SHERWIN WILLIAMS

Report to Shareholders • 1976



0007-SWP-035187

N21769

Table of Contents

Financial Highlights 1

Letter to Shareholders 2

New Direction in the Market Place 4

Financial Review 8

Financial Statements 14

Five-Year Comparison 20

The Year in Review 21

- Coatings Group
- Auxiliaries Group
- Chemicals Group
- Sherwin-Williams Canada
- Sprayon Products
- International Coatings

Directors and Officers 30

Subsidiaries, Licensees and Plants ..... Inside Back Cover

On the Cover: The abstract design was printed in one pass through the Graphic Arts Division's "Colorflo" machine which deposits lacquers in many colors in practically any shape. For more about how the cover illustration was produced, see pages 25 and 26.

Annual Meeting

The annual meeting of Shareholders will be held at 10:00 A.M., December 15, 1976, at the Sheraton-Cleveland Hotel, Public Square, Cleveland, Ohio.

Annual Report on Form 10-K

The Company's Annual Report on Form 10-K, which will be filed with the Securities and Exchange Commission, will be available to shareholders without charge on request to:

William P. Inman, Secretary
The Sherwin-Williams Co.
101 Prospect Avenue, N. W.
Cleveland, Ohio 44115

Fiscal Year Change

Because the Company will change its fiscal year to correspond with the calendar year beginning January 1, 1977, an interim report covering the quarter ending November 30, 1976 will be issued. However, shareholders will receive a financial report covering the four-month fiscal period ending December 31, 1976.

Transfer Agents

The Cleveland Trust Company
Cleveland, Ohio

The Chase Manhattan Bank, N.A.
New York, New York

Registrars

The Cleveland Trust Company
Cleveland, Ohio

The Chase Manhattan Bank, N.A.
New York, New York

Trustees

5.45% Debentures Due 1992 & 9.35% Due 1998
The Cleveland Trust Company
Cleveland, Ohio

6.25% Convertible Subordinated Debentures Due 1997
Central National Bank of Cleveland
Cleveland, Ohio

0007-SWP-035188

0007-SWP-000116609

SHERWIN WILLIAMS

Financial Highlights

Thousands of Dollars

	August 31	
	1976	1975
Net sales	$951,984	$866,853
Income before income taxes	33,784	50,233
Income taxes	15,349	21,645
Net income	18,435	28,588
Cash dividends declared:		
Preferred	1,074	1,092
Common	11,861	11,832
Per common share:		
Net income	3.22	5.11
Dividends paid	2.20	2.20
Working capital	276,456	287,711
Ratio of current assets to current liabilities	3.18 to 1	3.89 to 1
Capital expenditures	42,844	27,902
Provision for depreciation	12,839	12,750

0007-SWP-035189

0007-SWP-000116610



Walter O. Spencer
Chairman of the Board and Chief Executive Officer

William C. Fine
President and Chief Operating Officer

Letter to Shareholders

As the fiscal year progressed, the results closely followed the expectations we had at the beginning of the year. The first half was quite depressed and at the end of six months we had a small loss in net profits. Conversely, with the economy strengthening in the second half, sales recovered and we achieved an all-time record six months earnings from operations in that period.

Unfortunately, the forty percent devaluation of the Mexican peso at year-end reduced those operating earnings the equivalent of 59¢ per common share. In total, we had earnings of $3.22 per common share on record sales of $951,984,000 for the year. This compares to earnings of $5.11 per common share last year on sales of $866,853,000. Since last year's earnings included a one-time gain of $1.73 per share on the sale of our titanium dioxide operations, the operating earnings comparison, excluding the peso devaluation, is $3.81 per share this year, compared to $3.38 per share last year.

Progress was evident in our continuing efforts to reshape the company and more sharply focus our skills and marketing efforts. Sales from continuing operations were up 13.7% or $114,743,000 as we have sold the Osborn Manfacturing business and closed out all leased departments in the Coatings Group.

We continued to put a major effort in broadening and strengthening our marketing in the Coatings Group. Prominent in this effort was the ongoing program to enlarge and upgrade our stores. Later on in this report is a section on "New Direction in the Market Place" that will give you more insight into this. As a result of this program, the average sales per store were up 17% for our 1,700 stores. The increasing emphasis on a broader decorating service in our stores raised the sales of non Sherwin-Williams manufactured merchandise to over $200,000,000 for the year. We also successfully introduced the totally new Martin-Senour paint line for the independent dealer. This exciting new line is now being sold by 2,700 dealers

0007-SWP-035190

0007-SWP-000116611



As a result of all these activities, plus increased manufacturing and distribution efficiencies, before tax operating profits in the Coatings Group were up 46.5% on a 14.2% sales increase.

Our chemical business suffered an extremely slow first six months. Sales rebounded in the second half, except to the rubber industry due to the prolonged labor strike in that area. Pretax operating profits in the Chemicals Group were down from last year's $8,728,000 to $3,275,000. However, 96% of their profits were made in the last six months of the year.

In the Auxiliaries Group, the Containers and Graphic Arts Divisions were strong all year and the Applicators Division came on very strong in the second half.

The international situation was confused and erratic because of continuing political and economic uncertainties. The Sherwin-Williams Company of Canada Ltd. continued to make progress in its markets but was beset by a host of economic uncertainties which tended to cause sharp ups and downs throughout the year and further depress profit margins. The new joint venture in Indonesia began production in the spring but economic uncertainties in that country have considerably hampered our progress. In our unconsolidated Brazilian subsidiary, while sales moved ahead rapidly, continuing high inflation, currency devaluations, and economic controls made profitable operations very difficult.

Capital expenditures for the year were $42,844,000 or 53.6% over last year. The major increase was for the new automotive refinishes coatings plant now going on stream in Richmond, Kentucky. We have also broken ground for a large new emulsion paint plant on our Chicago, Illinois, site. For the next few years expenditures will remain high for these much more efficient manufacturing facilities. Combining this with our branch store modernization program and support for our growing Chemicals and Auxiliaries Groups will mean continuing high capital expenditures.

While our financial position remains very strong, we must continuously re-evaluate our priorities and aggressively support only those business areas that meet our stringent requirements. In common with all American industry, continued inflation, combined with insufficient profits, makes it difficult for The Sherwin-Williams Company to reinvest the amount of capital needed to take advantage of all of our opportunities. We are very concerned with this trend in American industry and believe that corrective action must be taken soon if our country is to remain a world leader in providing a healthy future for all of its citizens.

Mr. Victor Holt, former President of Goodyear Tire & Rubber Company, retired from the Sherwin-Williams Board of Directors in 1976. Mr. Holt had been a director since December, 1967. We will miss his wise counsel.

In 1976 our country celebrated its 200th birthday. The Sherwin-Williams Company celebrated its 110th. With all the uncertainties, we are optimistic about our country and our company. The vigor and common sense of our citizens, we believe, will continue to be asserted. Thankful for these characteristics in our management, our employees, and our customers, The Sherwin-Williams Company expects to continue in a leadership role in our industry.

Chairman of the Board and Chief Executive Officer

President and Chief Operating Officer

Cleveland, Ohio
October 22, 1976

0007-SWP-035191

0007-SWP-000116612



0007-SWP-035192



NEW DIRECTION in the Market Place

Throughout the corporation, marketing efforts are being redirected to focus with greater precision on specific customer demands.

For example, in the Chemicals Group growing customer interest in metals protective chemicals has led to formation of a marketing team whose members concentrate on satisfying this market need. In the Auxiliaries Group, container marketing personnel are joining with Graphic Arts Division staff to open new avenues of service to customers whose label and other printing requirements can be fulfilled through our graphic arts capabilities.

Comparable marketing concentration can be found in all other segments of the business. However, the most readily visible evidence of focusing marketing effort on marketing goals is seen in the store activities of the Coatings Group.

At one time, all Sherwin-Williams stores were very much alike, offering their customers almost exclusively products of our own manufacture. Over the years, other merchandise came to be provided through these outlets. Wallcoverings were an early addition, followed by floor coverings as these were perceived to be a natural extension of home decor product lines.

Now the marketing concept has expanded to embrace still other materials. And in the line-up of Sherwin-Williams stores in the United States (described overleaf) an innovative category identified as "New Dimension Stores" is developing. These are new or remodeled stores in which a full presentation of four basic retail product lines is made. The core of the presentation consists of paint and sundries, wallcoverings, floor coverings and window decor. This is augmented by other decorating-related items such as lamps, mirrors, pictures, pillows and seasonal merchandise. Essential ingredients are skilled decorating consultation and the ability to provide required installation services. All New Dimension Stores are positioned to draw customers from much larger than usual trading areas. Their size is tailored to market realities.

These new style stores are a direct response to research indicating consumers react favorably to the marketing idea that invites purchase of related merchandise in one place. They owe much of their appearance and their service concepts to *Decorating World* at Charlotte, North Carolina, which continues to be a laboratory for evaluation of potential re-sale products, merchandising techniques and display ideas.

New Dimension Stores are the stores of the future in selected markets where their broader merchandise offerings and specialized services fit them to market needs. The latest New Dimension Store is in Indianapolis, Indiana. The scope of its product offering and service capability is suggested in the photomontage at the left.

0007-SWP-035193

0007-SWP-000116614

SHERWIN WILLIAMS

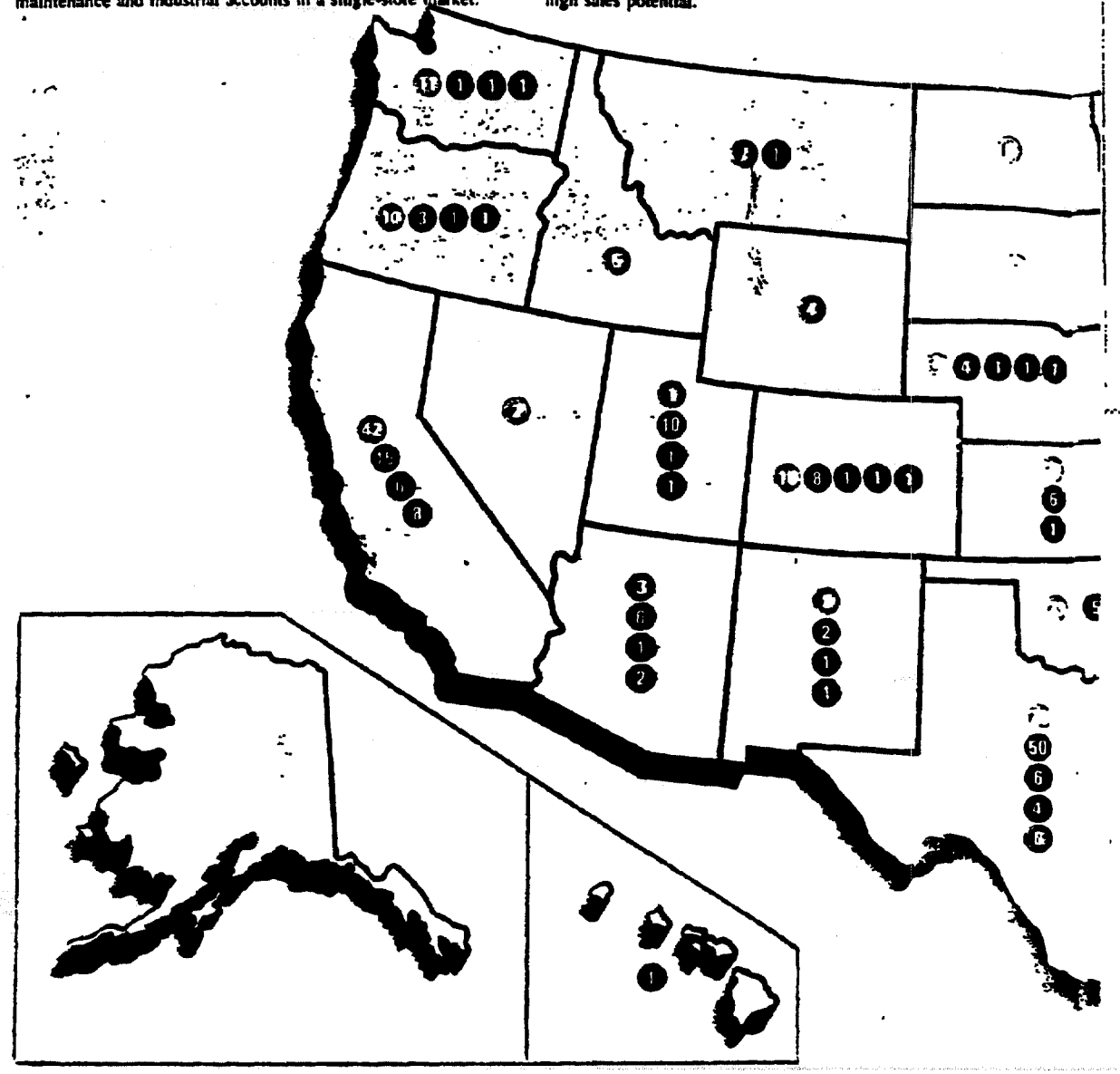
TO MEET MARKET NEEDS

The Sherwin-Williams store marketing structure is in a constant state of evolution as it is reshaped to meet changing market demands. Shown here is the geographic distribution of stores as of August 31, 1976. The five distinct types of outlets include:

Standard Stores — aimed at the needs of homeowners, professional painters, building contractors and commercial maintenance and industrial accounts in a single-store market.

Metro Stores — serving primarily the needs of retail customers in multiple-store markets characterized as strategic demographic areas of promising growth.

New Dimension Stores — geared closely to the one-stop shopping concept and offering expanded lines of decorating-related merchandise and services in markets with high sales potential.



0007-SWP-035194

Commercial Service Centers — serve painting contractors, building contractors, architects and industrial OEM accounts requiring specialized products and services in major markets.

Automotive Finishes Service Centers — supply car and truck body repair shops, automobile dealers and fleet accounts. Centers are strategically located to expedite service to users of automotive coatings and application equipment.

Locations of the Service Centers can be expected to remain relatively stable since their defined marketing areas are not likely to experience abrupt changes. However, store locations are constantly reevaluated to make certain marketing objectives are not eroded by population shifts and other factors. Hence, the process of evolution of stores into different types is a continuing program. The aim is to keep pace with market needs, changing locations and store types as the market dictates.



0007-SWP-035195

0007-SWP-000116616

SHERWIN WILLIAMS

Financial Review

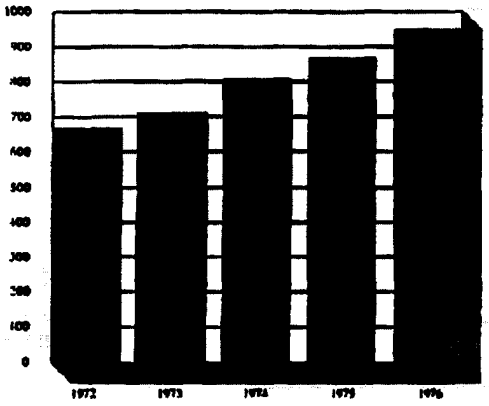
The following table presents sales and pre-tax operating income for each of the operating groups for the fiscal years 1976 and 1975 and the changes that occurred in 1976 as compared to 1975. Corporate expenses, including interest and certain general administrative expenses, are shown separately as is the effect of the Mexican peso devaluation. The total of the income figure after deducting the corporate expenses and peso devaluation agrees with the income before income taxes reported in the Statements of Consolidated Income.

	1976 (Thousands of Dollars)				1975				Change	
	Sales	Percent of Total	Income Before Taxes	Percent of Total	Sales	Percent of Total	Income Before Taxes	Percent of Total	Sales	Income Before Taxes
Coatings	$682,197	71.7%	$27,002	50.3%	$597,502	68.9%	$18,436	36.7%	$84,695	$8,566
Auxiliaries	85,103	8.9%	19,605	36.5%	97,936	11.3%	19,471	38.8%	(12,833)	134
Chemicals	71,047	7.5%	3,275	6.1%	69,301	8.0%	8,728	17.4%	1,746	(5,453)
Sherwin-Williams Canada	60,734	6.4%	644	1.2%	54,148	6.3%	1,189	2.3%	6,586	(525)
Sprayon	25,053	2.6%	1,608	3.0%	23,498	2.7%	976	1.9%	1,557	632
International	27,848	2.9%	1,536	2.9%	24,468	2.8%	1,439	2.9%	3,380	97
Group totals	$951,984	100.0%	53,670	100.0%	$866,853	100.0%	50,219	100.0%	$85,131	3,451
Gain on sale of Ashtabula operations			—				12,728			(12,728)
Mexican peso devaluation			(3,252)				—			(3,252)
Corporate expenses unallocated			(16,634)				(12,714)			(3,920)
Income before income taxes			$33,784				$50,233			($16,449)

Sales

Consolidated net sales in fiscal 1976 of $951,984,000 were $85,131,000 or 9.8% greater than 1975's record high of $866,853,000.

Consolidated Net Sales IN MILLIONS



Dollar sales of the Coatings Group, representing 71.7% of total net sales, increased by 14.2% as overall unit sales increases totaled approximately 9.0%. External sales of the Auxiliaries Group at $85,103,000 reflect a decrease from 1975 of $12,833,000; however, last year's sales included those of The Osborn Manufacturing Company which was sold during 1975. Excluding Osborn's sales from last year for comparative purposes results in a 16.2% sales gain. On the same comparative basis, unit volume sold increased approximately 9.1% in the Auxiliaries Group. Chemicals Group sales fell off during the latter half of fiscal 1975 and did not recover until the latter half of fiscal 1976. Net sales in the group of $71,047,000 in fiscal 1976 gained 2.5% over fiscal 1975 on the strength of selective price increases and product mix changes. Unit volume declined approximately 4.2% from 1975.

Cost of Products Sold

Consolidated cost of products sold increased 11.9% in fiscal 1976 over last year due primarily to the effects of higher levels of sales activity. During 1976, raw material cost increases were modest when compared with those experienced during the previous two fiscal years.

0007-SWP-035196

0007-SWP-000116617

Gross profit increased $16,528,000 or 5.7% over 1975. Gross profit margin for the year decreased to 32.3% from 33.5% recorded in 1975. Improving business conditions in the second half of fiscal 1976 allowed for some price increases, a more profitable sales mix, and increased levels of production. As a result, the gross profit margin for the second half of the year improved to 33.7%.

Maintenance and repairs expense increased during 1976 to $19,862,000, up by $1,837,000 or 10.2% from 1975. Higher levels of unit output combined with rising repair costs are the primary reasons for the increased maintenance expense incurred during the year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses at $261,786,000 increased by $17,268,000 or 7.1% over last year; however, more importantly, their relationship to net sales improved to 27.5% in fiscal 1976 from 28.2% in the previous fiscal year.

Rent, a major fixed expense, increased to $29,210,000 in fiscal 1976, an increase of $1,726,000 or 6.3%. Rent per location is increasing in the Coatings Group as store locations are enlarged and upgraded.

Advertising expense rose to $23,781,000, a $3,411,000 or 16.8% increase from 1975. The major portion of the increase was incurred by the Coatings Group. The added expense supported the Martin-Senour dealer paint line, new consumer product introductions and the ongoing advertising program in the Coatings Group.

The operating income margin, computed by subtracting the cost of products sold and the selling, general and administrative expenses from net sales, increased from 0.1% for the first half of fiscal 1976 to 4.8% for the full year. This operating margin in the latter half of fiscal 1976 increased to 8.2% compared to 6.4% in the second half of fiscal 1975.

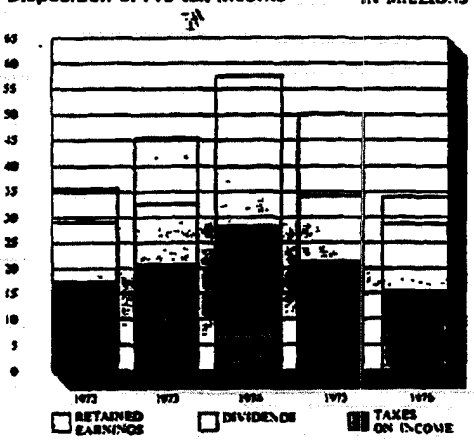
Interest

Interest expense totaled $12,226,000 during the year, up $246,000 or 2.1% from last year. Interest costs during 1976 included the first full year's cost of the 9.45% Debentures Due 1999 issued December, 1974. Borrowings have increased as a result of additional accounts receivable growth and the ongoing capital expansion program. Interest expense associated with increased short-term borrowing needs was partially offset by the favorable effect of declining short-term interest rates during 1976.

Income Before Income Taxes

Pre-tax operating profits of $53,670,000 at the group level in fiscal 1976 increased $3,451,000 or 6.9% over last year's $50,219,000. This increase is principally attributable to the record second half earnings. The $3,252,000 adverse effect of the Mexican peso devaluation at year end offset operating income gains. Corporate expense unallocated increased $3,920,000 in fiscal 1976. Income before taxes during the 1975 fiscal year included a one time, non-operational gain of $12,728,000 on the sale of the Ashtabula titanium dioxide operations. The combination of the above factors resulted in income before taxes of $33,784,000 for fiscal 1976 as compared to $50,233,000 for fiscal 1975.

Disposition of Pre-tax Income IN MILLIONS



Taxes

The 1976 effective tax rate of 45.4% was up from 1975's 43.1%. Investment tax credits, resulting from the ongoing capital expansion program, significantly reduced the current year's effective tax rate. The Mexican peso devaluation had the effect of increasing the effective rate, partially offsetting the effect of investment credits. The difference between the statutory rate and the effective rate of 43.1% in 1975 was principally due to the capital gains rate afforded to a portion of the sale of the titanium dioxide operations. Total income tax expense was $15,349,000, a decline of $6,296,000 or 29.1% from 1975. The decline in income tax expense was largely due to the lower level of pre-tax income and the higher level of investment tax credit.

0007-SWP-035197

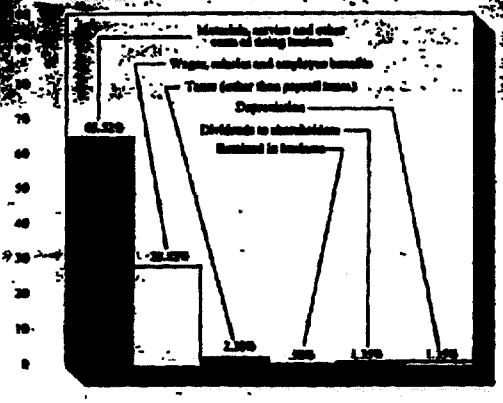
0007-SWP-000116618

SHERWIN WILLIAMS

Net Income

Net income of $18,435,000 or $3.22 per share, declined from last year's net earnings of $28,588,000 or $5.11 per share, by 35.5%. Last year's earnings included $9,317,000, or $1.73 per share, attributable to the sale of the Ashtabula operations. This year's earnings were adversely affected by the Mexican peso devaluation which reduced earnings $.59 per share. On a comparable operating basis, earnings per share of $3.81 gained 12.7% over last year's $3.38 per share.

Distribution of Total Revenue IN PERCENTAGES
YEAR ENDED AUGUST 31, 1976



Working Capital

Working capital at August 31, 1976 totaled $276,456,000, a decrease of $11,255,000 from the $287,711,000 at August 31, 1975. Although inventories and accounts receivable increased by $37,172,000, this was offset by the combined effect of reductions in other current assets of $21,349,000 and an increase of $27,078,000 in current liabilities. Current assets, as a ratio to current liabilities, now stand at 3.2 to 1 compared to last year's current ratio of 3.9 to 1.

Inventories at $244,645,000 were up 7.2% from last year's $228,189,000. Units in inventory increased approximately 4.0%, however, the average of the twelve months' inventories for fiscal 1976 was $235,420,000 compared to $253,424,000 for fiscal 1975, a decrease of 7.1%. Inventory turnover, calculated using cost of products sold, improved from 2.52 turns in 1975 to 2.64 in 1976.

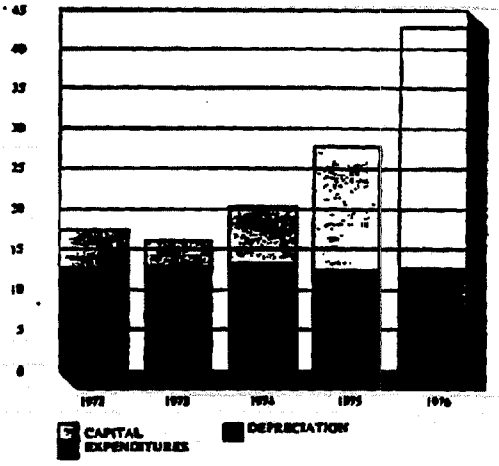
Receivables at $139,956,000 were up $20,716,000 or 17.4% over 1975. Virtually all of the accounts receivable increase is in the Coatings Group and can be attributed principally to increased sales. Other significant factors contributing to the increase are extended credit terms in support of the Martin-Senour dealer business and increased promotion of interest-bearing consumer charge accounts. The overall accounts receivable quality and liquidity continues to be good.

Property, Plant and Equipment

Expenditures during fiscal year 1976 for property, plant and equipment amounted to $42,844,000 compared with $27,902,000 in fiscal 1975. The Coatings Group's new automotive refinishes plant in Richmond, Kentucky, and continued improvement of the store network, consumed a major portion of the capital budget. The balance of the capital spending included expansion of the Auxiliaries Group's Elgin container manufacturing capabilities and the Chemicals Group's saccharin operations.

The capital expenditure budget through calendar 1977 calls for spending to continue at about the same rate as in fiscal 1976. Construction of the Coatings Group's new emulsion paint plant at Chicago and expenditures connected with the continuing stores program are anticipated to consume the greatest portion of the capital budget.

Capital Expenditures & Depreciation IN MILLIONS



Dividends

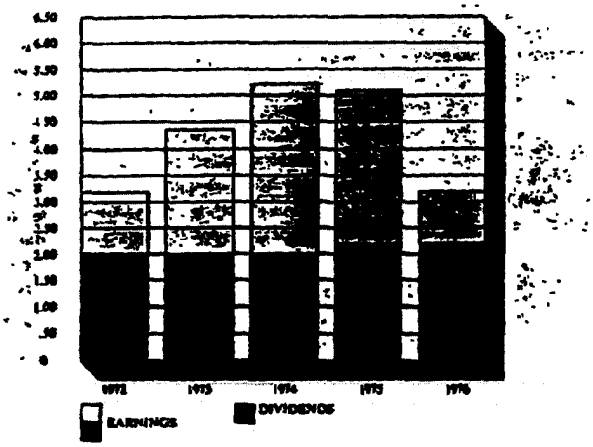
Total dividends of $12,935,000 were declared in fiscal 1976. Dividends on Common Stock amounted to $11,861,000 and dividends on Preferred Stock amounted to $1,074,000. Common Stock cash dividends for both fiscal 1975 and 1976 were at an annual rate of $2.20 as compared to $2.00 per Common Share in fiscal 1974. The Company has paid dividends in every year since 1885.

0007-SWP-035198

0007-SWP-000116619

Earnings and Dividends per Common Share

IN DOLLARS

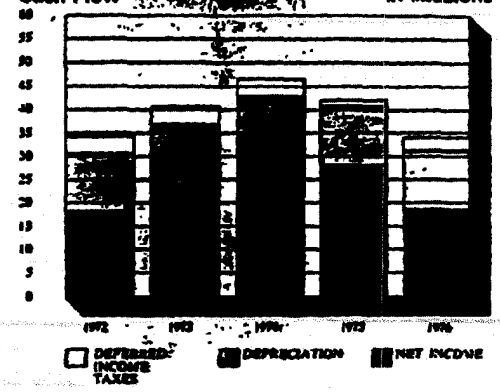


Cash Flow

The graph below presents funds totaling $198,393,000 provided from operations for the past five years. Cash proceeds received from the sale of the Ashtabula operations totaled $16,120,000 in fiscal 1975 and $15,000,000 in fiscal 1976 and were combined with $13,000,000 from the sale of Osborn in fiscal 1976. After-tax funds received from these divestitures were redeployed to further support ongoing businesses.

Cash Flow

IN MILLIONS



Quarterly Market Information

Fiscal Quarter	Common Stock ($5.00 Par Value) 1976 High	1976 Low	Preferred Stock* (Without Par Value) 1976 High	1976 Low
First	$40½	$33	$63	$55
Second	41⅞	32⅜	69½	57½
Third	41⅝	33½	70	61⅜
Fourth	41⅜	34	69¾	61½
	1975		**1975**	
First	$32	$25⅛	$56⅛	$52½
Second	39¼	31⅜	66	56
Third	48⅜	39⅛	76	64
Fourth	45⅝	37	73⅜	61

*$4.40 Cumulative Convertible Preferred Stock, Series B.

Common Stock and $4.40 Cumulative Convertible Preferred Stock, Series B are traded on the New York Stock Exchange. The $4.00 Cumulative Convertible Preferred Stock, Series A is not actively traded and no historical market prices are available. Quarterly dividends of $.55 per share on Common Stock, $1.00 per share for Series A preferred stock and $1.10 per share for Series B preferred stock have been paid in fiscal 1976 and 1975.

Foreign Currency Fluctuations

The effective devaluation of the Mexican peso at fiscal year-end had a very unfavorable effect upon consolidating the operations of our wholly-owned Mexican subsidiary. If the devaluation had not taken place, the results of the operations of this subsidiary would have been reported as a profit of $1,851,000. However, because of the devaluation, its operations are reported at a loss of $1,353,000. The negative impact of the variance is equivalent to $.59 per common share. The floating of the peso will have no direct effect on the Company's operations within Mexico.

The Canadian dollar gained strength relative to the U.S. dollar during fiscal 1976. The exchange rate at August 31, 1975 was $.9684 as compared to $1.0202 at August 31, 1976. However, the effect of the conversion was not material to the parent Company's share of 1976 net income of the Canadian subsidiary.

0007-SWP-035199

0007-SWP-000116620

Employees Stock Purchase and Savings Plan

Slightly more than 6,900 salaried employees currently are participating through regular payroll deductions in the Stock Purchase and Savings Plan which was started April 1, 1969. Under the Plan, the employees have the option of directing that their contributions be invested in amounts ranging from 50% in the Common Stock of the Company and 50% in Federal government securities, up to 100% in the Company's Common Stock.

At August 31, 1976, there were 665,908 shares of Common Stock, representing approximately 12.3% of the total number of Common shares outstanding, in this employee fund. Shares of Company stock credited to each member's account are voted by the Trustee under confidential instructions from each individual plan member.

New Fiscal Year

A change in the Corporation's fiscal year from the existing year beginning September 1 and ending August 31 to a calendar year beginning January 1 and ending December 31 was proposed and agreed upon at the December 17, 1975 Board of Directors meeting. The change will result in a four-month interim fiscal period beginning September 1, 1976 and ending December 31, 1976.

Fiscal 1975 Compared to Fiscal 1974

Consolidated net sales were at a record $866,853,000 in 1975 and represented a $64,587,000 increase over fiscal 1974. This was an 8.1% improvement. The 1975 sales increase was primarily due to higher selling prices since most of the Company's product lines registered decreases in unit volume.

Consolidated cost of products sold increased 12.3% in 1975 and may be attributed primarily to the effects of inflation since the business of the Company, measured in terms of volume of products produced and sold, was generally less than 1974. As a consequence of the higher costs of raw materials, labor, and packaging, not all of which could be recovered through higher selling prices, gross profit as a percentage to net sales declined.

In 1975 consolidated pre-tax income before the gain on the sale of the Ashtabula operations was $37,505,000, a decline of 34.9% from the prior year's record high. The rate of change in operating profits did not keep pace with the percentage gains in sales in 1975. Profit margins were under pressure throughout the year, primarily the result of low levels of production and highly price competitive markets. This environment did not permit selling price increases to be implemented to the degree or frequency needed to maintain 1974's profit margins. The pre-tax gain of $12,728,000 resulted from the sale to the SCM Corporation of our Ashtabula titanium dioxide operations. Consolidated net income of $28,588,000 in 1975 declined a modest 2.4% from the previous year.

Interest expense increased $3,896,000 from the preceding year, principally the result of interest on the 9.45% Debentures Due 1999 issued in December 1974 and to a lesser extent continued high short-term interest rates.

Rent expense increased $2,957,000, or 12.1%, during the 1975 fiscal year, with the largest segment of the increase centering in new and relocated Coatings retail stores and a continuing growth in existing stores. Contributing to a lesser degree were increased data processing equipment rentals and the expanding leased truck fleet. Introduction of the Coatings Group's new dealer organization, combined with the presentation of the Corporate Identity Program, accounted for the largest segment of the added $4,653,000 advertising expense incurred in 1975.

The Company's effective tax rate in 1975 declined from that in 1974 principally because of the gain of $12,728,000 from the sale of the Ashtabula operations, a portion of which was taxed at the lower capital gains rate. The $6,690,000 or 23.6%, decline in income taxes resulted principally from the combination of lower pre-tax income and the above capital gain.

0007-SWP-035200

0007-SWP-000116621

Brief Description of the Business

The Sherwin-Williams Company is a diversified marketing and manufacturing organization. Headquarters are in Cleveland, Ohio, with plants, offices and other facilities located throughout the United States and Canada and in several other countries. The company also owns and operates stores in the United States, Canada, Mexico, Brazil, Jamaica, The Netherlands and Belgium.

The company is organized in six operating groups. These are: *Coatings*, which manufactures and markets paints, varnishes, enamels, lacquers and allied products, and markets painting accessories as well as wall coverings, floor coverings and other decorating materials; *Auxiliaries*, which manufactures and markets metal containers and paint applicators and operates a graphic arts division; *Chemicals*, which produces and markets saccharin and specialty chemicals for a wide variety of uses; *Sherwin-Williams Canada*, which manufactures paint products and markets them along with decorating items throughout Canada; *Sprayon Products*, which is a custom aerosol packager and also markets aerosol specialties under its own brand names; and *International Coatings*, which directs operations of coatings plants in foreign countries and provides technical and marketing assistance to licensees.

Classes of Products Sold

Type	Year Ended August 31				
	1976	1975	1974	1973	1972
Paint, varnishes, lacquers and allied materials	63%	62%	63%	63%	63%
Paint application and decoration products purchased for resale	23%	20%	20%	21%	21%

Operating Group Table

(Thousands of Dollars)

	1976		1975		1974		1973		1972	
	Net Sales	Income Before Taxes	Net Sales	Income Before Taxes	Net Sales	Income Before Taxes	Net Sales	Income Before Taxes	Net Sales	Income Before Taxes
Coatings	$682,197	$27,082	$597,502	$18,436	$562,943	$41,114	$511,048	$39,150	$479,883	$35,944
% of total	71.7%	50.3%	68.9%	36.7%	70.2%	57.4%	72.5%	71.6%	72.9%	73.8%
Auxiliaries	85,105	19,685	97,936	19,471	87,697	16,792	70,698	11,087	60,057	10,670
% of total	8.9%	36.5%	11.3%	38.8%	10.9%	23.5%	10.0%	20.3%	9.1%	21.9%
Chemicals	71,047	3,275	69,301	8,728	62,673	8,608	47,901	63	48,172	(1,997)
% of total	7.5%	6.1%	8.0%	17.4%	7.8%	12.0%	6.8%	.1%	7.3%	(4.1%)
Sherwin-Williams Canada	60,734	644	54,148	1,169	50,714	1,597	42,647	482	40,969	898
% of total	6.4%	1.2%	6.3%	2.3%	6.3%	2.2%	6.1%	.9%	6.2%	1.9%
Sprayon	25,055	1,608	23,498	976	19,948	1,171	18,428	2,080	16,923	1,942
% of total	2.6%	3.0%	2.7%	1.9%	2.5%	1.6%	2.6%	3.0%	2.6%	4.0%
International	27,848	1,536	24,488	1,439	18,291	2,346	14,010	1,816	12,281	1,236
% of total	2.9%	2.9%	2.8%	2.9%	2.3%	3.3%	2.0%	2.5%	1.9%	2.5%
Group Totals	5951,984	53,670	$866,853	50,219	$802,266	71,628	$704,729	54,698	$658,285	48,693
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gain on sale of Ashtabula operations		—		12,728		—		—		—
Mexican peso devaluation		(3,252)		—		—		—		—
Corporate expenses unallocated		(16,634)		(12,714)		(14,014)		(9,352)		(8,761)
Income before income taxes and extraordinary charge		$33,784		$50,233		$57,614		$45,346		$34,932

0007-SWP-035201

0007-SWP-000116622

Statements of Consolidated Income

Thousands of Dollars

Year Ended August 31	1976	1975
Net sales	$951,984	$866,853
Gain on sale of Ashtabula operations	- 0 -	12,728
Other income — net	537	3,272
	952,521	882,853
Costs and expenses:		
Cost of products sold	644,725	576,122
Selling, general and administrative expenses	261,786	244,518
Interest	12,226	11,980
	918,737	832,620
Income Before Income Taxes	33,784	50,233
Income taxes:		
Payable currently	12,539	20,572
Deferred	2,810	1,073
	15,349	21,645
Net Income	$ 18,435	$ 28,588
Net income per share of Common Stock:		
Primary	$ 3.22	$ 5.11
Fully diluted	$ 2.95	$ 4.49

See notes to consolidated financial statements.

Report of Ernst & Ernst, Independent Auditors

Board of Directors
The Sherwin-Williams Company
Cleveland, Ohio

We have examined the consolidated balance sheets of The Sherwin-Williams Company and subsidiaries as of August 31, 1976, and August 31, 1975, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of The Sherwin-Williams Company and subsidiaries at August 31, 1976, and August 31, 1975, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Cleveland, Ohio
October 20, 1976

Ernst & Ernst

0007-SWP-035202

0007-SWP-000116623

Statements of Changes in Consolidated Financial Position

Thousands of Dollars

	Year Ended August 31	
	1976	1975
Source of Funds		
From operations:		
Net income	$ 18,435	$ 28,588
Add back charges to operations not requiring funds:		
Provision for depreciation	12,839	12,750
Increase in noncurrent deferred income taxes	1,751	536
Funds Provided From Operations	33,025	41,874
Proceeds from sale of 9.45% debentures	- 0 -	50,000
Proceeds from note payable	- 0 -	4,842
Proceeds from sale of stock under stock option plan	142	211
Decrease in working capital	11,255	- 0 -
Decrease in noncurrent note receivable	6,400	- 0 -
Net book value of Osborn noncurrent assets sold	5,313	- 0 -
Net book value of Ashtabula noncurrent assets sold less gain included in net income	- 0 -	16,283
	$ 56,135	$113,210
Application of Funds		
Cash dividends	$ 12,935	$ 12,934
Additions to property, plant and equipment, net of normal retirements	41,073	27,582
Purchase of 5.45% debentures	500	2,000
Increase in noncurrent note receivable	- 0 -	6,400
Increase in working capital	- 0 -	60,085
Other — net	1,627	4,219
	$ 56,135	$113,210
Changes in Working Capital – Increase (Decrease)		
Cash and short-term investments	$ (7,075)	$ 11,392
Note receivable	(8,600)	8,600
Trade accounts receivable	20,716	(2,058)
Inventories	16,456	4,842
Refundable income taxes	(6,042)	6,042
Short-term borrowings	(11,955)	14,955
Trade accounts payable	(8,227)	8,823
Compensation and amounts withheld	(2,735)	2,959
Income taxes	(3,514)	3,113
Other — net	(279)	1,417
(Decrease) Increase in Working Capital	$ (11,255)	$ 60,085

See notes to consolidated financial statements.

0007-SWP-035203

0007-SWP-000116624

Statements of Consolidated Shareholders' Equity

	Thousands of Dollars				
	Serial Preferred Stock	Common Stock	Other Capital	Retained Earnings	Common Stock in Treasury
Balance at September 1, 1974	$ 9,130	$33,724	$ 4,694	$233,691	$ (690)
Common stock issued:					
5,495 shares upon exercise of stock options; and, 1,158 and 7,728 shares upon conversion of 671 and 4,830 shares of Series A and Series B preferred stock, respectively	(196)	90	317	—	—
Net income	—	—	—	28,588	—
Cash dividends declared:					
Series A preferred stock — $4.00 per share	—	—	—	(290)	—
Series B preferred stock — $4.40 per share	—	—	—	(802)	—
Common — $2.20 per share	—	—	—	(11,832)	—
Balance at August 31, 1975	8,934	33,814	5,011	249,355	(690)
Common stock issued:					
4,650 shares upon exercise of stock options; and, 862 and 1,120 shares upon conversion of 501 and 700 shares of Series A and Series B preferred stock, respectively	(43)	41	144	—	—
Net income	—	—	—	18,435	—
Cash dividends declared:					
Series A preferred stock — $4.00 per share	—	—	—	(287)	—
Series B preferred stock — $4.40 per share	—	—	—	(787)	—
Common — $2.20 per share	—	—	—	(11,861)	—
Balance at August 31, 1976	$ 8,891	$33,855	$ 5,155	$254,855	$ (690)

See notes to consolidated financial statements.

0007-SWP-035204

0007-SWP-000116625

Consolidated Balance Sheets

	Thousands of Dollars, August 31	
Assets	1976	1975
Current Assets		
Cash	$ 5,332	$ 8,407
Short-term investments	4,050	8,050
Note receivable	- 0 -	8,600
Trade accounts receivable, less allowances ($2,116 in 1976; $2,057 in 1975)	139,956	119,240
Inventories:		
Finished products	175,880	159,517
Work in process and raw materials	68,765	68,672
	244,645	228,189
Prepaid expenses	9,167	8,799
Refundable income taxes	- 0 -	6,042
Total Current Assets	403,150	387,327
Other Assets		
Note receivable	- 0 -	6,400
Receivables, advances and other assets	10,083	8,733
Cost in excess of net assets of businesses acquired	2,324	2,324
	12,407	17,457
Property, Plant and Equipment		
Land	4,909	5,838
Buildings	80,696	81,482
Machinery and equipment	174,413	172,051
Construction in progress	37,178	16,882
	297,196	276,253
Less allowances for depreciation	125,427	127,910
	171,769	148,343
	$587,326	$553,127

Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings	$ 33,346	$ 21,391
Trade accounts payable	36,132	27,905
Compensation and amounts withheld	21,426	18,691
Pension, interest and other accruals	22,156	21,944
Taxes, other than income taxes	5,332	4,897
Income taxes	8,302	4,788
Total Current Liabilities	126,694	99,616
Long-Term Debt		
5.45% Debentures (exclusive of $4,685 in treasury in 1976; $6,185 in 1975)	37,315	37,815
6.25% Convertible subordinated debentures	40,000	40,000
9.45% Debentures	50,000	50,000
Note payable	5,101	4,842
	132,416	132,657
Deferred Income Taxes	16,114	14,363
Reserves – for pensions and other items	4,435	4,579
Minority Interest in Subsidiaries	5,601	5,488
Shareholders' Equity		
Capital stock:		
Serial Preferred — without par value	8,891	8,934
Common — $6.25 par value	33,855	33,814
Other capital	5,155	5,011
Retained earnings	254,855	249,355
	302,756	297,114
Less cost of Common Stock in treasury	690	690
	302,066	296,424
	$587,326	$553,127

See notes to consolidated financial statements.

0007-SWP-035205

0007-SWP-000116626

NOTE A — ACCOUNTING POLICIES

The consolidated financial statements include all significant subsidiaries, and intercompany transactions have been eliminated.

The accounts of all foreign subsidiaries have been translated into U. S. dollar amounts in accordance with Financial Accounting Standards Board Statement No. 8. The effect of such translation is included in other income and amounted to losses of $736,000 in 1976 and $260,000 in 1975. The adoption of FASB No. 8 in 1976 did not require restatement of the financial statements for 1975 or any prior year as the effect was not significant.

The effective devaluation of the Mexican peso as of August 31, 1976 reduced net income by approximately $3,200,000 as a result of translating the accounts of the Company's Mexican subsidiary at the devalued exchange rate. The more significant effects of the devaluation were a reduction in inventories and an increase in cost of products sold of approximately $2,000,000 and translation losses of $800,000.

Property, plant and equipment is stated on the basis of cost. Provisions for depreciation are based on annual rates calculated to amortize the cost of depreciable assets over their estimated economic lives, computed principally by the straight-line method.

Inventories are stated at lower of cost (average or first-in, first-out method) or market.

Short-term investments are stated at cost which approximates market.

Cost in excess of net assets of businesses acquired is not being amortized because in the opinion of management there has been no decrease in value.

Research and development costs charged to operations were $9,643,000 for 1976 and $9,649,000 for 1975.

NOTE B — LONG-TERM DEBT

The 5.45% Debentures Due 1992, 6.25% Convertible Subordinated Debentures Due 1995 and the 9.45% Debentures Due 1999 are redeemable in whole or in part at the option of the Company at the rates of 102.75%, 104.38% and 108.98%, respectively, and at declining rates to 100% in 1987, 1990 and 1994, respectively. The related indentures require annual sinking fund payments of $2,000,000 for each of the issues. The 1976 requirement on the 5.45% Debentures was satisfied from debentures held in treasury, and the Company intends to make the 1977 payment in the same manner. Annual sinking fund payments will commence in 1981 and 1980 for the 6.25% Debentures and 9.45% Debentures, respectively. The Convertible Subordinated Debentures are convertible into Common Stock at a conversion price of $46 a share, subject to adjustment in certain events.

The note payable, bearing interest at 1% above prime, is due February, 1980.

Under a credit agreement with a group of nine banks, the Company may borrow up to $75,000,000 until July 3, 1979. Amounts outstanding under the agreement at that time may be converted to term loans payable in sixteen consecutive quarter-annual installments commencing October 3, 1979. Interest rates would vary from the prime rate to ½% above prime. A commitment fee of ½% is due on the unused portion until July 3, 1979. No borrowings were outstanding under this agreement at August 31, 1976.

The credit agreement includes certain restrictive covenants as to additional borrowings and the maintenance of working capital of not less than $180,000,000.

The Company is negotiating $50,000,000 of additional long-term debt.

NOTE C — INCOME TAXES

The Company has recognized the deferred income tax liabilities and benefits resulting from timing differences between financial and tax accounting, relating principally to depreciation and reserves. It is the Company's intention to reinvest undistributed earnings of foreign subsidiaries; accordingly, no deferred income taxes have been provided thereon. At August 31, 1976, such undistributed earnings amounted to approximately $16,300,000.

Investment tax credits (accounted for by the flow-through method) aggregated $3,271,000 in 1976 and $801,000 in 1975.

A reconciliation of the statutory Federal income tax rate and the effective tax rate follows:

	1976	1975
Statutory tax rate	48.0%	48.0%
Effect of:		
State and local taxes	2.8	3.1
Investment tax credit	(9.7)	(1.6)
Mexican peso devaluation	3.9	- 0 -
Capital gains	- 0 -	(6.7)
Other	.4	.3
Effective tax rate	45.4%	43.1%

NOTE D — NET INCOME PER COMMON SHARE

Primary net income per common share has been computed based on the average number of shares outstanding during the year after deducting from net income the dividend requirements of the Serial Preferred Stock.

Fully diluted net income per common share assumes the conversion of Series A and B preferred stock and 6.25% Convertible Subordinated Debentures (after adding to net income interest on the debentures net of income taxes) and exercise of dilutive outstanding stock options.

NOTE E — CAPITAL STOCK

The Company has authorized 1,500,000 shares of Serial Preferred Stock and 15,000,000 shares of Common Stock. Outstanding shares for the $4.00 Cumulative Convertible

0007-SWP-035206

0007-SWP-000116627

Preferred Stock, Series A, $4.40 Cumulative Convertible Preferred Stock, Series B and Common Stock are 71,525 shares (72,026 in 1975), 178,763 shares (179,463 in 1975) and 5,416,793 shares (5,410,161 in 1975), respectively. The Common Stock outstanding in 1976 and 1975 includes 22,500 shares held in treasury.

The shares of Series A and Series B preferred stock are convertible at base conversion prices of $57.93 and $62.50 per share of Common Stock, respectively, based on a value of $100 per share of preferred stock for this purpose. The holders of the preferred stock are entitled to one vote for each share.

The Company may redeem the Series A preferred stock until March, 1977 at $102.00 per share and at declining amounts to $100 per share in 1980 and thereafter, and the Series B preferred stock at $103.30 until December, 1976 and at declining amounts to $100 in 1981 and thereafter. The aggregate preference of the Serial Preferred Stock in involuntary liquidation for 1976 and 1975 is $25,029,000 and $25,149,000, respectively.

At August 31, 1976 and 1975, an aggregate of 1,548,715 shares and 1,555,347 shares, respectively, were reserved for conversion of Serial Preferred Stock, Convertible Subordinated Debentures and exercise of stock options.

NOTE F — LEASES *(Thousands of Dollars)*

Total rental expense, primarily for retail stores, warehouses and equipment for the years ended August 31 amounted to:

	1976	1975
Financing leases:		
Minimum rentals	$ 4,502	$ 3,770
Contingent rentals	812	605
	5,314	4,375
Operating leases:		
Minimum rentals	23,152	22,184
Contingent rentals	744	925
	23,896	23,109
Total rental expense	$29,210	$27,484

The contingent rentals are based on sales in excess of specified minimums as well as additional usage of equipment.

The future minimum rental commitments as of August 31, 1976 for all noncancelable leases are as follows:

	Total	Financing Leases	Operating Leases
1977	$20,626	$ 3,285	$17,341
1978	15,583	2,044	13,539
1979	11,331	1,141	10,190
1980	8,068	791	7,277
1981	5,777	438	5,339
1982-1986	14,911	1,812	13,099
1987-1991	4,178	1,377	2,801
1992-1996	855	755	100
Thereafter	994	986	8

The majority of the leases have renewal options beyond the current lease expiration dates.

The present value of noncapitalized financing leases is not material. Likewise, the impact on net income if such leases had been capitalized would not be material.

NOTE G — STOCK OPTIONS

Under the Company's stock option plan for certain officers and key employees, options are granted at prices not less than fair market value of the shares at date of grant and become exercisable to the extent of one-fifth of the optioned shares for each full year of employment following the date of grant, expiring ten years after date of grant.

No options were granted in 1976 (42,000 in 1975). During 1976, options for 4,650 shares (5,495 in 1975) were excercised at an aggregate price of $142,000 ($211,000 in 1975), and options for 7,530 shares (5,900 in 1975) were cancelled. At August 31, 1976, options for 169,691 shares (181,871 in 1975) were outstanding at an aggregate price of $6,223,000 ($6,656,000 in 1975), options for 136,091 shares (109,581 in 1975) were excercisable, and 99,968 shares (92,438 in 1975) were reserved for future grants.

NOTE H — RETIREMENT PLANS

Substantially all employees of the Company and its domestic and Canadian subsidiaries who meet certain requirements as to age and service, participate in non-contributory pension plans. The Company's continuing policy is to accrue pension fund contributions, representing normal cost and amortization of unfunded prior service cost over 30 years. Pension expense was $10,346,000 in 1976 and $9,000,000 in 1975. For one of the plans in 1976, the actuarially computed value of vested benefits at the most recent actuarial determination date exceeded the assets of the pension fund and the related balance sheet accrual by approximately $7,015,000. For the other plans, vested benefits are fully funded. The value of the pension fund assets was determined using market values at August 31, 1976.

Higher benefit levels granted employees and the adoption of certain requirements mandated by the Employee Retirement Income Security Act of 1974 are expected to raise the annual level of pension expense to approximately $15,000,000 after September 1, 1976.

NOTE I — SALE OF OPERATIONS

Effective September 1, 1975, the Company sold at approximate book value substantially all of the assets of The Osborn Manufacturing Company for cash. Included in the 1975 consolidated statement of income is net income of $1,430,000 related to the operations sold.

During 1975, the Company sold its titanium dioxide pigment operations located at Ashtabula, Ohio. The after-tax gain on the sale of the Ashtabula operations amounted to $9,317,000 or $1.73 per common share.

0007-SWP-035207

0007-SWP-000116628

Five-Year Comparison

Thousands of Dollars

	Year Ended August 31				
	1976	1975	1974	1973	1972
Net sales	$951,984	$866,853	$802,266	$704,729	$658,285
Cost of products sold	644,725	576,122	513,037	450,791	418,098
Interest expense	12,226	11,980	8,084	6,424	6,238
Income before income taxes and extraordinary charge	33,784	50,233	57,614	45,346	39,932
Income taxes	15,349	21,645	28,335	20,844	19,435
Income before extraordinary charge	18,435	28,588	29,279	24,502	20,497
Extraordinary charge	- 0 -	- 0 -	- 0 -	- 0 -	(2,260)
Net income	18,435	28,588	29,279	24,502	18,237
Income per share of Common Stock:					
Income before extraordinary charge	3.22	5.11	5.24	4.36	3.63
Net income	3.22	5.11	5.24	4.36	3.21
Average number of shares of Common Stock outstanding	5,391,347	5,377,695	5,373,280	5,367,755	5,328,524
Income as percent of sales	1.94%	3.30%	3.65%	3.48%	2.77%
Return on invested capital — Common Stock (A)	6.40%	10.79%	11.87%	10.47%	7.94%
Cash dividends declared:					
Preferred	$ 1,074	$ 1,092	$ 1,102	$ 1,102	$ 1,107
Common	11,861	11,832	10,746	10,736	10,659
Cash dividends per share of Common Stock	2.20	2.20	2.00	2.00	2.00
Number of shareholders:					
Preferred	986	995	1,024	1,018	1,030
Common (B)	10,762	10,405	10,423	9,852	9,353
Preferred and common shareholders' equity	$302,066	$296,424	$280,549	$263,109	$249,222
Common shareholders' equity	277,037	271,276	254,850	237,410	223,456
Per share	51.39	50.44	47.43	44.23	41.94
Capital expenditures	42,844	27,902	20,553	16,042	17,354
Provision for depreciation	12,839	12,750	13,555	12,869	12,519
Working capital	276,456	287,711	227,626	216,849	208,256
Ratio of current assets to current liabilities	3.18 to 1	3.89 to 1	2.75 to 1	3.98 to 1	4.05 to 1
Total assets	$587,326	$553,127	$515,563	$440,805	$424,631
Number of employees	20,454	20,892	22,080	21,646	21,908

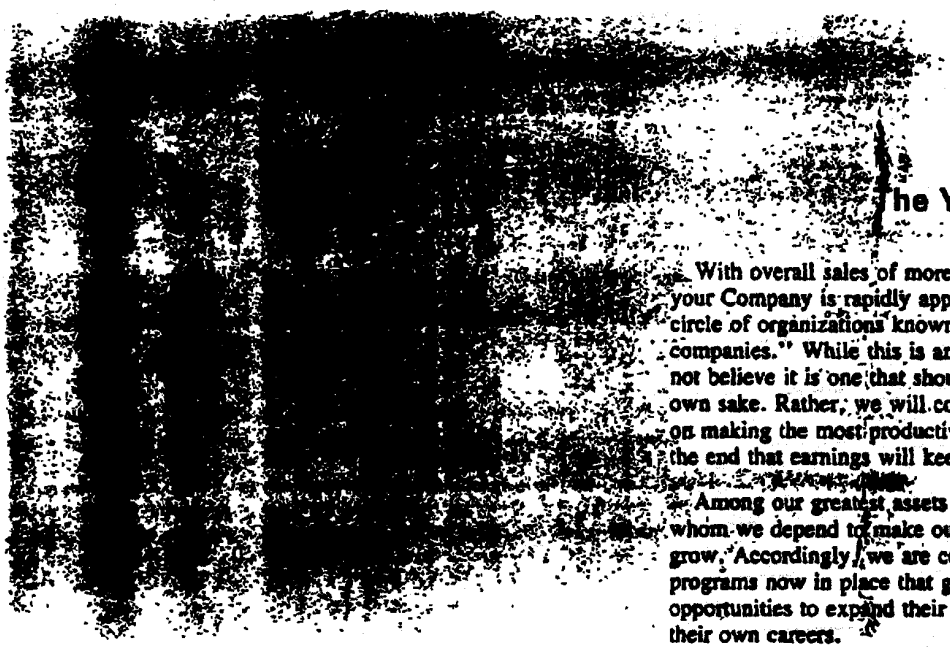
(A) Based on common shareholders' equity at beginning of year.

(B) In addition to the registered shareholders, there were beneficial shareholders participating in the Company's Stock Purchase and Savings Plan for salaried employees (6,938 in 1976; 7,275 in 1975; 7,106 in 1974; 6,793 in 1973; and 6,732 in 1972).

The Financial Review includes management's discussion and analysis of operations.

0007-SWP-035208

0007-SWP-000116629



SHERWIN WILLIAMS

The Year in Review

With overall sales of more than $900 million, your Company is rapidly approaching that select circle of organizations known as "billion dollar companies." While this is an enviable goal, we do not believe it is one that should be sought for its own sake. Rather, we will continue to concentrate on making the most productive use of our assets to the end that earnings will keep pace with growth.

Among our greatest assets are our people on whom we depend to make our business go and grow. Accordingly, we are continuing the many programs now in place that give our employees opportunities to expand their horizons in terms of their own careers.

We recognize clearly our responsibility to provide increasing opportunities for women and minorities. Our concern goes beyond mere numbers. We are determined to have women and minorities contributing to the growth of our Company at the highest levels of our organization. To help achieve this we have assigned the responsibility for overseeing our equal employment activities to three of our senior officers, two of whom are directors.

The Corporate Identity Program launched in 1975 is being implemented on schedule. Currently, over three-quarters of the stores have new signs and practically all company vehicles have the "new look." The program will be virtually completed, including signage of plants, offices and other non-retail locations, by August, 1977.

In the reports that follow are brief descriptions of major developments within the various segments of our business. They reflect the difficulties imposed by a somewhat turbulent economic climate and indicate some of the steps taken to insure steady and balanced growth in the future — the type of growth that will bring the most benefits to shareholders, to employees and to customers.

0007-SWP-035209

0007-SWP-000116630

The Coatings Group

Sales of the Coatings Group were up 14.2% over 1975 and pre-tax operating earnings showed a decisive turnaround from the previous year with an increase of 46.5%. As suggested in last year's Annual Report, the sharp drop in demand during 1975 was a short-term occurrence which reversed itself completely by the third quarter of fiscal 1976.

Because of the continued growth of the Company's coatings business, we are restructuring the Coatings Group to enable it to be more responsive to the needs of the specialized business areas in which it operates. We are undertaking realignment of the group into three divisions: Consumer, Automotive Refinishes and Chemical Coatings. Each will be under a general manager with full responsibility for divisional sales, manufacturing, distribution and technical development.

Retail sales of coatings and related products increased by 14.7% during the year as the continued broadening of product lines contributed significantly to improved performance. Total per store sales of goods of our manufacture were up by 8.1%, while sales of related products showed a 30.6% increase.

We are certain that today our merchandise selection and store planning are sound. A new generation of retail stores has evolved based on our *Decorating World* pilot store in Charlotte, North Carolina. All of the lessons learned there have been applied to our *New Dimension* stores and we have scheduled more of the latter type of outlet to be opened in the near future. Each will have a larger selling area than most of the present stores and each will offer a wider range of merchandise for today's convenience-minded shopper.

In the meantime, we continue to improve the network of existing stores and service centers. During fiscal 1976 we opened 6 new ones; remodeled or expanded 20; and relocated 42. In addition, we closed 78 marginally-profitable units which could not be efficiently handled in any other manner. The result is that at year end we were operating 1700 stores and service centers.

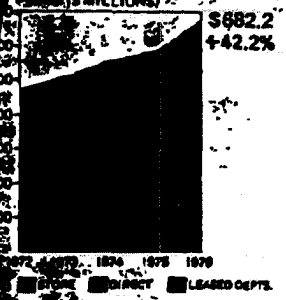
We are making excellent progress in our program to support our independent paint retailers with a line of products tailored to their needs. Most key independent dealers sold direct now market the Martin-Senour line and we expect the introductory phase of this program will be completed by January, 1977. The acceptance of the new program has been gratifying and sales to this segment of our retail business are showing healthy growth, with an increase of 59.4% over last year.

Our Professional Coatings business has recovered more slowly than other elements of the group's business. Growth has been hampered by softness in the housing industry. As this continues to improve, we look for improvement in the sale of products used by professional painting contractors. Commercial and industrial maintenance has also suffered from the economic climate, but there are encouraging indications that this, too, is regaining strength. The Company now has 59 commercial service centers serving the needs of the professional painter and related customers.

The Automotive Refinishes Division was unique in not encountering a recession-related drag on sales and earnings. Sales in this area, made through automotive jobbers and our own outlets, correlate with the constantly increasing number of vehicles on the road. There was no fall-off as new vehicle sales declined, reflecting the decisions of owners to maintain their existing vehicles in lieu of making new purchases. To support this growing segment

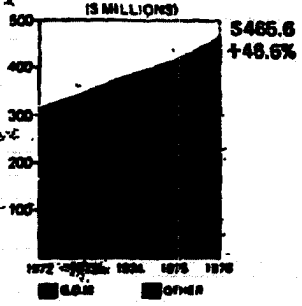
(left)
This colorful and technically-sophisticated varnish and solvent transfer station is a part of our new automotive refinishes coatings plant in Richmond, Kentucky. The ultra-modern, highly-automated 165,000 square foot plant is now in operation and is scheduled to be fully on stream by mid-1977.

Coatings Group Sales



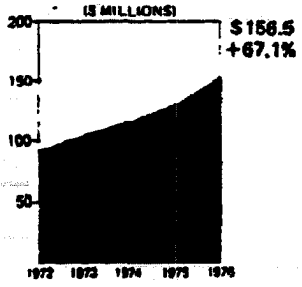
The trend of total Coatings Group sales over the past five years has been steadily upward. Despite the planned phase-out of leased department business, total sales rose 42.2%; controlled outlet sales were up 51.1%; and our direct sales, 67.2%.

Store Sales



During this five year period, Sherwin-Williams store sales increased 46.6%. Sales of goods which we manufacture increased 29.6% while our increased emphasis on the sale of related products increased this portion of the business by 81.6%.

Retail Sales



From 1972 through 1976, the retail portion of our sales — a major area of our efforts — climbed each year. 1976 retail sales were 67.1% above 1972.

0007-SWP-035211

0007-SWP-000116632



John McKenzie is one of the many independent retailers who last year enthusiastically took on the specially-designed line of Martin-Senour paint products. His stores in the Newport News, Virginia, area reflect the exciting contemporary look of this new line of products.

of our business, we opened 3 new Automotive Finishes Service Centers during fiscal 1976, raising to 65 the number of such units now in operation.

In Chemical Coatings, those supplied to manufacturers of many different end products, sales began showing gains during the second quarter and continued this thrust throughout the balance of the year. Total sales were up 17.1% over last fiscal year. The coil coatings and the furniture and forest products industries developed particularly well.

Marketing efforts of the Chemical Coatings Division are being concentrated on areas within markets where promise of growth is greatest. In line with this approach, the division closed its powder coatings operation during the year. The decision to do so was based on a determination that this area of activity held only marginal probability of developing in line with other segments of the business.

Research and development efforts in coatings again focused on low energy/low temperature cure coatings and on high solids and water-borne coatings systems. These are seen as practical solutions to the on-going energy supply situation. Also related to this are our continuing efforts to develop substitute raw materials to replace those based on petroleum and natural gas.

Capital expenditures during fiscal 1976 were $23.0 million, up 36.1% from $16.9 million in 1975. The Richmond automotive refinishes plant accounted for a large share of these funds. Expenditures in the marketing area and the improvement of the store network were also significant.

0007-SWP-035212

0007-SWP-000116633

The Auxiliaries Group

Growth in Auxiliaries Group sales in continuing businesses put them 16.2% above last year. Pre-tax operating earnings rose by 22.6%. Earnings were a record despite the fact that 1976 brought no contributions from the Osborn unit which was sold in October, 1975.

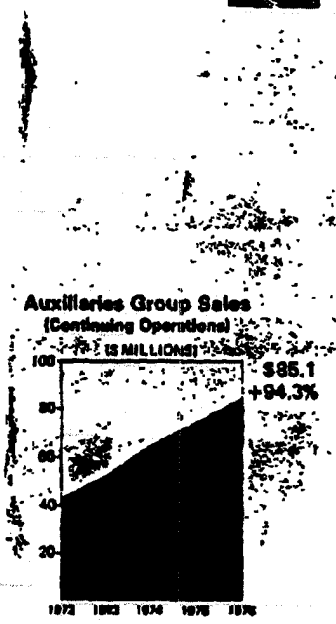
Once again, the Container Division was the major factor in group performance, with sales up 14.7%. Non-company customers accounted for 73.0% of total container sales. Leading the list of sales-growth products were paint, charcoal lighter fluid and aerosol containers. Demand for these items taxed capacity for much of the year.

Additions to the Elgin, Illinois, plant announced last year have been completed. Conversion of the lithographic process line there to ultraviolet light cure will soon be finished. Similar conversions at our other lithographic operations are slated for completion over a three-year period.

In the Applicator Division sales of the Rubberset/Deshler unit were up 51.3% over last year, with spray painting equipment posting the biggest gain in sales volume. Rubberset Company (Canada) Ltd. also posted a healthy sales improvement. The Applicator Division introduced a number of new products this year, including a foam-filled brush and a flat painting pad, both of which generated interest among customers.

The Graphic Arts Division also contributed significantly to the group's record performance. The division's expertise in printing high quality labels and other materials resulted in new non-Sherwin-Williams business during the year. A key reason for this increase in outside business was the installation of additional highly sophisticated printing equipment at the North Olmsted, Ohio, facility.

The Auxiliaries Group's capital expenditures in 1976 were $9.5 million. The major portion of the expenditures were for cost-cutting improvements. Expenditures in fiscal 1977



Auxiliaries Group sales from continuing operations moved upward at a steady pace over the period 1972-1976.



Covers for this year's Sherwin-Williams annual report are seen here being printed at a rate of 1600 per hour on the Graphic Arts Division's unique Colorflo machine. The rainbow of tubing carries lacquer to a die which, in one operation, deposits the colors in a variety of shapes.

0007-SWP-035213

0007-SWP-000116634

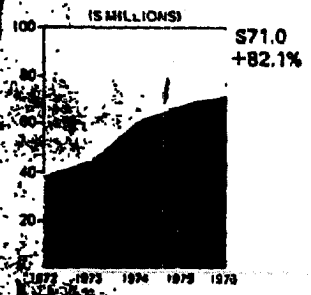
are expected to be about $8.3 million and will cover additions to capacity and cost and quality improvements.

The Hadley Adhesives venture, whose sales and earnings are included with the Auxiliaries Group for accounting purposes, suffered a loss during the year. The division is continuing to strengthen its marketing organization and has shown marked improvement in its retail-oriented efforts. Added emphasis is also being given to industrial sales as it carries through a planned program of market concentration.

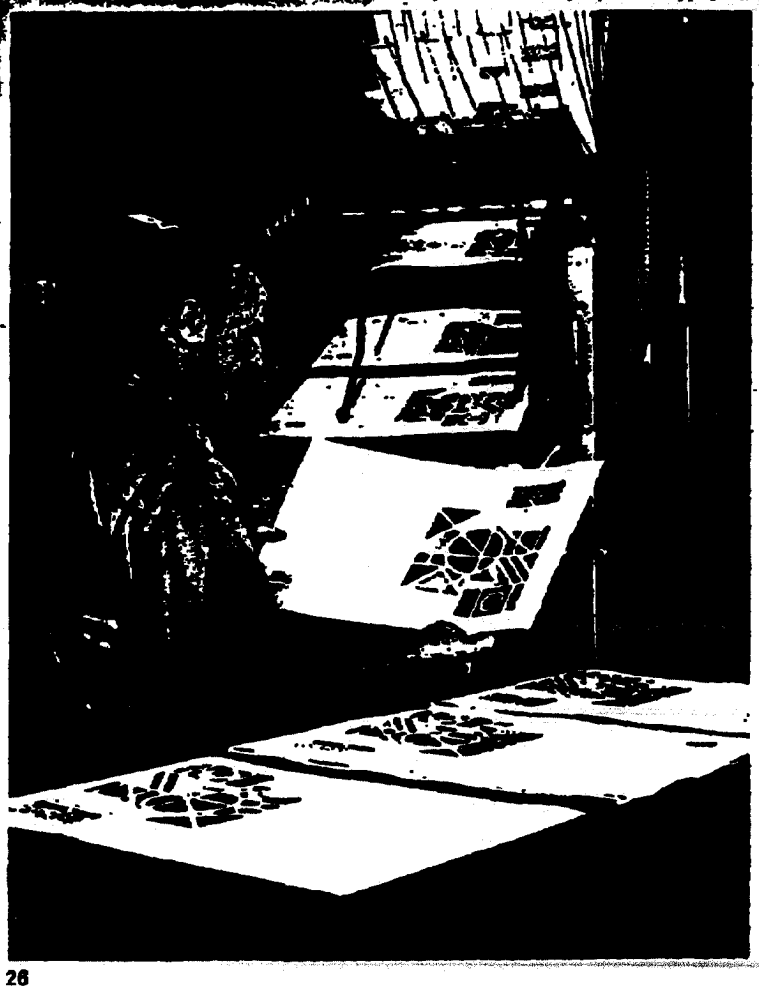
The Chemicals Group

Chemicals Group performance in fiscal 1976 clearly reflected the changing national economic picture. The group recorded a poor first half, with sharp improvements in the second half. For the year, sales were up 2.5%, but pre-tax operating earnings dropped 62.5%. This was a direct result of the first-half sales slowdown, escalating costs and the 149-day strike in the rubber industry which severely reduced shipments of zinc oxide in the last two quarters.

Chemicals Group Sales
(Continuing Operations)



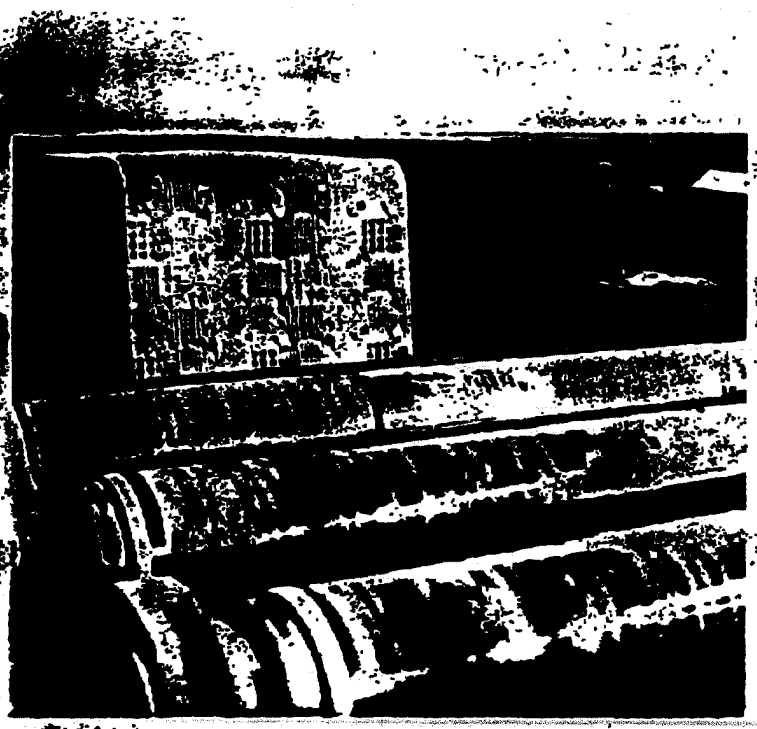
Chemicals Group sales from continuing operations over the past five years reflect our efforts to concentrate our chemicals business in areas where we see long-term growth advantages.



Following the single impression Colorflo printing operation, the annual report covers are fed into a high-speed over-head drier and then to a visual inspection station. When not producing unique projects like the annual report cover, Sherwin-Williams Colorflo — the only such automatic color depositing machine in the world — is in constant use producing color sample cards for Sherwin-Williams and other customers.

0007-SWP-035214

0007-SWP-000116635



Textile pigment printing is an important growth business for the Chemicals Group. Here in a textile printing plant, a multitude of colors are all applied at the same time as the cloth travels through the press at speeds up to 75 yards per minute.

The Chemicals Division's saccharin sales continue strong as expanded facilities permit production of increased quantities and many different types of this artificial sweetner. The division has introduced a new form of alkali blue pigment, the blueing agent widely used to make black printing inks appear blacker. This is a dry form of the pigment which is much easier to handle in ink making operations.

The Textile Chemicals Division continues to work successfully with a number of major textile manufacturers where it is necessary to react quickly to changing trends in styling. Considerable interest has been generated in the division's newly-developed "Kem Puf" system. This enables textile printers to produce three dimensional brocade effects on printed fabrics.

Two new "clouding" agents developed by the Flavor and Fragrance Division for use in the beverage industry are finding wide acceptance. These agents improve the appearance of citrus soft drinks by keeping the ingredients from settling in the package. The division is continuing to work with a number of fragrance customers on highly proprietary product developments and plans to expand its laboratory facilities in 1977.

The Lowi Sherwin-Williams anti-oxidant plant in Germany is now in full production. Para-cresol for this operation is manufactured in our Chicago facility.

Capital expenditures in 1976 were $7.9 million, up from $3.3 million in 1975. Substantial expenditures were made to satisfy EPA and OSHA requirements. Today all of our plants are in compliance with existing government regulations.

Sherwin-Williams Canada

Although the Sherwin-Williams Co. of Canada, Ltd., posted an 8.0% increase in sales for fiscal 1976, rapidly rising costs had an adverse effect on pre-tax operating earnings which fell sharply. This was offset to some extent by gains realized on the sale of unneeded real estate and divestiture of the company's interest in the Carter White Lead Co. of Canada, Ltd. Total after-tax earnings in Canadian funds were $246,100.

Coupled with increased raw material and production costs was a 12.5% increase in selling, general and administrative expenses. This reflected increases in salaries and wages, rents, insurance and other expenses brought about largely by continuing inflation.

0007-SWP-035215

0007-SWP-000116636



Earlier this year Sherwin-Williams Directors toured the Cincinnati saccharin plant as part of the Board's planned program of personally visiting major Company facilities each year. Here (right) Director John A. Hill, Chairman of Hospital Corporation of America, discusses with chemical operator, Lance White, several of the stages in the manufacture of saccharin.

Despite the operating difficulties, the consolidated subsidiary maintained its marketing thrust, particularly in its company-operated stores. As planned, six uneconomic units were closed and consolidation of several smaller stores into larger units was completed. At year end 121 stores were in operation, including four commercial service centers.

The improvement in performance in the stores was highly encouraging. However, sales to independent dealers did not show their customary gain, holding at about the level of last year. Chemical coatings sales enjoyed solid gains, particularly in the furniture industry. Automotive refinishes sales also increased, but the rate of gain was slowed by problems associated with the automotive insurance situation in British Columbia during the fourth quarter.

Graphic arts products sales through the E. Harris Co. division were up and the profit contribution of this unit also improved. The Winnipeg Paint and Glass Co. experienced a depressed housing market during the year and sales of building hardware were disappointing.

Capital expenditures in fiscal 1976 were $1,174,000, up 58.9% from fiscal 1975. This higher level of expenditures is expected to continue for several years as the store development program is pursued.

The challenges we faced in fiscal 1976 will undoubtedly continue in the year ahead. Any improvement in the Canadian economy is forecast to be only modest, at best, and inflation is expected to continue at a relatively high level. In view of this, we will put further emphasis on cost control while we follow the strategies designed to strengthen market penetration and improvement in earnings.

0007-SWP-035216

0007-SWP-000116637

Sprayon Products

Sales of Sprayon Products in fiscal 1976 were $25,055,000, up 6.6% over the previous year. Pre-tax operating earnings showed a 64.8% gain to $1,608,000, reflecting the improvement in gross profit which was abnormally low in fiscal 1975.

Both the custom filling and industrial supply segments of the business contributed to the improved results. Several new customers, particularly in the coatings market and in the automotive after market, were gained in the custom filling area. Introduction of new products to the industrial supply line bolstered sales in that part of Sprayon's business. Included in the new products were a glass cleaner, an anti-spatter material for welding tips and a somewhat unusual industrial item, wasp and hornet spray.

Recent governmental regulations have given added emphasis to the question of using fluorocarbons as a propellant in aerosol products. Sprayon does not use a significant amount of fluorocarbons in its products. Hydrocarbons are used as the propellant in the vast bulk of them and these are not considered in any way to be detrimental to the environment.

Nevertheless, as an aerosol packager we are on the periphery of a controversy which has already adversely affected the public's attitude toward aerosols generally and which could have an impact on a portion of our business. Our aerosol task force is examining the entire area of propellants and we are confident we can develop viable alternates as required. At the same time, we continue to seek new ways to provide the convenience of present aerosol packaging but employing other concepts that will enable us to meet both environmental considerations and the wide range of requirements of our customers.

At the end of the fiscal year we were experiencing a build-up in backlogs of orders but we do not anticipate any significant difficulties in meeting customer demands. The planned program of automating filling lines which has been carried forward over the past several years has improved productivity markedly.

Capital expenditures in fiscal 1976 were $175,000. Major projects included improvements in materials handling, filling line automation, upgrading of plant fire safety installations and site improvements at both the Bedford Heights, Ohio, and Anaheim, California, plants.

International Coatings

Buffeted by economic and political conditions, International Coatings experienced a difficult year. Fiscal 1976 sales grew to $27,848,000, a 13.8% increase over fiscal 1975. Pre-tax operating earnings rose 6.7% before giving effect to the Mexican peso devaluation. The full impact of this adverse development resulted in a pre-tax operating loss of $1,716,000 for International Coatings in 1976.

The devaluation had no effect on the operations of Compania Sherwin-Williams, S. A. de C. V. in Mexico, and the company continues on the growth path it has enjoyed for many years. Operations there, a coatings plant and 74 company-operated stores, are in sound condition.

We have acquired a larger share of ownership in the joint venture in Panama and now hold a 61% interest. While growth has been slow, it is solidly based and is expected to accelerate in the future. The new Djakarta plant of the Indonesian joint venture, P. T. Unimas Chemicals & Coatings Ltd., came on stream during the year. Operations there are progressing close to schedule although the unsettled economic climate has made it difficult to achieve the level of distribution originally anticipated.

Sherwin-Williams do Brasil, S/A, an unconsolidated subsidiary, continued its strong growth pattern with sales rising 46.7%. Inflation remains a constraint on earnings as costs mount, and the competitive situation tightens. Plans for a new plant to replace present facilities are being held in abeyance pending developments on the economic front.

European operations showed little change from last year. Inflation is still a pressing problem, and the indexing of salaries in The Netherlands has raised the break even point in operations there. Results in Belgium have improved, a trend that is expected to continue.

0007-SWP-035217

0007-SWP-000116638

Directors

E. Colin Baldwin
Retired – Formerly Chairman of the Board
The Sherwin-Williams Co.

Keith S. Benson
Executive Vice President
Administration and Finance
Ogilvy Norton Company

Gene C. Brewer
President
B. & C. Resources, Inc.

Richard G. Bull
Senior Vice President – Marketing

Robert D. Buzzell
Professor
Graduate School of Business Administration
Harvard University

Ronald F. Curley
Group Vice President – Coatings

William J. De Lancey
President and Chief Executive Officer
Republic Steel Corporation

William C. Fine
President and Chief Operating Officer

John A. Hill
Chairman of the Board
Hospital Corporation of America

Allen C. Holmes
Managing Partner
Jones, Day, Reavis & Pogue, Attorneys

William Moonan
Group Vice President – Auxiliaries

Patrick S. Parker
President and Chief Executive Officer
Parker-Hannifin Corporation

George F. Schlaudecker
Group Vice President – Chemicals

Walter O. Spencer
Chairman of the Board and Chief Executive Officer

Officers

Walter O. Spencer
Chairman of the Board and Chief Executive Officer

William C. Fine
President and Chief Operating Officer

Richard G. Bull
Senior Vice President – Marketing

Virgil A. Hollis
Senior Vice President – Administration

Ronald F. Curley
Group Vice President – Coatings

William Moonan
Group Vice President – Auxiliaries

George F. Schlaudecker
Group Vice President – Chemicals

Edgar L. Barrett
Vice President and Assistant to the Chairman of the Board

Alan D. Childs
Vice President and General Counsel

James F. Cole
Vice President and Treasurer

Richard R. Crow
Vice President – Personnel

Billy H. Davis
Vice President Marketing – Coatings Group

Wendell D. Gillund
Vice President and Assistant to the President

William P. Inman
Vice President and Secretary and Assistant Treasurer

Harvey L. Piepho
Vice President – Purchasing

Harold E. Spitzer
Vice President and Technical Director – Coatings Group

Geoffrey L. Tickner
Vice President and General Manager – Chemicals

Robert A. Tschannen
Vice President Manufacturing – Coatings Group

James E. Wallace
Vice President – Administration

Robert Cain
Assistant Vice President – Personnel

John R. Skinner
Assistant Vice President

Frank C. Kollath
Assistant Treasurer

Thomas R. Miklich
Assistant Secretary

0007-SWP-035218

0007-SWP-000116639

Subsidiaries

Domestic

The Osborn Manufacturing International Company
The Sherwin-Williams Company of Europe, Inc.
Sherwin-Williams International Company
Sprayon Products, Inc.

Foreign

Compañía Sherwin-Williams, S.A. de C.V., Mexico City, D.F., Mexico
Ralston B.V., Zeist, Netherlands
Rubberset Company (Canada) Limited, Gravenhurst, Ontario, Canada
Schmitz und Ludwig GmbH, Frankenberg, Germany
Sherwin-Williams Belgium S.A., Brussels, Belgium
Sherwin-Williams (Caribbean) N.V., Curacao, Netherlands Antilles
The Sherwin-Williams Company of Canada, Limited, Montreal, Canada
The Sherwin-Williams Co. of Puerto Rico, Inc., San Juan, Puerto Rico
The Sherwin-Williams Company Resources Limited, Kingston, Jamaica
Sherwin-Williams de Panamá, S.A., Panama City, Panama
*Sherwin-Williams do Brasil S/A — Tintas e Vernizes, São Paulo, Brazil
Sherwin-Williams (West Indies) Limited, Kingston, Jamaica

*Unconsolidated

Other Affiliates
(50% or less owned)

Lowi Sherwin-Williams GmbH, Waidkraiburg, Germany
P. T. Unimas Chemicals & Coatings Ltd., Djakarta, Indonesia
Nippon Sherwin-Williams Chemicals Co., Ltd., Osaka, Japan
Unimas (Hong Kong) Limited, Hong Kong

Licensees

Aktiebolaget SYD-Fernis (Sweden)
Astral Sté de Peintures, Vernis et Encres d'Imprimerie (France)
C. A. Química Integrada (Venezuela)
C. A. Venezolana de Pigmentos (Venezuela)
China Paint Mfg. Co. (1946) Ltd. (Hong Kong)
Donald Macpherson Group, Ltd. (England)
Fábrica Nacional de Pinturas "Espiatbol" S.A. (Bolivia)
Fábrica Nacional de Pinturas Sherwin-Williams de Colombia S.A. (Colombia)
Industrias Químicas Procolor S.A. (Spain)
Nippon Paint Company, Ltd. (Japan)
Peintures Idéales S.A. (Haiti)
Pinturas Andina S.A. (Chile)
Sherwin-Williams Argentina Industrial y Comercial S.A. (Argentina)
Sherwin-Williams del Ecuador Fábrica Nacional de Pinturas S.A. (Ecuador)
Sherwin-Williams Peruana S.A. (Perú)
Sherwin-Williams Philippines, Inc. (Philippines)
Sherwin-Williams de Centro América, S.A. (El Salvador)
Sherwin-Williams de Costa Rica, S.A. (Costa Rica)
Sherwin-Williams Venezolana C.A. (Venezuela)
Shinto Paint Co., Ltd. (Japan)
Taubmans Proprietary Limited (Australia)
Taubmans International (N.Z.) Ltd. (New Zealand)

Plants

Domestic Plants

Anaheim, California
Bedford Heights, Ohio
Chicago, Illinois
Cincinnati, Ohio
Cleveland, Ohio
Coffeyville, Kansas
Crisfield, Maryland
Danbury, Connecticut
Dayton, Ohio
Deshler, Ohio
Detroit, Michigan
Elgin, Illinois
Fulton, Kentucky
Garland, Texas
Gibbsboro, New Jersey
Greensboro, North Carolina
Hubbard, Ohio
Morrow, Georgia
Newark, New Jersey
North Olmsted, Ohio
Oakland, California
Richmond, Kentucky
San Leandro, California

Foreign Plants

Djakarta, Indonesia
Frankenberg, Germany
Gravenhurst, Canada
Kingston, Jamaica, W.I.
Mexico City, Mexico
Montreal, Canada
Panama City, Panama
São Paulo, Brazil
Winnipeg, Canada
Zeist, Netherlands

0007-SWP-035219



The Sherwin-Williams Company
101 Prospect Avenue, N.W.
Cleveland, Ohio 44115
Phone (216) 566-2000

0007-SWP-035220