complexity and costs by reassessing the type and number of product platforms offered in each market area. By consolidating into fewer platforms, the company can reduce the number of individual components which are required. This will eliminate complexity, increase product throughput, reduce manufacturing costs and potentially reduce product testing costs.

As with problem solving, combining components at Lubrizol involves much more than the chemistry of products. The mix of services and support which are provided to customers are additional components in the value equation. Some of these components include Lubrizol's independence and exclusive focus on the additive business, knowledge of the lubricant industry in a broad range of market areas, close liaison and consultation with equipment manufacturers around the world and strong international marketing experience for over 50 years. Customers are defining what has value. Lubrizol is listening and learning new skills to apply a variety of components in support of the customer's

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"LUBRIZOL
IS SUCCESSFUL
BECAUSE IT COMBINES
COMPONENTS BEYOND
THE PRODUCTS AND
SERVICES IT SELLS."

business. This effort has increased trust between Lubrizol and its customers and is giving the company an additional competitive advantage.

As a corporation, Lubrizol is successful because it combines other components beyond the products and services it sells. One of these components is its employees. Skilled and dedicated people using advanced technology combine to provide performance and value for customers. Lubrizol is successful because of its people. Knowledge, innovation, experience and enthusiasm for problem solving all derive from people and their individual and collective efforts. These efforts were particularly important during 1996 as the company faced the challenge to increase efficiency and lower its overall cost structure. Lubrizol's people committed themselves to doing more with less without losing their focus on the customer. As a result, Lubrizol today is stronger, leaner and more competitive and is better positioned to grow its business at a time when the additive and lubricant industries are consolidating.

The communities in which Lubrizol operates are another important component of its business. They provide the services and infrastructure required by the company and its employees. These communities are involved in understanding Lubrizol's business and customers, and they proactively search for ways to assist the company's operations and management. As a part of Lubrizol's commitment to Responsible Care®, a worldwide chemical industry initiative, members of the community participate in advisory panels at many Lubrizol facilities. These panels assist in the sharing of information about Lubrizol and its business. Environmental, health and safety are some of the topics discussed in these panels.

Combining components is a competency which Lubrizol understands and puts to work every day. It includes the products, services, people and values necessary for growth and financial success.

Supplying

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"LUBRIZOL IS TARGETING THE GLOBAL COMPANY AS A PRIMARY CUSTOMER."

Lubrizol has operated internationally for over 50 years and has both technical and production facilities in key global markets.

The company sells its products extensively in North America, Europe, Asia-Pacific, Latin America and the Middle East. Lubrizol has technical centers in Wickliffe, Ohio; Hazelwood, England; and Atsugi, Japan. It has 20 manufacturing plants around the world, including those of its affiliates and subsidiaries.

In 1996, Lubrizol announced an agreement to form a joint venture for the manufacturing, marketing and sale of lubricant additive packages in China. Lubrizol's partner in this venture is Sinopec Lanzhou Petroleum Processing Complex which is the single largest producer of finished lubricants in China. The joint venture will initially establish two blending operations scheduled to be on-line by mid-1997 for production of additive packages made from components supplied by the partners. These performance packages will be sold to the Sinopec subsidiaries and other lubricant blenders, including major international lubricant producers, operating in China. The formation of this joint venture will provide Lubrizol with a strong position in this rapidly growing market and is an integral part of the company's overall strategy for the Asia-Pacific region. It will complement Lubrizol facilities in Japan, Singapore, India and Australia.

Also in 1996, the company assumed 100 percent control of its manufacturing operations in Mexico and Venezuela. These transactions concluded successful joint venture relationships which began in 1965 in Mexico and in 1984 in Venezuela. The changes were made to better serve the needs of both expanding international oil company and national oil company activities in these markets. Both locations now provide increased logistical flexibility and improved service through closer integration into Lubrizol's worldwide customer service system.

Supplying Glob

Global supply is a long-established competency at Lubrizol. Understanding international markets, finance and logistics allows the company to easily deliver uniform products to customers around the world. It also increases flexibility in the sourcing of products from multiple manufacturing and blending facilities in order to deliver the lowest-cost product to the customer. To further enhance this capability and manage costs, in 1993, Lubrizol implemented a manufacturing rationalization initiative to reduce its number of component production units by one-third over a three-year period. This initial program was substantially completed at the end of 1996, and further rationalization is continuing. Certain facilities were converted from production to blending operations and continue to supply regional and local customers. Overall, worldwide blending, flexibility, service and delivery to customers were enhanced.

Global thinking is another condition necessary for global supply. This is obtained through Lubrizol's commitment to global diversity. Lubrizol people are given international assignments, participate in joint technology conferences and maintain an international perspective to their work. The movement of people throughout the global organization provides exposure to best practices and promotes the interchange of new ideas. Global thinking is essential in communicating with customers and equipment manufacturers today. More customers are reaching into international markets, and Lubrizol is targeting the global company as a primary customer.

Business Development is also targeting the global company as a customer. It is leveraging Lubrizol's competency in global supply to expand into new markets in different geographic regions. The company's Engine Control Systems subsidiary acquired in 1995 is now selling trap systems into Mexico, Singapore, Australia and Chile. Another subsidiary, Gate City Equipment, is also now selling metering equipment to refineries around the world. Flow improvers are being sold into Indonesia and coatings additives produced in Germany are sold into North and South America. The company's

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"LUBRIZOL'S COMPETENCY IN GLOBAL SUPPLY IS FOCUSED ON PROVIDING THE CUSTOMER A SEAMLESS SUPPLY OF PRODUCT, SERVICE, TECHNOLOGY AND INFORMATION ANYWHERE IN THE WORLD."

AMPS® monomer is an international product used in fibers, coatings, water treatment, cosmetics and medical devices.

Global supply also pertains to information. Product development and problem solving occur on a worldwide basis. The company's international technology centers are interconnected into one organization designed to rapidly and effectively share information. This group is further supported by global engineering liaison with international equipment manufacturers. This important information gathering function is essential in assisting the technical centers to anticipate the future lubrication needs of original equipment manufacturers in advance of new performance specifications.

Effective global information systems are necessary to support global supply of products and services to customers. Integration of business processes into a single enterprise system is becoming a requirement for effective operations. In 1996, Lubrizol took further steps in this direction by initiating the design and development of the Lubrizol Integrated Knowledge Systems (LINKS). This will be an enterprise software system that will combine the company's various business processes into a single, global information system. It will be implemented over a four-year period and is expected to result in significant reductions in operating costs through the elimination of redundant or inefficient business processes. In many ways, LINKS is another component in the value equation necessary to support the needs of global customers today.

Lubrizol's competency in global supply is focused on providing the customer a seamless supply of product, service, technology and information anywhere in the world. This ability has been acquired over many years and is second nature to operations. Yet, it is an important element in Lubrizol's identity and has helped to make the company the world's leading additive manufacturer.

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

The Lubrizol Corporation is a full-service supplier of performance chemicals and products 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, automatic transmission fluids, gear oils, marine and tractor lubricants, fuel products and industrial fluids. The company also supplies coatings additives, refinery and oil field chemicals, specialty monomers, process chemicals, synthetic refrigerant compressor lubricants, fluid metering devices and particulate emission trap devices.

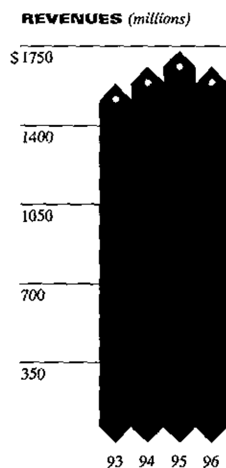
As discussed in Note 17 to the financial statements, the company has been engaged in initiatives since late 1993 to eliminate its separate business unit structure and realign activities into one combined organization and to consolidate intermediate production activities, improve the timeliness of product development, simplify its product offerings and complete the divestiture of its agribusiness investments. At December 31, 1996, these initiatives were substantially complete as the number of intermediate production units has been reduced by almost one-third and the number of employees reduced by nearly 9% (versus an original target of 5%). Approximately $45 million of cash has been expended through December 31, 1996, with future cash expenditures of $7 million estimated to complete these initiatives. For the four-year period preceding 1994, the company's manufacturing, technology and selling and administrative costs for its additives businesses were growing at an annual rate of approximately 9%. Through implementation of these initiatives and aggressive cost management, the cost trend beginning in 1994 has significantly changed. Compared with the respective preceding year, 1994 costs increased 1%, 1995 increased 4% and 1996 costs decreased 6%. These initiatives reduced the rate of increase in the operating costs of the company, and the results have exceeded original expectations of annual savings approximating $50 million.

In 1996, there were announcements of acquisitions, mergers and joint ventures within the lubricant industry. Customers are searching for stronger, longer-term relationships with a few key suppliers for help in reducing costs and improving the quality and performance of their products and services. This, along with a weak demand for finished lubricants, is causing a more competitive marketplace in certain product lines and continuing pressure on prices for the company's products. The company expects this environment to continue in 1997. Although the company generally experiences both gains and losses of business in the normal course of its operations, such changes may occur more frequently under these conditions and in periods when new industry specifications are being introduced. The company has entered into and will continue to actively pursue strategic relationships with finished lubricant suppliers in order to eliminate redundant cost structures and jointly pursue business growth in developing regions of the world. In addition, management has various initiatives relating to the cost structure of the company, both short-term and long-term, to enhance its competitiveness and market leadership position. Management believes that the company is well positioned to compete in the current industry environment and gain market share from these opportunities.

1996 RESULTS OF OPERATIONS

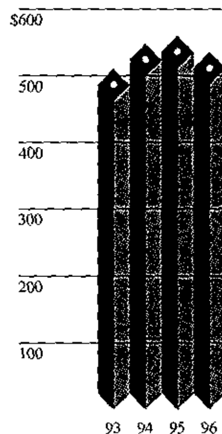
In 1996, management of the company took action early in the year to improve its cost structure as part of its continuing efforts to enhance its efficiency as an additive supplier. Although revenues in 1996 declined 4% from 1995, this was offset by the effects of aggressive cost management and management's focus on strengthening of customer and supplier relationships. In addition, lower working capital, significantly reduced capital expenditures and the sale of non-strategic investments resulted in improved cash flow and enabled the company to repurchase 7% of its common shares outstanding during 1996. As a result, the company was able to grow net income and earnings per share, despite unfavorable currency effects.

REVENUES *(millions)*



Consolidated revenues were $1.60 billion in 1996, a decrease of $66 million, or 4%, from record 1995 levels. Volume in 1996 was equal with 1995 despite the introduction of a new industry specification discussed below. Revenues decreased 2% due to price/mix effects and 1% due to unfavorable currency effects. In addition, the sale of the specialty vegetable oil business in September 1996 reduced consolidated revenues by 1% as compared with 1995.

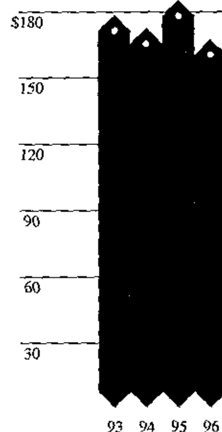
During 1996, new passenger car engine oil additives were introduced to meet a new U.S. industry specification. Most of the company's customers converted to this new specification by September 1996. This new specification required approximately 10% less additive than the prior specification, and the company estimates that it negatively impacted annual sales volume in North America by 2% in 1996 (1% worldwide).



However, other volume gains, primarily in heavy duty engine oils, more than offset the impact from the new specification and overall volume in North America increased 1% over 1995. Internationally, volume declined 1%, as growth in Asia-Pacific was offset by lower volume in Western Europe.

Gross profit (sales less cost of sales) of $509.5 million was $23.0 million, or 4%, lower in 1996 compared with 1995. Unfavorable currency effects accounted for one-half of this decline with the balance attributable to lower revenues. However, the company aggressively managed its procurement costs of raw materials and continued its cost management efforts under the manufacturing rationalization initiative discussed below. These efforts lowered the cost of production to maintain gross profit as a percent of sales at 32% for 1996.

The company has continued to lower its operating costs through aggressive cost management. This included a worldwide freeze on salary increases and hiring throughout all of 1996 and the manufacturing rationalization and organizational realignment initiatives that began in 1993. Employee levels, excluding acquisitions and divestitures during the year, were reduced by nearly 6% at December 31, 1996, compared with December 31, 1995, as retiring or departing employees were not replaced. The company's manufacturing costs and selling, administrative and technology expenses in 1996 were each lower than in 1995 and, in the aggregate, declined nearly 6%, or $40 million. Currency had a favorable effect on costs and accounted for approximately 25% of this reduction. In 1997, the company has eliminated the freeze on salary increases.



Research, testing and development expenses (technology expenses) decreased 10% in 1996 compared with 1995. In addition to the effects of cost management strategies discussed above, the decrease was due to reduced testing requirements for product specifications primarily within driveline and engine oils. The effect of currency on technology expenses was not significant. 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. The company expects additional new performance specifications in 1998 for heavy-duty engine oils and, in 2000, for passenger car engine oils. These changes will influence the timing and amount of technology expenses in the future.

Primarily as a result of the above factors, total costs and expenses declined $65.5 million in 1996, offsetting the revenue decline for the year.

During 1996, the company completed the divestiture of substantially all of its agribusiness assets comprised of its equity investment in Mycogen Corporation and the assets of the company's wholly-owned subsidiary, SVO Specialty Products, Inc. (SVO). These transactions generated cash proceeds of $149.0 million and, after losses on other investment activity, resulted in the $53.3 million ($34.6 million or $.57 per share after taxes) gain on investments. The $38.5 million gain ($.39 per share after taxes) recognized in 1995 was from the sale of Genentech common stock. (See Note 8 to the financial statements.) The company has substantially liquidated its non-strategic investments and does not anticipate significant investment gains in 1997.

The company transacts business in over 100 countries and has a number of operating facilities in countries outside of 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. The U.S. dollar strengthened during 1996 as compared with exchange rates in effect during 1995, particularly against the French franc, German deutsche mark and Japanese yen, causing an unfavorable effect on 1996 net income of $4.9 million or $.08 per share.

Interest expense, net of interest income, declined $2.4 million in 1996 compared with 1995. Proceeds collected from the sale of investments were used to temporarily reduce commercial paper borrowings and acquire short-term investments until used in the company's share repurchase program. The average daily balance of total debt outstanding during 1996 was $188 million as compared with $203 million for 1995.

As a result of the factors discussed above and the 1995 provision for asset impairment (discussed below), 1996 net income was $169.8 million, an increase of 12% or $18.2 million from 1995. Earnings per share for 1996 was $2.80, or 18% higher than in 1995 and reflected the impact of the company's share repurchase program. Excluding the gains on investments from both years and the provision for asset impairment in 1995, net income increased to $135.2 million from $132.8 million in 1995, a 2% increase. The corresponding earnings per share of $2.23 in 1996 was a 7% increase from the $2.08 earnings per share in 1995.

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 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 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.

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.

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 provision for asset impairment of $9.5 million ($.10 per share after taxes) 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 taxes). During 1994, the company had a pretax gain on the sale of Genentech common stock of $41.2 million ($.41 per share after taxes).

Other income – net, was $7.1 million in 1995 compared with $7.3 million in 1994 (see Note 9 to the financial statements). Other income was 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.

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. 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 provision 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.

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, the company sold shares of Genentech common stock resulting in pretax gains of $41.2 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.

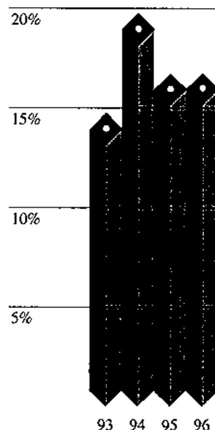
As a result of the above factors and a decrease in interest expense, consolidated income before taxes increased $131.8 million from 1993. Excluding the gain on the sales of Genentech stock and the 1993 special charge, income before taxes increased $46.7 million or 29% from 1993.

The company made donations of Genentech common stock during 1994 (see Note 9 to the financial statements) which reduced the company's 1994 effective tax rate by 2%. This benefit was nonrecurring.

Excluding gains on the sales of Genentech common stock, the 1993 special charge ($.83 per share after taxes) and accounting changes effective January 1, 1993, relating to postretirement benefits and income taxes ($39.4 million or $.58 per share after taxes), 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. In 1994, there was not a significant net earnings effect due to foreign currency fluctuations.

RETURN on EQUITY *(percent)*

(Before Investment Gains, the 1995 provision for Asset Impairment and the 1993 Special Charge and Accounting Changes.)



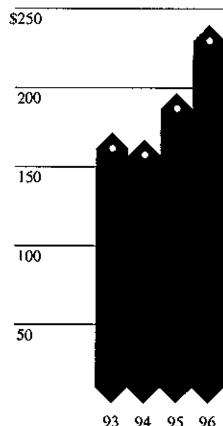
RETURN ON AVERAGE SHAREHOLDERS' EQUITY

Return on average shareholders' equity was 20% in 1996, 18% in 1995 and 22% in 1994. Excluding gains on investments from each year and the 1995 asset impairment charge, return on average shareholders' equity was 16% in 1996 and 1995 and 19% in 1994.

WORKING CAPITAL, LIQUIDITY AND CAPITAL RESOURCES

The company's cash flows for the years 1994 through 1996 are presented in the consolidated statements of cash flows. Cash provided from operating activities in 1996 increased 23%, or $43.6 million, to $231.0 million compared with $187.4 million generated in 1995. This increase is primarily attributable to the benefits of the company's programs to modify its cost structure and reduce operating costs and the reduction of inventory levels. Excluding cash and short-term investments, working capital has been reduced by $40.6 million, or 12%, from December 31, 1995, approximately 50% of which was due to liquidation of SVO inventories and receivables prior to the sale of its assets in September 1996.

CASH PROVIDED from OPERATING ACTIVITIES *(millions)*

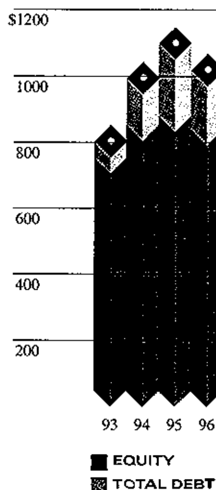


Over the past several years the company has divested its marketable securities, primarily Genentech common stock, and its non-strategic assets, primarily agribusiness assets. The after-tax proceeds from these activities have been used in the company's share repurchase program discussed below. Proceeds from the sale of investments for 1996 were comprised principally of $126.2 million from the sale of Mycogen and $22.8 million from the sale of SVO assets. Proceeds from the sale of investments in 1995 and 1994 were from the sale of Genentech common stock. (See Note 8 to the financial statements.)

Capital expenditures for 1996 were $94.3 million, one-half the level of 1995. Capital expenditures during 1995 reached record levels, as the company completed several large construction projects to enhance or maintain production capabilities at plant facilities principally in the United States and France, as well as investing in new corporate administrative and technical facilities. As expected, the level of capital spending declined sharply in 1996 due to the completion of these projects. Approximately 65% of 1996 capital expenditures (and 70% of 1995) pertained to manufacturing plants to enhance or maintain production capabilities, including maintaining facilities in compliance with environmental and safety regulations. Capital spending for environmental and safety projects totaled $8 million in 1996, $37 million in 1995 and $20 million in 1994. Capital spending on environmental projects was substantially lower in 1996 compared with 1995 due to the timing of completion of the related projects. Capital expenditures for 1997 are estimated at $110 million, including approximately $30 million to be expended in 1997 as part of a multi-year project to implement a new global computer-based information system.

In December 1996, the company acquired CPI Engineering Services, Inc., a formulator of specialty synthetic lubricants used by original equipment manufacturers in air and refrigeration compressors, for $24.6 million in cash. Also in 1996, the company invested $2.7 million in two joint ventures in China. The company is prepared to invest further capital in China during 1997 to strengthen the company's position in this rapidly growing market.

CAPITALIZATION *(millions)*



The company had net repayments on short- and long-term debt totaling $43.6 million, which when combined with currency effects, reduced total borrowings outstanding by $48.6 million, or 20%, at December 31, 1996, versus 1995. This decrease was the result of improved cash flow and lower capital expenditures. In June 1995, the company publicly issued $100 million of 7.25%, 30-year debentures and used the net proceeds to repay a portion of the commercial paper borrowings then outstanding. Debt as a percent of capitalization (shareholders' equity plus short- and long-term debt) declined to 20% at December 31, 1996, compared with 23% at December 31, 1995. 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. In 1996, the company repurchased 4.5 million, or 7% of its shares outstanding at the beginning of the year, for $135.2 million using the after-tax proceeds generated from the sale of its Mycogen investment and SVO assets. In 1995 and 1994, the company expended $66.6 million and $68.3 million, respectively, to repurchase its shares. Since the beginning of 1994, the company has repurchased 13% of its shares outstanding. The company plans to expend at least $40 million during 1997 in its repurchase program, and at December 31, 1996, had 2.6 million shares remaining under its current share repurchase authorization.

Primarily as a result of these activities and the payment of dividends, total debt, net of cash and short-term investments, decreased $73.1 million to $143.4 million at December 31, 1996.

The company's financial position continues to be strong with a ratio of current assets to current liabilities of 2.6 to 1 at December 31, 1996, compared to 2.4 to 1 at December 31, 1995. At December 31, 1996, 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 up to $56.6 million of its outstanding commercial paper on a long-term basis 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. Refer to Note 18 to the financial statements for further discussion regarding this litigation.

CAUTIONARY STATEMENT FOR "SAFE HARBOR" PURPOSES UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations and the letter "To Our Shareholders" from W. G. Bares, Chairman, President, and Chief Executive Officer of the company, contains forward-looking statements within the meaning of the federal securities laws. As a general matter, forward-looking statements are those focused upon future plans, objectives or performance as opposed to historical items and include statements of anticipated events or trends and expectations and beliefs relating to matters not historical in nature. Such forward-looking statements are subject to uncertainties and factors relating to the company's operations and business environment, all of which are difficult to predict and many of which are beyond the control of the company, that could cause actual results of the company to differ materially from those matters expressed in or implied by such forward-looking statements.

The company believes that the following factors, among others, could affect its future performance and cause actual results of the company to differ materially from those expressed or implied by forward-looking statements made by or on behalf of the company:

- the overall demand for lubricant additives on a worldwide basis, which has been slowing in mature markets such as North America and Europe;
- the lubricant additive demand in Asia-Pacific and Latin America, which has been growing at significantly higher rates than mature markets, along with lubricant additive demand in developing regions such as China and the former Soviet Union, which geographic areas are an announced focus of the company's activities;
- technology developments that affect longer-term trends for lubricant additives, such as: improved engine design, fuel economy, longer oil drain intervals and emission system compatibility;
- the company's success at continuing to develop proprietary technology to meet or exceed new industry performance standards and individual customer expectations;
- the frequency of change in industry performance standards, which affects the level and timing of the company's technology costs, the product life cycles and the relative quantity of additives required for new specifications;
- the rate of progress in reducing complexities and conversion costs and in modifying the company's cost structure to maintain and enhance its competitiveness;
- the success of the company in strengthening relationships with lubricant additive customers, growing sales at targeted accounts, and expanding geographically;
- the extent to which the company is successful in expanding beyond its core lubricant additives businesses;
- the recoveries, judgments, costs, and future impact of legal proceedings, including those relating to intellectual property litigation with Exxon Corporation and its affiliates;
- the potential impact of consolidation among lubricant additive manufacturers;
- the relative degree of price pressure for lubricant additives;
- the cost, availability and quality of raw materials, including petroleum-based products, required for the manufacture of lubricant additives;
- the effects of fluctuations in currency exchange rates upon the company's reported results from its international operations, together with noncurrency risks of investing in and conducting significant operations in foreign countries, including those relating to political, social, economic, and regulatory factors; and
- changes in significant government regulations affecting environmental compliance.

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, 1996 and 1995, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

Deloitte + Touche LLP

Cleveland, Ohio
February 4, 1997

Consolidated Statements of Income

(In Thousands of Dollars Except Per Share Data)	Year Ended December 31		
	1996	1995	1994
Net sales	**$1,592,877**	$1,657,821	$1,592,750
Royalties and other revenues	**4,685**	5,773	6,244
Total revenues	**1,597,562**	1,663,594	1,598,994
Cost of sales	**1,083,394**	1,125,386	1,072,025
Selling and administrative expenses	**158,633**	163,493	159,459
Research, testing and development expenses	**160,978**	179,649	165,480
Total cost and expenses	**1,403,005**	1,468,528	1,396,964
Provision for asset impairment		(9,489)	
Gain on investments	**53,280**	38,459	41,235
Other income – net	**6,012**	7,150	7,332
Interest income	**7,714**	4,764	4,011
Interest expense	**(10,955)**	(10,376)	(3,149)
Income before income taxes	**250,608**	225,574	251,459
Provision for income taxes	**80,806**	73,959	75,884
Net income	**$ 169,802**	$ 151,615	$ 175,575
Net income per share	**$2.80**	$2.37	$2.67
Dividends per share	**$ .97**	$ .93	$ .89

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

Consolidated Balance Sheets

(In Thousands of Dollars)	December 31 1996	1995
ASSETS		
Cash and short-term investments	$ 55,073	$ 30,579
Receivables	238,401	255,377
Inventories	251,905	310,539
Other current assets	39,720	43,199
Total current assets	585,099	639,694
Property and equipment – at cost	1,529,187	1,477,764
Less accumulated depreciation	821,873	784,798
Property and equipment – net	707,314	692,966
Investments in nonconsolidated companies	29,821	100,655
Other assets	79,881	58,705
TOTAL	$1,402,115	$1,492,020
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt and current portion of long-term debt	$ 40,871	$ 52,685
Accounts payable	99,676	125,120
Income taxes and other current liabilities	86,563	87,786
Total current liabilities	227,110	265,591
Long-term debt	157,628	194,423
Postretirement health care obligation	105,463	102,653
Noncurrent liabilities	47,284	53,223
Deferred income taxes	45,254	27,147
Total liabilities	582,739	643,037
Contingencies and commitments		
Preferred stock without par value – unissued		
Common shares without par value – outstanding 58,522,676 shares in 1996 and 62,951,288 shares in 1995	78,534	83,254
Retained earnings	744,310	762,747
Other shareholders' equity	(3,468)	2,982
Total shareholders' equity	819,376	848,983
TOTAL	$1,402,115	$1,492,020

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		
	1996	1995	1994
CASH PROVIDED FROM (USED FOR):			
OPERATING ACTIVITIES:			
Net income	**$ 169,802**	$ 151,615	$ 175,575
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	**80,964**	74,247	65,934
Deferred income taxes	**23,074**	16,899	19,797
Provision for asset impairment		9,489	
Gain on investments	**(53,280)**	(38,459)	(41,235)
Change in current assets and liabilities, net of acquisitions and dispositions:			
Receivables	**9,834**	(386)	(20,682)
Inventories	**46,658**	(7,885)	(3,150)
Accounts payable and accrued expenses	**(38,693)**	(3,768)	(17,745)
Other current assets	**(1,610)**	(175)	(12,921)
Change in noncurrent liabilities	**(1,317)**	(2,486)	3,246
Other items – net	**(4,430)**	(11,729)	(11,982)
Total operating activities	**231,002**	187,362	156,837
INVESTING ACTIVITIES:			
Proceeds from sale of investments	**149,603**	40,160	43,582
Capital expenditures	**(94,297)**	(189,259)	(160,527)
Acquisitions and investments in nonconsolidated companies	**(27,309)**	(3,521)	(1,734)
Other – net	**4,357**	3,654	1,488
Total investing activities	**32,354**	(148,966)	(117,191)
FINANCING ACTIVITIES:			
Short-term borrowing (repayment)	**(52,890)**	(18,676)	38,359
Long-term borrowing	**28,425**	100,064	56,741
Long-term repayment	**(19,141)**	(2,746)	(2,370)
Dividends paid	**(59,033)**	(59,414)	(58,588)
Common shares purchased, net of options exercised	**(133,926)**	(64,792)	(64,372)
Total financing activities	**(236,565)**	(45,564)	(30,230)
Effect of exchange rate changes on cash	**(2,297)**	1,368	2,743
Net increase (decrease) in cash and short-term investments	**24,494**	(5,800)	12,159
Cash and short-term investments at the beginning of year	**30,579**	36,379	24,220
Cash and short-term investments at the end of year	**$ 55,073**	$ 30,579	$ 36,379

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, 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**
Net income 1996			**169,802**	
Cash dividends.			**(59,033)**	
Translation adjustment for 1996				**(6,450)**
Common shares – Treasury:				
Shares purchased	**(4,496,427)**	**(5,982)**	**(129,206)**	
Shares issued upon exercise of stock options	**67,815**	**1,262**		
BALANCE, DECEMBER 31, 1996	**58,522,676**	**$78,534**	**$744,310**	**$ (3,468)**

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 and products 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, automatic transmission fluids, gear oils, marine and tractor lubricants, fuel products and industrial fluids. The company also supplies coatings additives, refinery and oil field chemicals, specialty monomers, process chemicals, synthetic refrigerant compressor lubricants, fluid metering devices and particulate emission trap devices.

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 40% of the company's sales are made to customers in North America, 33% in Europe and 27% in Asia-Pacific, Middle East and Latin 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 1996 and 1995 and 45% in 1994. Although the largest single customer in each year accounted for 10% of sales in 1996 and 1995, and 9% in 1994, 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 (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.

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 three months or less.

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 on the first-in, first-out (FIFO) method elsewhere.

DEPRECIATION AND AMORTIZATION – Accelerated depreciation methods are used in computing depreciation on certain machinery and equipment which comprise approximately 30% of the depreciable assets. The remaining assets are depreciated using the straight-line method. 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.

RESEARCH, TESTING AND DEVELOPMENT – Research, testing and development costs are expensed when incurred. Research and development expenses, excluding testing, were $93.4 million, $104.9 million and $90.7 million in 1996, 1995 and 1994, 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 $(3,468), $2,982 and $(9,722) at December 31, 1996, 1995 and 1994, 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

	1996	1995
Finished products	$ 88,176	$102,628
Products in process	77,910	96,061
Raw materials	66,590	89,267
Supplies and engine test parts	19,229	22,583
	$251,905	$310,539

Inventories on the LIFO method were 25% and 26% of consolidated inventories at December 31, 1996 and 1995, respectively. The current replacement cost of these inventories exceeded the LIFO cost at December 31, 1996 and 1995, by $49.1 million and $51.0 million, respectively. During 1996, the company sold its specialty vegetable oil assets (see Note 8), which had inventories at December 31, 1995, of $29.6 million.

NOTE 4 - INVESTMENTS IN NONCONSOLIDATED COMPANIES

	1996	1995
Investments carried at equity	$ 22,551	$ 60,029
Investments available-for-sale	6,234	
Investments carried at cost	1,036	40,626
	$ 29,821	$100,655

During 1996, the company sold its investment in Mycogen Corporation, including its remaining interest in Agrigenetics, Inc. (AGI), a joint venture between the company and Mycogen (see Note 8). At December 31, 1995, Mycogen-related investments had book values of $40.3 million carried at equity and $31.5 million carried at cost.

The company holds investments in securities of certain publicly traded companies. At December 31, 1996, these investments were classified as available-for-sale and their market values approximated their costs. At December 31, 1995, these investments were accounted for on the cost basis due to restrictions placed on such securities.

NOTE 5 - SHORT-TERM AND LONG-TERM DEBT

	1996	1995
Long-term debt consists of:		
7.25% debentures, due 2025	$100,000	$100,000
Debt supported by long-term banking arrangements:		
Commercial paper at weighted average rates of approximately 6%		56,625
6.5% Marine terminal refunding revenue bonds, due 2000	18,375	18,375
Term loans:		
Yen denominated, at 2.8% to 5.8%, due 1997-2002	26,232	21,508
Deutsche mark denominated, at 6.8% due 1996		16,748
Deutsche mark denominated, at 4.9% due 1999	16,884	
Other (4.3% in 1996 and 7.1% in 1995)	403	1,365
	161,894	214,621
Less current portion	(4,266)	(20,198)
	$157,628	$194,423
Short-term debt consists of:		
Commercial paper at weighted average rates of approximately 6%	$ 34,200	$ 17,375
Other short-term debt at weighted average rates of 3.3% and 2.1%	2,405	15,112
Current portion of long-term debt	4,266	20,198
	$ 40,871	$ 52,685

In June 1995, the company publicly issued debentures in the aggregate principal amount of $100 million. These 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, 1996, 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 amount due under the Marine Terminal Refunding Revenue Bonds, whose bondholders have the right to put the bonds back to the company, and up to $56.6 million of commercial paper borrowings. Accordingly, the portion of this debt expected to remain outstanding throughout the following year is classified as long-term at each balance sheet date.

Amounts due on long-term debt are $4.3 million in 1997, $12.4 million in 1998, $22.0 million in 1999, $20.9 million in 2000, $1.5 million in 2001 and $100.8 million thereafter.

The company has an interest rate swap agreement that effectively converts variable 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 10-year interest rate swap agreements, which expire in March 2005, that exchange variable rate interest obligations on $50 million notional principal amount for a fixed payment obligation of 7.6% (see Note 15).

Interest paid, net of amounts capitalized, amounted to $10.4 million, $9.8 million and $3.0 million during 1996, 1995 and 1994, respectively. The company capitalizes interest on qualifying capital projects. The amount of interest capitalized during 1996, 1995 and 1994 amounted to $3.0 million, $4.3 million and $3.8 million, respectively.

NOTE 6 - OTHER BALANCE SHEET INFORMATION

Receivables:	1996	1995
Customers	$213,308	$221,557
Affiliates	6,582	9,993
Other	18,511	23,827
	$238,401	$255,377

Receivables are net of allowance for doubtful accounts of $1.2 million in 1996 and $2.2 million in 1995. During 1996, the company sold its specialty vegetable oil business which had receivables of $12.4 million at December 31, 1995 (see Note 8).

Property and Equipment:	1996	1995
Land and improvements	$ 105,071	$ 101,457
Buildings and improvements	274,420	264,580
Machinery and equipment	1,081,850	1,002,678
Construction in progress	67,846	109,049
	$1,529,187	$1,477,764

In late 1996, the company began a multi-year project to implement a computer system to support its global information processing and access needs. Direct internal and external costs subsequent to the preliminary stage of this project are being capitalized as property and equipment. Capitalized costs will be amortized over the estimated useful life beginning when each site installation or module is complete and ready for its intended use. Other capitalized software, previously reported within Other Assets (cost of $30.7 million and accumulated amortization of $14.6 million at December 31, 1995), has been reclassified to conform with the current presentation.

Depreciation and amortization of property and equipment, including software, was $78.7 million in 1996, $71.8 million in 1995 and $63.9 million in 1994.

Other Assets:	1996	1995
Goodwill and other intangibles	$ 46,585	$ 29,793
Deferred income taxes	4,149	9,928
Other	29,147	18,984
	$ 79,881	$ 58,705

On December 11, 1996, the company purchased CPI Engineering Services, Inc. (CPI) for cash of $24.6 million. CPI develops, formulates and markets lubricants primarily for the air compressor and refrigeration markets. Goodwill of $16.0 million was recognized related to this acquisition and will be amortized on a straight-line basis over 15 years. CPI's operating results are not material to the company's consolidated financial statements.

Accumulated amortization of intangible and other assets was $12.2 million and $9.9 million at December 31, 1996 and 1995, respectively.

Accounts Payable:	1996	1995
Trade	$ 99,593	$118,639
Affiliates	83	6,481
	$ 99,676	$125,120

Income Taxes and Other Current Liabilities:	1996	1995
Employee compensation	$ 35,463	$ 33,256
Income taxes	12,914	10,707
Taxes other than income	10,893	13,912
Other	27,293	29,911
	$ 86,563	$ 87,786

Noncurrent Liabilities:	1996	1995
Employee benefits	$ 33,239	$ 33,998
Other	14,045	19,225
	$ 47,284	$ 53,223

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 27,673,218 and 23,244,606 at December 31, 1996 and 1995, 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.

NOTE 8 - GAIN ON INVESTMENTS

During 1996, the company completed the divestiture of its former agribusiness assets through the sale of its investments in Mycogen Corporation and AGI, and the sale of substantially all the assets of SVO Specialty Products, Inc. (SVO), a wholly-owned subsidiary. In January 1996, the company exchanged its remaining interest in AGI and all of its Mycogen Series A Preferred Stock into Mycogen Common Stock. In February 1996, the sale of the company's interest in Mycogen was completed, and the company realized cash proceeds of $126.2 million and recognized a pretax gain of $49.3 million, after transaction and other related costs.

In January 1996, the company sold certain rights to its SVO oil seed technology to Mycogen and recognized a pretax gain of $8.0 million. Cash proceeds were collected of $2.0 million in January 1996 and $2.5 million in January 1997 with $3.5 million due in January 1998. In September 1996, the company sold the assets of SVO, excluding a seed crushing plant, for cash of $20.8 million. Net of a $5.9 million provision to reduce the seed crushing plant to its estimated net realizable value, no gain or loss has been recognized on this sale. SVO revenues were $33.4 million in 1996 compared with $44.0 million in 1995. SVO operations were not material to the company's financial position or results of operations.

The company recognized pretax gains on the transactions described above of $57.3 million, after transaction costs and other related expenses of $4.9 million. Losses on other investment activity reduced the gain on investments to $53.3 million. On an after-tax basis these gains contributed $.57 per average share outstanding for the year 1996.

During the first half of 1995, the company sold all of its remaining shares of Genentech Inc. 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 gross realized gains of $41.2 million in 1994. On an after-tax basis these gains contributed $.39 per share in 1995 and $.41 per share in 1994. The company determined the gross realized gains using the average cost method. The investment in Genentech was reported at fair value in the company's balance sheets, until sold, as investments available-for-sale, with changes in unrealized gains recorded in other shareholders' equity.

NOTE 9 - OTHER INCOME

Other income – net consists of the following:

	1996	1995	1994
Equity earnings (losses) of nonconsolidated companies	$ 4,350	$ (2,081)	$ 2,972
Gain on donations of Genentech stock			13,967
Donations of Genentech stock to The Lubrizol Foundation			(14,581)
Gain on investee stock issuance		4,530	
Other – net	1,662	4,701	4,974
	$ 6,012	$ 7,150	$ 7,332

Included above are equity losses from Mycogen of $5.4 million and $.1 million in 1995 and 1994, respectively, and in both of 1995 and 1994, preferred dividend income of $1.5 million. Gains on investee stock issuance represents a non-cash gain, from the increase in the value of the company's ownership interest in the net assets of Mycogen, due to Mycogen's issuance of new shares in 1995 at a price in excess of the company's carrying value per share. (See Note 8).

NOTE 10 - INCOME TAXES

The provision for income taxes is based upon income before tax for financial reporting purposes. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. In estimating future tax consequences, the company considers anticipated future events, except changes in tax laws or rates, which are recognized when enacted.

Income before income taxes consists of the following:

	1996	1995	1994
United States	$196,390	$136,801	$163,508
Foreign	54,218	88,773	87,951
Total	$250,608	$225,574	$251,459

The provision for income taxes consists of the following:

	1996	1995	1994
Current:			
United States	$39,688	$28,294	$28,698
Foreign	18,044	28,766	27,389
	57,732	57,060	56,087
Deferred:			
United States	16,842	8,334	12,605
Foreign	6,232	8,565	7,192
	23,074	16,899	19,797
Total	$80,806	$73,959	$75,884

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:

	1996	1995	1994
Tax at statutory rate of 35%	$87,713	$78,951	$88,011
Foreign sales corporation earnings	(3,477)	(4,389)	(3,885)
Equity income	(1,324)	(856)	(812)
Contribution of appreciated property			(5,050)
Other – net	(2,106)	253	(2,380)
Provision for income taxes	$80,806	$73,959	$75,884

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31 are as follows:

	1996	1995
Deferred tax assets:		
Accrued compensation and benefits	$ 39,522	$40,792
Intercompany profit in inventory	13,107	13,285
Net operating losses carried forward	13,131	9,084
Equity investments and partnerships		3,864
Other	4,949	10,148
Total gross deferred tax assets	70,709	77,173
Less valuation allowance	(4,239)	(3,565)
Net deferred tax assets	66,470	73,608
Deferred tax liabilities:		
Depreciation and other basis differences	75,869	58,472
Undistributed foreign equity income	4,672	4,458
Inventory basis differences	3,920	3,557
Equity investments and partnerships	1,271	
Other	2,533	4,001
Total gross deferred tax liabilities	88,265	70,488
Net deferred tax assets (liabilities)	$(21,795)	$ 3,120

At December 31, 1996, certain foreign subsidiaries have net operating loss carryforwards of $32.6 million for income tax purposes, of which $10.6 million expires in years 1998 through 2003 and $22.0 million has no expiration. After evaluating tax planning strategies and historical and projected profitability, a valuation allowance has been recognized to reduce the deferred tax assets related to those carryforwards to the amount expected to be realized. The net change in the total valuation allowance for the years ended December 31, 1996 and 1995, was an increase of $.7 million and an increase of $3.6 million, respectively.

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 $346.6 million at December 31, 1996. Determination of the net amount of unrecognized U.S. income tax with respect to these earnings is not practicable.

Income taxes paid during 1996, 1995 and 1994 amounted to $55.0 million, $56.9 million and $70.9 million, respectively.

NOTE 11 - 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 $19.6 million in 1996, $20.7 million in 1995 and $24.1 million in 1994, including profit sharing contributions in the U.S. of $5.1 million in 1996, $4.4 million in 1995 and $5.7 million in 1994.

Net periodic pension cost of defined benefit plans consists of:

	1996	1995	1994
Service cost – benefits earned during period	$ 11,097	$ 10,089	$ 11,454
Interest cost on projected benefit obligation	17,690	17,804	16,769
Actual return on plan assets	(33,585)	(47,965)	1,510
Net amortization and deferral	14,229	31,833	(14,695)
Net periodic pension cost	$ 9,431	$ 11,761	$ 15,038

The weighted average assumptions used at December 31 were:

	1996	1995	1994
Discount rate for determining funded status	7.5%	7.3%	8.2%
Compensation increase . . .	4.5%	4.8%	5.2%
Return on plan assets.	8.9%	8.8%	8.6%

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

	1996		1995	
	Assets Exceed Accum. Benefits	Accum. Benefits Exceed Assets	Assets Exceed Accum. Benefits	Accum. Benefits Exceed Assets
Fair value of plan assets. . . .	$264,949	$ 6,431	$234,819	$ 6,328
Projected benefit obligation	(217,173)	(31,448)	(211,709)	(31,724)
Plan assets in excess of (less than) projected benefit obligation	47,776	(25,017)	23,110	(25,396)
Unrecognized net transition obligation (asset)	(11,833)	3,882	(13,206)	4,513
Unrecognized net loss (gain) .	(28,162)	845	(7,508)	(611)
Unrecognized prior service cost	10,091	2,689	14,208	3,210
Minimum liability adjustment . . .		(1,699)		(906)
Accrued pension asset (liability)	$ 17,872	$(19,300)	$ 16,604	$(19,190)
Accumulated benefit obligation	$155,071	$ 24,702	$152,714	$ 23,928
Vested benefits . .	$149,318	$ 20,442	$146,672	$ 20,170

NOTE 12 – 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.

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

	1996	1995
Accumulated postretirement benefit obligations:		
Retirees	$ 29,794	$ 27,915
Fully eligible active plan participants .	14,385	16,104
Other active plan participants	19,776	20,004
Total accumulated postretirement benefit obligation	63,955	64,023
Unrecognized net (loss) gain	652	(3,503)
Unrecognized net reduction in prior service costs	37,056	40,274
Accrued postretirement health care costs.	$101,663	$100,794

The amount of unrecognized net reduction in prior service costs results from plan amendments in 1994 that changed eligibility requirements and certain cost sharing provisions of the plan and, in 1995, that incorporated assumptions within the health care plan regarding participation in Medicare Risk HMO plans. These reductions in prior service costs 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 (remaining amortization period at December 31, 1996, of approximately 12 years).

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 9.0% in 1996 (9.75% in 1995), with subsequent annual decrements of .75% to an ultimate trend rate of 5%. 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 11% and the aggregate of the service and interest cost components of net postretirement health care cost by approximately 13%. A discount rate of 7.5% was used in determining the accumulated postretirement benefit obligation at December 31, 1996 and 1995.

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

	1996	1995	1994
Service cost – benefits earned during the year	$ 1,501	$ 1,361	$ 2,916
Interest cost on accumulated postretirement benefit obligation	4,817	6,066	7,131
Amortization of unrecognized net gains	(3,218)	(1,766)	
Net postretirement health care cost	$ 3,100	$ 5,661	$10,047

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 13 – 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 $16.9 million in 1996, $19.5 million in 1995 and $19.3 million in 1994. Future minimum rental commitments under operating leases having initial or remaining non-cancelable lease terms exceeding one year are $11.0 million in 1997, $7.6 million in 1998, $4.7 million in 1999, $4.1 million in 2000, $3.7 million in 2001 and $26.1 million thereafter.

NOTE 14 – 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:

	1996	1995	1994
Revenues from customers:			
United States	$ 711,781	$ 722,879	$ 707,103
Europe	480,250	533,920	512,279
Far East	229,659	225,773	215,632
Other	175,872	181,022	163,980
	1,597,562	1,663,594	1,598,994
Intercompany transfers:			
United States	318,492	319,671	296,693
Europe	26,364	37,556	28,835
Far East	182	301	360
Other	22,507	30,905	27,717
	367,545	388,433	353,605
Gross revenues	1,965,107	2,052,027	1,952,599
Less: Intercompany transfers	(367,545)	(388,433)	(353,605)
Consolidated revenues	$1,597,562	$1,663,594	$1,598,994
Operating profit:			
United States	$ 162,090	$ 138,398	$ 145,971
Europe	27,746	51,172	49,783
Far East	9,078	9,731	15,486
Other	13,178	17,476	14,251
Eliminations	(671)	(2,555)	(2,249)
	211,421	214,222	223,242
General corporate expenses	(16,864)	(19,156)	(21,212)
Provision for asset impairment		(9,489)	
Gain on investments	53,280	38,459	41,235
Other income – net	6,012	7,150	7,332
Interest – net	(3,241)	(5,612)	862
Income before income taxes	$ 250,608	$ 225,574	$ 251,459
Identifiable assets:			
United States	$ 796,154	$ 804,045	$ 731,651
Europe	400,639	395,053	337,457
Far East	151,015	154,992	157,344
Other	91,768	82,708	74,768
Eliminations	(114,546)	(82,310)	(81,640)
	1,325,030	1,354,488	1,219,580
Corporate assets	77,085	137,532	174,784
Total assets	$1,402,115	$1,492,020	$1,394,364

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 1996 and 1995 and also in the Middle East for 1994, were $144 million, $138 million and $139 million, respectively.

Net assets of non-U.S. subsidiaries at December 31, 1996 and 1995, were $487 million and $446 million, respectively. Net income of these subsidiaries was $29 million in 1996, $52 million in 1995 and $55 million in 1994; and dividends received from the subsidiaries were $18 million, $7 million and $8 million, respectively.

NOTE 15 - 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 interest rate swap agreements discussed below. The company uses derivative financial instruments only to manage well-defined foreign currency and interest rate risks. 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 currency 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 $41.2 million in 1996 and $16.6 million in 1995. At December 31, 1996, the company had short-term forward contracts to sell currencies at various dates during 1997 for $7.3 million. 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. Deferred currency gains on foreign exchange contracts at December 31, 1996, were not material.

The company is exposed to market risk from changes in interest rates. The company's policy is to manage interest rate cost using a mix of fixed and variable rate debt. To manage this mix in a cost efficient manner, the company enters into interest rate swaps, in which the company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount. The company has entered into interest rate swap agreements to convert variable rate debt to fixed rates (see Note 5). Interest payments receivable and payable under the terms of the interest rate swap agreements are accrued over the period to which the payment relates and the net difference is treated as an adjustment of interest expense related to the underlying liability. Changes in the underlying market value of the remaining swap payments are generally not recognized in income, unless the underlying liability being hedged is extinguished or partially extinguished to a level less than the notional amount of the interest rate swaps. The company would pay approximately $4.2 million if it had terminated these interest rate swap agreements at December 31, 1996, and in 1996 recognized $1.1 million of this loss as a charge against income.

NOTE 16 - STOCK COMPENSATION PLANS

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.

The company accounts for its stock option plans using the intrinsic-value accounting method (measured as the difference between the option exercise price and the market value of the stock at date of grant) under APB Opinion 25 and related interpretations. Accordingly, no compensation expense has been recognized for its stock-based compensation plans in the accompanying financial statements as all option exercise prices were equal with market price on the date of grant. The Financial Accounting Standards Board issued SFAS 123 – Accounting for Stock-Based Compensation, which was effective for 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. If the fair value method to measure compensation cost had been used, the company's net income would have been reduced by $2.0 million and $1.7 million in 1996 and 1995, respectively with a corresponding reduction in earnings per share of $.03 for each year.

Disclosures under the fair value method are estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in 1996 and 1995, respectively:

	1996	1995
1985 Plan:		
Risk free interest rate	7.0%	7.1%
Dividend yield	3.4%	3.4%
Volatility	23%	23%
Expected life (years)	6.6	8.6
1991 Plan:		
Risk free interest rate	6.6%	7.0%
Dividend yield	3.4%	3.4%
Volatility	23%	23%
Expected life (years)	8.5	8.2

Information regarding these option plans is as follows:

	1996		1995	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, January 1	2,958,416	$30.70	2,583,721	$29.28
Granted	497,566	29.96	528,210	35.12
Exercised	(99,427)	18.25	(148,887)	21.57
Forfeited	(108,442)	31.86	(4,628)	34.56
Outstanding, December 31	3,248,113	$30.93	2,958,416	$30.70
Options exercisable, December 31	2,574,762	$30.57	1,975,878	$28.77
Weighted-average fair value of options granted during the year		$ 8.05		$10.05

The following table summarizes information about stock options outstanding at December 31, 1996:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/96	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/96	Weighted-Average Exercise Price
$13 – $19	148,134	3.0 Years	$16.00	148,134	$16.00
19 – 25	127,477	2.4	21.80	127,477	21.80
25 – 31	1,380,466	5.5	28.68	975,742	28.14
31 – 38	1,592,036	5.1	34.99	1,323,409	34.83
	3,248,113	5.1	30.93	2,574,762	30.57

NOTE 17 - SPECIAL CHARGE AND PROVISION FOR ASSET IMPAIRMENT

In 1993, the company recorded an $86.3 million special charge related to its manufacturing rationalization and organizational realignment initiatives. It was originally estimated that these initiatives would take approximately three years to fully implement and would reduce the number of the company's production units by up to one-third and the number of employees by approximately 5%. Originally, 30% of the special charge was for employee reductions; 55% was for asset writedowns primarily related to manufacturing assets and Agribusiness investments; and 15% was for tank cleaning and dismantling, lease exit costs and other transitional costs.

As of December 31, 1996, the company has substantially completed its planned activities under the special charge initiatives, including reducing the number of production units by approximately 30%, with three remaining units to be removed in 1997 and reducing its worldwide employment by approximately 9%, or over 400 employees, through early retirements, separations and attrition. Although there was no change in the aggregate amount of the special charge, certain components have been revised as actual costs to implement became known. Asset write-offs decreased due to lower than originally estimated net book values of the assets removed from service. Costs for employee reductions were greater than originally estimated due to more employee separations. Through completion, approximately 45% of the special charge relates to employee separations; 40% to asset writedowns and 15% to other areas. Cash outlays related to the special charge were approximately $9 million in 1996, $14 million in 1995, $18 million in 1994 and $4 million in 1993. At December 31, 1996, there is approximately $9 million remaining in the special charge accrual, of which $7 million will require disbursement of cash in 1997.

Implementation of these initiatives has resulted in continued cost savings from a reduced number of employees, lower operating costs and fewer manufacturing units used to produce intermediate products.

During the fourth quarter of 1995, the company recorded a provision 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

On June 24, 1996, the U.S. Supreme Court denied Exxon's request to review the September 1995 decision of the United States Court of Appeals for the Federal Circuit in Washington, D.C. The Court of Appeals' decision overturned a December 1992 jury verdict, in Houston, Texas, that the company had infringed an Exxon patent and vacated a $129 million judgment against the company. The decision of the Supreme Court terminates, with finality, the prior judgment against the company. Notwithstanding the Supreme Court decision, Exxon filed a motion for another trial under the patent on an allegedly different theory of infringement, which motion was denied by the trial judge following the Supreme Court ruling. However, Exxon has pursued an appeal of the denial of this motion for another trial, which appeal is pending.

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 compensation damages but no date has been set for a determination. In October 1994, the trial court judge awarded $15 million (Canadian) to the company for special penalty damages, plus attorneys' fees, for Imperial Oil's disregard of an earlier injunction for the manufacture or sale of the dispersant which is the subject of this case. In April 1996, the Federal Court of Appeals of Canada vacated the award of special penalty damages and concluded that any penalty damage determination should be made after the compensation damages for patent infringement have been determined by the lower court. A reasonable estimation of the company's potential recovery for compensation and penalty damages cannot be made at this time and no amount has been recorded in the company's financial statements.

In November 1996, a patent trial court in London declared a Lubrizol United Kingdom patent invalid, which patent is the subject of litigation with Exxon in that country. The company will appeal this decision and believes it should succeed on appeal. Although the trial court decision does not involve any damage payments, the court awarded Exxon its attorneys' fees in the case, as is customary under U.K. practice. The amount of such fees has not yet been determined, but are not expected to be material to the company. The company has not recorded any amount for payment to Exxon for its attorneys' fees pending the outcome of its appeal.

Quarterly Financial Data (Unaudited)

	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In Thousands of Dollars Except Per Share Data)			
1996				
Net sales	$405,412	$420,531	$392,114	$374,820
Gross profit	131,817	132,007	124,931	120,728
Gain on investments (net of tax)	34,632			
Net income	71,236	38,070	31,733	28,763
Net income per share	$1.14	$.63	$.53	$.49
1995				
Net sales	$414,931	$436,774	$412,428	$393,688
Gross profit	137,375	148,865	129,985	116,210
Gain on investments (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

In September 1996, the company sold its specialty vegetable oil business, which reduced net sales by $5.9 million and $10.5 million for the third and fourth quarters of 1996 compared with 1995, respectively. The impact on gross profit, net income or income per share was insignificant. See Note 8 for discussion of gain on investments.

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

Historical Summary

(In Millions, Except Shareholders, Employees and Per Share Data)	**1996**	1995	1994
OPERATING RESULTS:			
Revenues	**$1,597.6**	$1,663.6	$1,599.0
Total cost and expenses	**1,403.0**	1,468.5	1,397.0
Other income (charges)	**56.1**	30.5	49.4
Net income	**169.8**	151.6	175.6
– Before unusual items and accounting changes	**135.2**	132.8	148.8
Net income per share	**2.80**	2.37	2.67
– Before unusual items and accounting changes	**2.23**	2.08	2.26
FINANCIAL RATIOS:			
Gross profit percentage	**32.0**	32.1	32.7
Percent of revenues:			
Selling and administrative expenses	**9.9**	9.8	10.0
Research and testing expenses	**10.1**	10.8	10.3
Return on average shareholders' equity (%)	**20.4**	18.0	22.5
– Before unusual items and accounting changes (%)	**16.2**	15.8	19.0
Debt to capitalization (%)	**19.5**	22.5	16.8
Current ratio	**2.6**	2.4	2.5
OTHER INFORMATION:			
Dividends declared per share	**$ .97**	$ .93	$ .89
Average common shares outstanding	**60.7**	63.8	65.7
Capital expenditures	**$ 94.3**	$ 189.3	$ 160.5
Depreciation expense	**78.7**	71.8	63.9
At Year End:			
Total assets	**$1,402.1**	$1,492.0	$1,394.4
Total debt	**198.5**	247.1	167.9
Total shareholders' equity	**819.4**	849.0	832.0
Shareholders' equity per share	**14.00**	13.48	12.83
Common share price	**31.00**	27.75	33.88
Number of shareholders	**5,764**	6,304	6,494
Number of employees	**4,358**	4,601	4,520

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

1993	1992	1991	1990	1989	1988	1987	1986
$1,525.5	$1,552.2	$1,476.3	$1,452.7	$1,227.9	$1,125.7	$1,022.3	$ 985.2
1,362.2	1,390.5	1,308.7	1,288.4	1,109.7	1,009.9	916.4	875.7
(43.6)	15.4	10.5	106.9	19.5	69.9	23.3	19.2
45.6	124.6	123.7	190.0	94.0	140.0	81.3	78.2
113.5	124.6	123.7	133.5	94.0	88.4	73.7	78.2
.67	1.81	1.79	2.67	1.26	1.81	1.03	.99
1.67	1.81	1.79	1.87	1.26	1.14	.94	.99
32.0	31.7	32.4	30.3	29.2	29.9	29.6	28.8
10.4	11.7	11.7	10.9	10.8	10.5	10.8	10.3
11.2	10.0	9.8	8.5	9.2	9.6	9.1	8.1
5.9	15.4	16.2	27.2	14.2	21.8	13.6	14.3
14.6	15.4	16.2	18.0	14.2	13.7	12.0	14.3
8.7	5.6	7.9	8.3	8.5	8.4	10.1	9.0
2.5	2.9	2.7	2.7	3.0	3.1	3.0	2.8
$ .85	$ .81	$ .77	$ .73	$ .69	$ .65	$ .61	$ .59
67.7	69.0	69.3	71.1	74.7	77.4	79.1	79.4
$ 127.9	$ 95.8	$ 82.4	$ 77.4	$ 64.7	$ 54.6	$ 42.0	$ 40.5
59.6	58.4	54.6	54.0	48.7	46.6	47.2	42.6
$1,182.6	$1,127.1	$1,171.7	$1,114.6	$ 960.2	$ 970.7	$ 939.4	$ 877.9
69.6	48.4	67.8	66.6	61.2	60.8	69.7	56.9
732.2	819.4	794.5	736.2	663.3	664.3	621.6	572.7
11.00	11.97	11.51	10.61	8.96	8.74	7.98	7.21
34.13	27.25	28.25	23.63	18.75	17.75	16.44	15.75
6,616	6,822	6,767	6,692	7,370	7,782	8,335	9,240
4,613	4,609	5,299	5,169	5,030	4,781	4,817	4,802

Board of Directors

W. G. Bares
Chairman of the Board, President and Chief Executive Officer

Edward F. Bell
Retired President and Chief Executive Officer of Ameritech Ohio, which provides telephone, data transmission and telecommunications services in Ohio.

L. E. Coleman
Retired Chairman and Chief Executive Officer of The Lubrizol Corporation.

Peggy Gordon Elliott
Senior Fellow at the National Center for Higher Education and past President of The University of Akron.

Forest J. Farmer, Sr.
President and Chief Executive Officer of Bing Manufacturing, Inc., a company which provides sequencing and value-added subassemblies to the automotive industry.

Gordon D. Harnett
Chairman, President and Chief Executive Officer of Brush Wellman Inc., the world's largest producer of beryllium and beryllium-containing engineered products.

Victoria F. Haynes
Vice President–Research and Development and Chief Technical Officer of The BFGoodrich Company, a specialty chemicals and aerospace company.

David H. Hoag
Chairman, President and Chief Executive Officer of The LTV Corporation and Chief Executive Officer of LTV Steel Company, a metals company engaged in the production of flat rolled carbon steel.

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

William P. Madar
Vice Chairman and Chief Executive Officer of Nordson Corporation, a company which manufactures and markets industrial equipment.

Ronald A. Mitsch
Vice Chairman and Executive Vice President–Industrial and Consumer Sector of 3M, a manufacturer of products for industrial, commercial, health care and consumer markets.

Corporate Information

Transfer Agent, Registrar and Dividend Disbursing Agent

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005
(212) 936-5100 (800) 937-5449

Annual Meeting

The Annual Meeting of Shareholders will be held at the Clarion Hotel & Conference Center, Eastlake, Ohio, on April 28, 1997.

Form 10-K

The Form 10-K Annual Report to the Securities and Exchange Commission will be available March 31, 1997. 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 6,011 as of February 10, 1997.

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, American Stock Transfer & Trust Company, at the address and telephone number listed above.

Officers

W. G. Bares
Chairman, 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

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

Richard D. Robins
Vice President

J. Alun Thomas
Vice President

William R. Jones
Treasurer

29400 Lakeland Boulevard
Wickliffe, Ohio 44092-2298
(216) 943-4200
http://www.lubrizol.com

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 de Mexico Comercial S. de R.L. de C.V.
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.
CPI Engineering Services, Inc.
Engine Control Systems, Ltd. (Canada and England)
Gate City Equipment Company, Inc.
Langer & Company G.m.b.H. (Germany)

AFFILIATES

Industrias Lubrizol S.A. de C.V. (Mexico)
Lanzhou Lubrizol – Lanlian Additive Co., Ltd. (China)
Lubrizol India Limited
Lubrizol Transarabian Company Limited (Saudi Arabia)
Solub Limited (Russia)
Tianjin Lubrizol – Lanlian Additive Co., Ltd. (China)

MANUFACTURING PLANTS

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

TECHNICAL CENTERS

Atsugi, Japan
Hazelwood, England
Wickliffe, Ohio