Consolidated Statement of Source and Application of Funds

	Years ended December 31 1970	1969
Source:		
Net income	$38,071,000	$50,675,000
Items not requiring the use of funds:		
Depreciation	25,319,000	22,651,000
Deferred income taxes	4,096,000	3,568,000
Minority interest	290,000	612,000
Equity in income of subsidiaries consolidated on an equity basis, net of dividends received	(4,769,000)	(4,680,000)
Funds provided from operations	63,007,000	72,826,000
Long term borrowings, net	86,214,000	39,927,000
Disposals of fixed assets	2,684,000	533,000
Exercise of stock options	—	297,000
Other	1,371,000	110,000
	153,276,000	113,693,000
Application:		
Dividends	36,261,000	40,272,000
Investments:		
Lake View Trust and Savings Bank	—	37,620,000
Other, net	1,521,000	247,000
Capital expenditures	58,635,000	39,830,000
Purchase of treasury stock	89,000	12,035,000
Dividends to minority interests	240,000	404,000
Other	1,667,000	1,057,000
	98,413,000	131,465,000
Increase (decrease) in working capital	$54,863,000	$(17,772,000)
Details of the above increases (decreases) are as follows:		
Cash	$1,460,000	$(13,298,000)
Marketable securities	(2,203,000)	1,050,000
Accounts and notes receivable	435,000	24,912,000
Inventories	20,275,000	21,708,000
Prepaid expenses	(47,000)	869,000
	19,920,000	35,241,000
Loans payable	29,564,000	(45,256,000)
Accounts payable and accrued liabilities	(4,631,000)	(8,104,000)
Taxes on income	10,010,000	347,000
	34,943,000	(53,013,000)
	$54,863,000	$(17,772,000)

Reference is made to accompanying notes

notes to financial statements

Consolidation Principles. The consolidated financial statements include the accounts of the Company, all domestic subsidiaries (except Lake View Trust and Savings Bank) and major wholly-owned foreign subsidiaries translated at appropriate rates of exchange. Pertinent financial data regarding foreign subsidiaries is shown on pages 17 and 18.

The Company's investment in major unconsolidated majority-owned foreign subsidiaries and in Lake View Trust and Savings Bank are stated at cost, adjusted for subsequent changes in equity. The Company includes in income its equity in the net income of such subsidiaries.

Following is a summary of pertinent financial information relating to the Bank:

	(In Thousands) 1970	1969
Assets	$327,429	$311,178
Deposits & other liabilities	301,278	288,714
National Lead's equity in Bank's net income	4,459	4,514
Less Interest cost to National Lead, after applicable tax benefit of $1,617,000 in 1970 and $1,690,000 in 1969, on funds borrowed to purchase Bank	1,669	1,510
Net income attributable to Bank	$ 2,790	$ 3,004

See Report of Affiliates, page 16, for comments relating to the Bank Holding Company Act of 1970.

Acquisitions. During 1970, the Company exchanged 138,091 shares of its treasury stock for all of the outstanding stock of Regal Molds, Inc. and the remaining outstanding stock of The Baker Castor Oil Company. The acquisition of Regal Molds, Inc. has been accounted for as a pooling of interests and, accordingly, the results of operations for 1970 include the net income of Regal Molds, Inc. for the entire year. No adjustment has been made for the prior years since the effect would not be material. The acquisition of the minority interest of The Baker Castor Oil Company has been accounted for as a purchase and the results of operations for 1970 include the earnings applicable to this minority interest since the date of its purchase. As a result of these transactions, capital surplus was credited $54,000 and retained earnings was charged $1,357,000, representing principally the appropriate portion of the excess of the cost of treasury shares issued over the fair or carrying value of the net assets acquired.

Inventories. Inventories are valued at the lower of cost (principally average cost) or market. Certain metal inventories are valued using the last-in, first-out method, which results in such inventories being stated at less than current replacement cost at December 31, 1970. The valuation of a portion of these same inventories is further reduced by the use of the base stock method. Pursuant to such method, an inventory reserve (amounting to $11,471,000 in 1970 and $10,572,000 in 1969) is maintained based on quantities deemed normal at fixed prices.

4. Associated Companies. The equity of the Company in the net assets of Titanium Metals Corporation of America, a 50 per cent owned company, exceeded the investment which is carried at cost, by $12,067,000 at December 31, 1970 and by $14,888,000 at December 31, 1969. The Company's share of the net losses of Titanium Metals Corporation of America (which is not included in the Company's consolidated statement of income) for the years ended December 31, 1970 and December 31, 1969 was $2,821,000 and $251,000, respectively. No dividends were received in 1970 or 1969. The equity of the Company in the net assets of the other 50 per cent owned companies exceeded the cost of the Company's investment by approximately $3,942,000 at December 31, 1970 and $3,778,000 at December 31, 1969. The Company's equity in the net income of these Companies in 1970 and 1969 approximated dividends received.

5. Common Stock and Stock Options. Under provisions of the 1968 Stock Option Incentive Plan, 700,000 shares of the Company's common stock have been reserved for issuance to officers and to other key employees. Under the plan, options may be granted to purchase common stock at 100% of the market price at the date of grant and are exercisable over a period of five years from date of grant. Details of shares under option at December 31, 1970 and transactions during the year follow:

Balance at January 1, 1970	179,000
Granted	216,400
Balance at December 31, 1970	395,400
Price per share of shares granted and outstanding at December 31, 1970	$20 to $36
Shares exercisable	395,400
Available for future options at December 31, 1970	304,200

With respect to the 1958 stock option plan, all remaining options expired in 1970 and no additional options may be granted under this Plan.

In connection with the acquisition of The Bunting Brass & Bronze Company in 1968, the Company granted to holders of stock options previously granted by Bunting, substitute stock options. During the year, no options were exercised and options for 476 shares at $20.50 per share are outstanding at December 31, 1970.

In connection with the acquisition of Jonathan Manufacturing Company in 1969, the agreement provides for the delivery of additional Company stock, not to exceed 135,904 shares, contingent on the amount of Jonathan Manufacturing Company's net income (as defined) for the years 1969, 1970 and 1971.

The Company is authorized to issue 5,000,000 shares of preferred stock without par value. The rights of the preferred stock as to dividends, redemption, liquidation and conversion will be determined upon issuance.

6. Pensions. The Company and its subsidiaries have various pension plans covering the majority of their employees. Total pension costs approximated $10,100,000 in 1970 and $9,400,000 in 1969. Current service costs under the plans are charged to income as they accrue and are funded as to the major plans. The major portion of the prior service costs is being charged to income and funded over a period of thirty years. Unfunded vested benefits at December 31, 1970 amounted to approximately $13,500,000.

7. Litigation. See comments regarding pending litigation on page 5.

8. Other Income. In 1970, a gain on the sale of land of $1,727,000 and provisions for losses in connection with the sale or disposal of certain properties of $2,750,000, are included in other income.

9. Restatements. Certain amounts in the 1969 financial statements have been restated to conform to classifications used in 1970 with no effect on net income or shareholders' equity.

NLI 002586

auditors' report

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants
2 Broadway, New York, N.Y.

To the Shareholders of
National Lead Company
New York, N.Y.

We have examined the consolidated balance sheet of NATIONAL LEAD COMPANY and its Consolidated Subsidiaries as of December 31, 1970 and the related consolidated statements of income and retained earnings and of source and application of funds for the year then ended. Our examination was 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. We were furnished reports of other public accountants upon their examinations of the financial statements of certain consolidated and unconsolidated subsidiaries and fifty per cent owned companies. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries and companies, is based solely upon such reports. We made a similar examination of the financial statements of the Company and its Consolidated Subsidiaries for the year 1969.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of National Lead Company and its Consolidated Subsidiaries at December 31, 1970 and 1969 and the consolidated results of their operations and the source and application of funds for the years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, February 18, 1971

National Lead Company

ten year review of operations

in thousands of dollars, except per share figures

	1970	**1969**	**1968**	**1967**	**1966**	**1965**	**1964**	**1963**	**1962**	**1961**
Net sales	**$915,877**	$929,785	$858,195	$818,905	$865,687	$837,215	$735,189	$664,606	$615,269	$599,357
Income before taxes	**65,058**	95,268	96,298	93,540	113,379	114,637	108,086	96,888	95,853	100,135
Net income	**38,071**	50,675	49,985	54,309*	61,634	61,252	56,763	50,116	49,546	52,157
Per common share	**1.60**	2.12	2.08	2.27*	2.56	2.54	2.43	2.13	2.03	2.14
Dividends paid on common shares	**36,261**	40,272	39,062	38,786	38,295	38,378	38,036	38,049	38,034	38,017
Per common share	**1.525**	1.70	1.625	1.625	1.625	1.625	1.625	1.625	1.625	1.625
Current assets	**368,253**	348,333	312,077	331,851	310,311	296,548	300,974	276,069	270,275	263,656
Current liabilities	**126,514**	161,457	108,444	102,187	97,721	97,599	99,600	91,461	80,280	80,918
Working capital	**241,739**	186,876	203,633	229,664	212,590	198,949	201,374	184,608	189,995	182,738
Property, plant and equipment, net	**303,801**	273,169	252,883	226,060	214,725	196,134	174,961	170,263	171,696	171,595
Property expenditures	**58,635**	39,830	45,010	32,860	32,440	41,096	20,447	14,558	15,712	18,241
Depreciation	**25,319**	22,651	18,187	20,120	18,302	17,249	16,286	15,523	15,159	14,349
Total assets	**752,649**	695,260	593,591	588,803	570,754	520,861	497,296	467,264	460,973	452,710
Shareholders' equity	**408,915**	403,975	404,764	399,640	388,586	356,956	339,744	320,873	360,737	354,576

All per share figures reflect the 2 for 1 stock split which took place in 1969.
**Includes extraordinary income of $3,049,000 (after income taxes of $1,083,000) or $.13 per share.*