SHERWIN WILLIAMS

Report to Shareholders • 1975

0007-SWP-035155

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Annual Meeting

The annual meeting of Shareholders will be held at 10:00 A.M., December 17, 1975, 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

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

5.65% Debentures Due 1992 & 9.45% Due 1999
The Cleveland Trust Company
Cleveland, Ohio
6.25% Convertible Subordinated Debentures Due 1995
Central National Bank of Cleveland
Cleveland, Ohio

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Sherwin Williams

Financial Highlights

	Thousands of Dollars August 31	
	1975	1974
Net sales	$866,853	$802,266
Income before income taxes	50,233	57,614
Income taxes	21,645	28,335
Net income	28,588	29,279
Cash dividends declared:		
Preferred	1,092	1,102
Common	11,832	10,746
Per common share:		
Net income	5.11	5.24
Dividends paid	2.20	2.00
Working capital	287,711	227,626
Ratio of current assets to current liabilities	3.89 to 1	2.75 to 1
Capital expenditures	27,902	20,553
Provision for depreciation	12,750	13,555

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SHERWIN WILLIAMS

Letter to Shareholders

The twelve months of our fiscal year, from August, 1974 to September, 1975, were perhaps the worst twelve months of economic recession since the 1930's. In this deteriorating economic environment, our sales rose to a new high of $866,853,000 or 8.1% over last fiscal year. However, in the case of many products, the increased sales dollars were due to price increases, with total unit sales actually below the previous year. Even with these price increases, we were not able to recover all of our rapidly rising costs of raw materials, wages, salaries and energy. Operating margins were lower than last year. Before-tax income from operations was off $21,409,000 or 29.9%. This was before corporate expenses which were slightly lower than last year. An after-tax gain of $9,317,000 on the sale of our titanium dioxide operations increased our net profit to $28,588,000 or $5.11 per common share, compared to $5.24 per common share last year. The titanium dioxide sale accounted for $1.73 per share earnings in fiscal 1975.

The effects of the economic environment were particularly noticeable in our large Coatings Group. Sales dollars advanced to $597,502,000 or a 6.1% gain. However, gallons of paint sold actually dropped by almost 12%. Most of this was in finishes for construction, maintenance and durable goods — markets that were soft all year. Massive inventory liquidation in the industry made it impossible to raise prices to cover increased costs.

Our program to increase retail sales continued to gain momentum, even in the face of slower consumer spending. Retail sales in the Coatings Group were up approximately 18% for the year, well ahead of the industry experience and retail sales in general. We continued to have outstanding success in automotive refinishes with sales in that market increasing by slightly more than 22%. The strategy to broaden our market in decorating-related products continued to move forward with wall coverings and carpeting contributing over $80,000,000 in sales.

On the 6.1% sales increase, the Coatings Group before-tax operating profits dropped 55.2% to $18,436,000. However, the gallon volume drop in paint sales accounted for more than $18,000,000 of the profit shortfall and production cutbacks at the plants for over $6,000,000. We have no indication that our market share has become less, and it has increased in retail and automotive refinishes. With the durable goods industry and construction picking up somewhat in fiscal 1976, we feel it will be a much better year for profits in coatings.

In the Chemicals Group our strategy of moving into specialty chemicals where we have particular strengths is succeeding. In spite of a drop of 19.6% in tonnage sales of chemicals, dollar sales were up 10.6% to $69,301,000 and pre-tax profits were up 1.4% to $8,728,000. Demand was very low in the last half of the year but should strengthen as the economy improves and the inventory liquidation runs its course.

In the Auxiliaries Group, including Hadley Adhesives, while there was some shifting around of demand during the year, volume changes tended to offset each other. As a result the group achieved a sales gain of 11.7% and a before-tax profit increase of 16.0%.

Sprayon Products struggled throughout the year with increasing material costs, lower consumer demand and the ozone depletion controversy. Fortunately, most of the products packaged by Sprayon use a propellant other than the fluorocarbon types involved in the controversy. The subsidiary was able to achieve a sales gain of 17.8%, but before-tax operating profit was 16.7% under last fiscal year.

International Coatings continued to make marketing progress with a sales gain of 33.8%. However, pre-tax profits dropped $907,000 as a result of adverse currency exchange rates and higher investment in developing new markets.

The Sherwin-Williams Company of Canada, Limited, had sales of $54,148,000, an increase of 6.8%. As a measure of their continuing improvement, pre-tax operating profits were up 18.1%. However, the domestic company's share of pre-tax profits was $1,169,000, down 26.8%. This disparity came about because a non-recurring gain was included in

Walter O. Spencer
President

William C. Flax
Executive Vice President

1974 results and we suffered an adverse change in currency exchange rates in 1975.

In spite of the difficulties of operating in a rapidly deteriorating economic environment and the disappointing operating results for the year, we continued to pursue the following strategies instituted a few years ago to assure the short and long-term healthy growth of your Company:

1. *To move out of businesses that do not fit into our long-term strategies*. This was exemplified by the sale of the titanium dioxide operations in October, 1974 and the announced sale of most of the assets of The Osborn Manufacturing Company in October, 1975.
2. *To phase out obsolete, inefficient operations*. We closed two small paint plants, one in Los Angeles, the other in Toronto, Canada.
3. *To build larger, more efficient plants for products that fit into our management know-how and technical expertise*. The construction of the Richmond automotive refinishes plant is on schedule, and we announced an option on land in Huntington, Indiana, as a possible site for a new water-based paint plant now on the drawing boards. The projects to double our capacity in para-cresol and saccharin are moving ahead. An expansion and cost reduction project is proceeding at our Elgin, Illinois, container operation.
4. *To continue our strong marketing thrust and broaden the related product lines sold through our company-owned stores*. We opened a pilot 27,000 square foot *Decorating World* in Charlotte, North Carolina, and are adding considerably more selling floor space in new and remodeled stores. Total retail sales continue to climb rapidly, and sales of non-paint items in the Coatings Group exceed $165,000,000.
5. *To improve the financial strength of the Company*. We issued $50,000,000 in new long-term debt in December, 1974. This, together with redeployment of assets, allowed us to increase our current ratio to 3.89 to 1, compared to 2.75 to 1 last year. Short-term borrowings were down $15,000,000 or 41%. Accounts payable were down $8,800,000 or 24%. Even with much higher costs, inventories were up only 2%, compared to last year's increase of 34%. Receivables were actually down approximately 2% in spite of an 8.1% increase in sales. Capital expenditures increased to $27,900,000 or 36%.
6. *To continue to employ our human assets more efficiently*. Sales per employee increased to $41,500 and have increased 63% in the last five years.

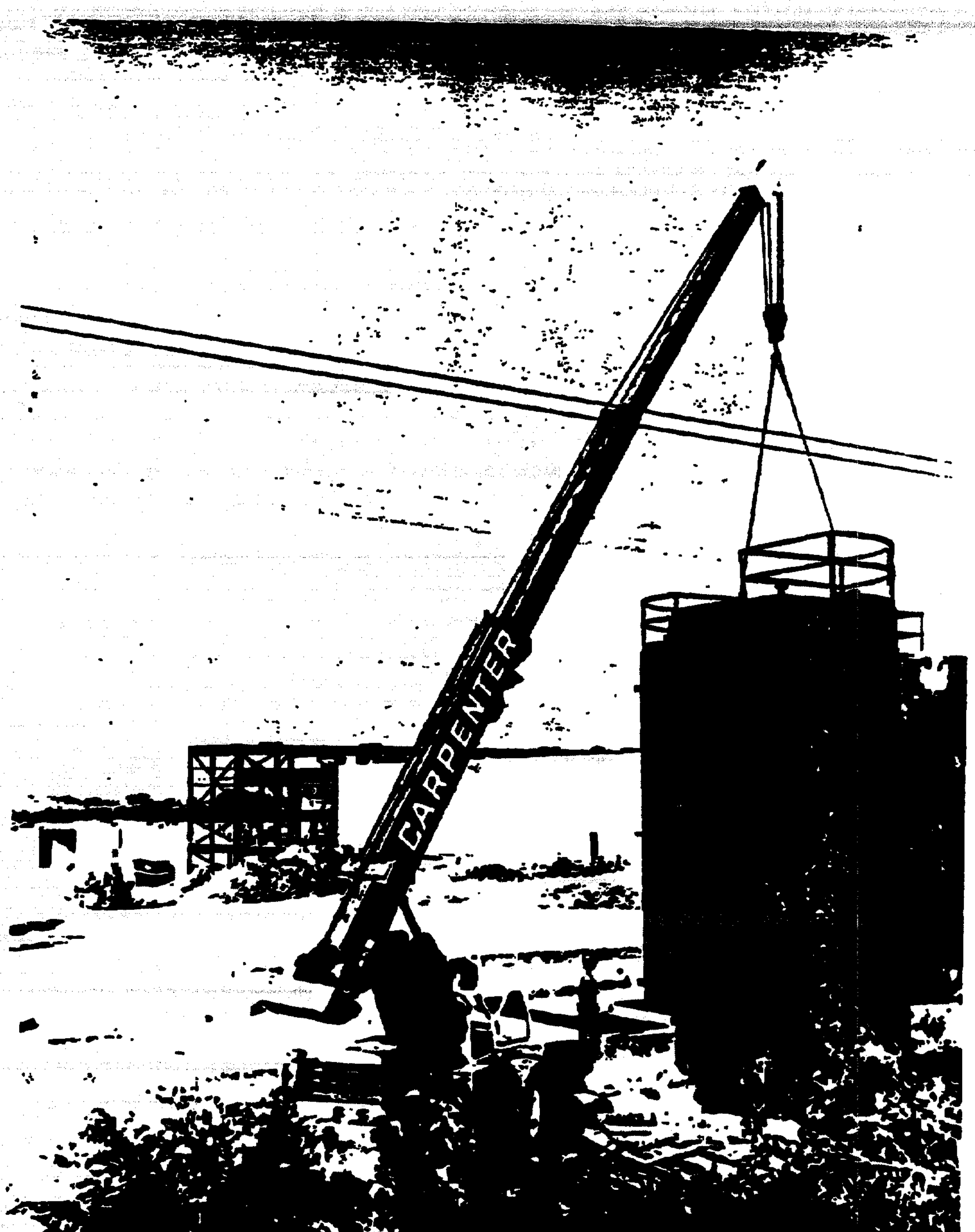
As the economy recovers we feel that The Sherwin-Williams Company will be well positioned to get a larger share of those expanding markets as an efficient producer and as a flexible, innovative marketer.

Having reached retirement age, Mr. John D. Wright retired as a director in July, 1975 after 19 years of service on our Board. We will miss Mr. Wright's wise counsel but feel fortunate in having Dr. Robert D. Buzzell, Professor of Business Administration at the Harvard University Graduate School of Business Administration, as a new director.

We were saddened by the death of Mr. Arthur W. Steudel, Honorary Director and former Chief Executive Officer, who passed away in April, 1975. He served The Sherwin-Williams Company as an active employee for 58 years and retired as a director in 1966. Mr. Steudel was responsible for much of the success of the Company over the last half century.

W O Spencer
President

Cleveland, Ohio
October 24, 1975



Prefabricated raw materials storage tanks are swung onto foundations at the Richmond, Kentucky, plant. Seven 30,000 gallon and ten 20,000 gallon tanks will be installed. The plant, scheduled for completion in 1976, is visible in the background. This latest addition to coatings production facilities will produce automotive refinishes to enable us to meet more efficiently the growing demand in this expanding market.

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Focus: Future

In troubled economic times, there is temptation to discontinue planned developmental programs that bring no immediate economic gain. Yet, to abandon the future for the sake of the present can be self-defeating. One of the basic aims of any successful enterprise must be to insure its own survival. That can best be done by focusing a portion of the assets and energies of the business on the future.

This we have elected to do. Amid the strains and frustrations of a very difficult year, we are continuing a wide array of programs we believe will add to tomorrow's strengths. Singled out for consideration here are four such ongoing programs that have as their purpose the future.

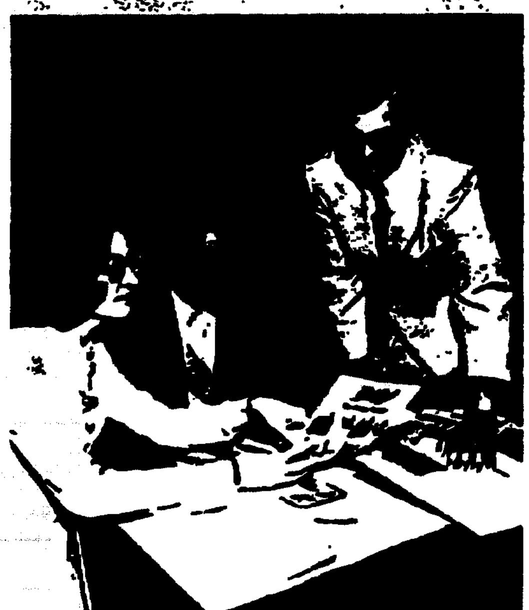
Junior Advisory Committee to the President

Begun in 1970, the Junior Advisory Committee involves 14 younger employees in a continuing appraisal of any company related subjects that could contribute to growth and profitability. Membership, largely determined by the committee itself, is limited to salaried employees who are less than 38 years of age. Two-year terms insure that the committee is regularly renewed, bringing in new people with new ideas and new points of view.

The primary purpose of the committee is to tap the creativity, imagination and specialized know-how of younger employees. And that purpose is being accomplished. Since its inception, members have studied and made recommendations on subjects ranging from new products through company organization and environmental concerns. Many of their recommendations have been adopted or adapted for follow-through by management.

The committee has proved a fruitful channel of communications between younger employees and senior management. It has given the company the benefits of a thoroughly "now" approach to business. It has given the members useful insights that help advance their own careers and spur the company's progress.

A sub-committee of the Junior Advisory Committee studies advertising material in a survey of company communications practices. Jerolene A. Drab is assistant controller; Richard J. Hicks is an engineer/analyst; Arthur C. Meyer is assistant to the vice president — International Coatings.



Among participants in the Tuition Aid Program are: Mary Berry (seated), an accounting supervisor enrolled in accounting courses; Jik T. Chu, plant engineer, emphasizing marketing in his MBA studies; Dolores Kobelle, laboratory technician, seeking a master's degree in chemistry.

Sherwin Williams

Tuition Aid Program

For more than ten years the company has encouraged salaried employees to continue their formal education to help them expand their career horizons. Much of this encouragement has been through the Tuition Aid Program under which the company provides full reimbursement for tuition and fees when an employee successfully completes an approved course

Presently, several hundred employees are studying under the program, sharpening their skills in a variety of disciplines. Since it was established, the program has proved particularly attractive to technical personnel who recognize it as a convenient way to keep abreast of advances in their specialties. In recent years, an increasing number of female clerical personnel are studying the business sciences as a step up the career ladder. Managerial personnel are also pursuing advanced degrees to broaden their contributions to company efficiency and growth. Not the least of the program's success is found in its use as a recruitment tool, enabling the company to attract competent, ambitious people to its ranks.

Tuition Aid is part of a broader concept of encouraging learning among employees. This concept also includes on-the-job training, participation in seminars and short courses, and careful placement of employees in assignments in which they can make full use of their talents to progress. Through such personal progress, the company also grows.

The Open Management Concept

In a constant search for ways to make day-to-day tasks more meaningful and rewarding for employees, the company is experimenting with an Open Management Concept. Under this concept, as much decision making as possible is assigned directly to employees.

This calls for mutual understanding and confidence among all the people concerned Accordingly, employees are given total information on company aims for a given location This involves, among other considerations, clarification of marketing plans, return on investment

At the Fort Worth Distribution Service Center, employees are part of an Open Management Concept team. Pat Gregg and Tom Byrd discuss the current employee-set goals and objectives for the Center with Jolena Vacca during an informal up-date conference.

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goals and future plans. It also involves giving employees wide flexibility in performing tasks. It means erasing traditional work boundaries in the interest of achieving overall objectives.

At the locations where this approach has evolved, managers have assumed the role of consultants, sharing their knowledge and experience freely with others. The employees themselves largely establish how tasks are to be accomplished and the time frame in which they must be done. They decide how best the full "people resources" can be brought to bear on problems where and when these arise.

Given responsibility for setting goals as well as achieving them, employees working under an Open Management Concept have shown exceptional ingenuity and initiative. As one employee summed it up: "Almost every day we surprise ourselves with what we can do."

Store Management Information System

Accurate and timely information is the touchstone to effective management. To assure such information in our stores as well as at headquarters, a new Store Management Information System is being developed. The system employs sophisticated electronic hardware to give store managers an up-date on operations on demand. It also relieves store personnel of much detailed clerical work to free them for more efficient use of their time.

Basically, the hardware is a cash register that, among other functions, automatically computes such information as price extensions, discounts and sales taxes, and collects data that allows us to classify and summarize sales and keep a perpetual inventory for certain types of products on our central computer facilities.

All the information stored in the point-of-sale device is immediately accessible to the store manager. It is also immediately available to headquarters at selected intervals. The system, still in the development stage, is presently in place in a one-store pilot operation. In January, 1976, it will be extended to all stores in a selected division. By mid-1978, the system is expected to be operational nation-wide.

New procedures, accentuated by installation of the pilot Store Management Information System, are discussed by Sandra Merchant, lead systems analyst, and Gary Chall, manager of the Ravenna, Ohio, store. The system has been under development for more than a year.

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Financial Review

The following table presents sales and pre-tax operating income for each of the operating groups for the fiscal years 1975 and 1974, and the changes that occurred in 1975 as compared to 1974. Corporate expenses including interest and certain general administrative expenses are shown separately. The total of the income figures after deducting the corporate expenses agrees with the income before income taxes reported in the Statements of Consolidated Income.

	1975				(Thousands of Dollars)	1974			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	$597,302	68.9%	$18,436	36.7%	$562,943	70.2%	$41,114	57.4%	$34,359	($22,678)
Auxiliaries	97,936	11.3%	19,471	38.8%	87,697	10.9%	16,792	23.5%	10,239	2,679
Chemicals	69,301	8.0%	8,728	17.4%	62,673	7.8%	8,608	12.0%	6,628	120
Sherwin-Williams Canada	54,148	6.3%	1,169	2.3%	50,714	6.3%	1,597	2.2%	3,434	(428)
Sprayon	23,498	2.7%	976	1.9%	19,948	2.5%	1,171	1.6%	3,550	(195)
International	24,468	2.8%	1,439	2.9%	18,291	2.3%	2,346	3.3%	6,177	(907)
Group totals	$866,853	100.0%	50,219	100.0%	$802,266	100.0%	71,628	100.0%	$64,587	(21,409)
Gain on sale of Ashtabula operations			12,728				—			12,728
Corporate expenses unallocated			(12,714)				(14,014)			1,300
Income before income taxes			$50,233				$57,614			($ 7,381)

Sales

Consolidated net sales in fiscal year 1975 amounted to $866,853,000 compared to $802,266,000 in 1974. This is a record high and represents an 8.1% increase over the prior fiscal year.

Income

Consolidated net income totalled $28,588,000 or $5.11 per common share after providing for preferred dividends. Included in consolidated net income this year is an after-tax gain of $9,317,000 generated from the sale of our Ashtabula titanium dioxide operations. Excluding this profit, net income was $19,271,000 or $3.38 per common share. These results compare to fiscal 1974 net income of $29,279,000 or $5.24 per common share after preferred dividends.

Currency Conversion

The changing value of various currencies vis-a-vis the dollar creates some adjustments to the final profits as a consequence of converting local currencies to dollar values. In total, the net effect on 1975 after-tax income was a reduction of approximately 5¢ per common share compared to an addition of approximately 1¢ per common share in 1974. The adverse change in the currency conversion rate had a particularly distorting effect in reporting the sales and income of The Sherwin-Williams Company of Canada, Limited. In 1974, the parent company's share of the Canadian company's pre-tax income of $1,597,000 as reported in the table included approximately $152,000 due to a favorable currency exchange rate. In fiscal 1975, there was an adverse change in the conversion rate which caused the parent company's share of pre-tax income to be reduced by approximately $365,000 to the figure of $1,169,000 shown in the table.

Taxes

The provision for income taxes for fiscal year 1975 amounts to $21,645,000. This represents an effective tax rate of 43.1% (49.2% in 1974) as compared to the statutory Federal income tax rate of 48%. The difference in 1975 was due principally to the capital gains rate afforded the gain on the sale of the Ashtabula operations.

State and local income taxes have been reclassified from costs and expenses to income taxes in 1974 to conform with the 1975 presentation. Taxes other than income taxes continued to rise. In total, these other taxes amounted to $20,182,000, up from $18,793,000 in 1974.

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Dividends

Total dividends of $12,924,000 were declared in fiscal 1975. Dividends on common stock amounted to $11,832,000 and dividends on preferred stock amounted to $1,092,000. Common stock cash dividends for fiscal 1975 were at the annual rate of $2.20 per common share as compared to $2.00 per common share in fiscal 1974. The Company has paid dividends in every year since 1885.

Capital Expenditures

Expenditures during fiscal year 1975 for property, plant and equipment amounted to $27,902,000 compared with $20,553,000 in fiscal 1974. The budget for the 1976 fiscal year provides for an increase in expenditures to a level of just over $47,000,000. A major portion of the increase represents proposed expenditures for new and enlarged manufacturing facilities and further expansion and modernization of our branch store system. Depreciation in fiscal 1975 was $12,750,000 compared to $13,555,000 in the previous year.

General Financial Condition

During the year, a $50,000,000 issue of 9.45% Debentures Due 1999 was sold. These funds combined with those generated from operations and from the Ashtabula sale allowed us to improve our working capital position and increase our investment in fixed assets.

Working capital at August 31, 1975 amounted to $287,711,000 up from $227,626,000 in 1974. The ratio of current assets to current liabilities was 3.89 to 1. This is an improvement over last year's current ratio of 2.75 to 1.

Accounts receivable decreased modestly as compared to last year primarily as a result of a slight weakening of sales in the last few weeks of this year relative to the heavy sales volume during the same period last year. Credit losses continued to be well within a normal and acceptable range.

Total inventory increased $4,842,000 or 2.2% over last year. The increase of 15.1% in finished product inventories was due entirely to inflationary factors. Actual physical quantities in inventory were lower this year than last. The 18.9% decrease in work in process and raw material inventories represents a reduction of excess materials temporarily stockpiled because of the shortages experienced during the second half of last fiscal year.

During the 1975 fiscal year, $2,000,000 principal amount of the Company's 5.45% Debentures Due 1992 were repurchased by the Company, bringing total repurchases to $12,185,000 principal amount. In April 1975, $2,000,000 in principal amount of these bonds were used to meet the third annual sinking fund payment. At August 31, 1975, $6,185,000 principal amount of bonds were held in the Treasury. It is the present intention of the Company to use such bonds to meet future sinking fund requirements.

During the year, the Company amended its Revolving Credit Agreement reducing the committed amount from $75,000,000 to $50,000,000. No borrowings were outstanding under this agreement at August 31, 1975.

A note payable of $4,842,000 shown on the Consolidated Balance Sheets represents bank financing obtained by The Sherwin-Williams Company of Canada, Limited, during fiscal 1975.

Effective September 1, 1975, the Company sold at approximate book value substantially all of the assets of The Osborn Manufacturing Company for cash which will be utilized in other business areas.

Retirement Plans

Substantially all employees of the Company and its domestic subsidiaries participate in non-contributory pension plans. The Company's pension expense for fiscal 1975 was $9,000,000 compared to $9,063,000 in 1974.

Employees Stock Purchase and Savings Plan

Slightly less than 7,300 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. Effective January 1, 1975, the Company increased its contribution to the fund from 25% of the employees' contributions to 50%, with all Company contributions being invested in the Company's Common Stock.

At August 31, 1975, 577,850 shares of Common Stock, representing approximately 10.7% of the total number of shares outstanding, were held in this employee fund.

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THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Statements of Consolidated Income

	Thousands of Dollars Year Ended August 31	
	1975	1974
Net sales	$866,853	$802,266
Gain on sale of Ashtabula operations	12,728	- 0 -
Other income — net	3,272	1,993
	882,853	804,259
Costs and expenses:		
Cost of products sold	576,122	513,037
Selling, general and administrative expenses	244,518	225,524
Interest	11,980	8,084
	832,620	746,645
Income Before Income Taxes	50,233	57,614
Income taxes:		
Payable currently	20,572	24,397
Deferred	1,073	3,938
	21,645	28,335
Net Income	$ 28,588	$ 29,279
Net income per share of Common Stock:		
Primary	$ 5.11	$ 5.24
Fully diluted	$ 4.49	$ 4.59

See notes to consolidated financial statements.

Accountants' Report

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, 1975, and August 31, 1974, 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, 1975, and August 31, 1974, 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, 1975

Ernst & Ernst

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Statements of Changes in Consolidated Financial Position

	Thousands of Dollars	
	Year Ended August 31	
	1975	1974
Source of Funds		
From operations:		
Net income	$ 28,588	$ 29,279
Add back charges to operations not requiring funds:		
Provision for depreciation	12,750	13,555
Increase in noncurrent deferred income taxes	536	2,724
Funds Provided From Operations	41,874	45,558
Proceeds from sale of 9.45% debentures	50,000	- 0 -
Proceeds from note payable	4,842	- 0 -
Proceeds from sale of stock under stock option plan	211	- 0 -
Net book value of Ashtabula noncurrent assets sold less gain included in net income	16,283	- 0 -
	$113,210	$ 45,558
Application of Funds		
Cash dividends	$ 12,924	$ 11,848
Additions to property, plant and equipment, net of normal retirements	27,582	19,242
Purchase of 5.45% debentures	2,000	1,955
Increase in noncurrent note receivable	6,400	- 0 -
Increase in working capital	60,085	10,777
Other — net	4,219	1,736
	$113,210	$ 45,558
Changes in Working Capital – Increase (Decrease)		
Cash and short-term investments	$ 11,392	$(11,707)
Note receivable	8,600	- 0 -
Trade accounts receivable	(2,058)	21,890
Inventories	4,842	56,525
Refundable income taxes	6,042	- 0 -
Short-term borrowings	14,955	(29,742)
Trade accounts payable	8,823	(10,949)
Compensation and amounts withheld	2,959	(2,665)
Pension, interest and other accruals	(647)	(10,486)
Income taxes	3,113	(2,591)
Other — net	2,064	502
Increase in Working Capital	$ 60,085	$ 10,777

See notes to consolidated financial statements.

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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, 1973	$ 9,130	$33,724	$ 4,603	$216,342	$ (690)
Subsidiary's repurchase of its preferred shares	—	—	91	(82)	—
Net income	—	—	—	29,279	—
Cash dividends declared:					
Series A preferred stock — $4.00 per share	—	—	—	(291)	—
Series B preferred stock — $4.40 per share	—	—	—	(811)	—
Common — $2.00 per share	—	—	—	(10,746)	—
Balance at August 31, 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)

See notes to consolidated financial statements.

Consolidated Balance Sheets

	Thousands of Dollars	
	August 31	
Assets	1975	1974
Current Assets		
Cash	$ 8,407	$ 4,065
Short-term investments	8,050	1,000
Note receivable	8,600	- 0 -
Trade accounts receivable, less allowances ($2,057 in 1975; $2,007 in 1974)	119,240	121,298
Inventories:		
Finished products	159,517	138,638
Work in process and raw materials	68,672	84,709
	228,189	223,347
Prepaid expenses	8,799	7,699
Refundable income taxes	6,042	- 0 -
Total Current Assets	387,327	357,409
Other Assets		
Note receivable	6,400	- 0 -
Receivables, advances and other assets	8,733	6,096
Cost in excess of net assets of businesses acquired	2,324	2,324
	17,457	8,420
Property, Plant and Equipment		
Land	5,838	6,025
Buildings	81,482	83,707
Machinery and equipment	172,051	176,151
Construction in progress	16,882	9,379
	276,253	275,262
Less allowances for depreciation	127,910	125,528
	148,343	149,734
	$553,127	$515,563
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings	$ 21,391	$ 36,346
Trade accounts payable	27,905	36,728
Compensation and amounts withheld	18,691	21,650
Pension, interest and other accruals	21,944	21,297
Taxes, other than income taxes	4,897	5,861
Income taxes	4,788	7,901
Total Current Liabilities	99,616	129,783
Long-Term Debt		
5.45% Debentures (exclusive of $6,185 in treasury in 1975 and 1974)	37,815	39,815
6.25% Convertible subordinated debentures	40,000	40,000
9.45% Debentures	50,000	- 0 -
Note payable	4,842	- 0 -
	132,657	79,815
Deferred Income Taxes	14,363	13,827
Reserves — for pensions and other items	4,579	5,902
Minority Interest in Subsidiaries	5,488	5,687
Shareholders' Equity		
Capital stock:		
Serial Preferred — without par value	8,934	9,130
Common — $6.25 par value	33,814	33,724
Other capital	5,011	4,694
Retained earnings	249,355	233,691
	297,114	281,239
Less cost of Common Stock in treasury	690	690
	296,424	280,549
	$553,127	$515,563

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended August 31, 1975 and August 31, 1974

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Current assets and current liabilities of foreign subsidiaries are translated at the rates of exchange in effect at the close of the period. All other assets, liabilities and shareholders' equity are translated at historical rates of exchange. Revenue and expense accounts are translated at the rates in effect at the close of the period, except for depreciation which is translated at the rates in effect when the respective assets were acquired. Gains or losses from foreign currency translations are included in other income.

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 are charged to operations as incurred.

NOTE B — 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, 1975, such undistributed earnings amounted to approximately $18,143,000.

Investment tax credits (accounted for by the flow-through method) aggregated $801,000 in 1975 and $982,000 in 1974.

The provision for income taxes represents an effective tax rate of 43.1% (49.2% in 1974) as compared to the statutory Federal income tax rate of 48%. The difference in 1975 was due principally to the capital gains rate afforded the gain on the sale of the Ashtabula operations.

State and local income taxes have been reclassified from costs and expenses to income taxes in 1974 to conform with the 1975 presentation.

NOTE C — 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 103.00%, 104.69% and 109.45%, 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 1975 requirement of $2,000,000 on the 5.45% Debentures was satisfied from debentures held in treasury, and the Company intends to make the 1976 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 $50,000,000 until October 3, 1977. Amounts outstanding under the agreement at that time may be converted to term loans payable in sixteen equal quarter-annual installments commencing January 3, 1978. Interest rates would vary from the prime rate to ½% above prime. A commitment fee of ½% is due on the unused portion until October 3, 1977. No borrowings were outstanding under this agreement at August 31, 1975.

The credit agreement includes certain restrictive covenants as to additional borrowings and the maintenance of working capital of not less than $150,000,000.

NOTE D — 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 Preferred Stock, Series A, $4.40 Cumulative Convertible Preferred Stock, Series B and Common Stock are 72,026 shares (72,697 in 1974), 179,463 shares (184,293 in 1974) and 5,410,161 shares (5,395,780 in 1974). The Common Stock outstanding in 1975 and 1974 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, 1976 at $102.50 per share and declining annually to $100 per share in 1980 and thereafter, and the Series B preferred stock at $103.85 until December, 1975 and at declining amounts to $100 in 1981 and thereafter. The aggregate preference of the Serial Preferred Stock in involuntary liquidation for 1975 and 1974 is $25,149,000 and $25,699,000, respectively.

At August 31, 1975 and 1974, an aggregate of 1,555,347 shares and 1,569,728 shares, respectively, were reserved for conversion of Serial Preferred Stock, Convertible Subordinated Debentures and exercise of stock options.

SHERWIN WILLIAMS

NOTE E — 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 F — RETIREMENT PLANS

Substantially all employees of the Company and its domestic and Canadian subsidiaries who meet certain requirements as to age and length of 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 $9,000,000 in 1975 and $9,063,000 in 1974. For four of the plans in 1975, 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 $11,738,000. For the other plans, vested benefits are fully funded. The value of the pension fund assets was determined using market values at August 31, 1975.

In accordance with the provisions of the Employee Retirement Income Security Act of 1974, the Company will make certain amendments to the provisions of its pension plans and has made certain changes in the methods of actuarial determination of pension costs. The effect of the required changes on the unfunded vested benefits and future pension expense is not expected to be material as related to consolidated operating results.

NOTE G — LEASES *(Thousands of Dollars)*

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

	1975	1974
Financing leases:		
Minimum rentals	$ 3,770	$ 3,099
Contingent rentals	605	500
	4,375	3,599
Operating leases:		
Minimum rentals	22,184	19,260
Contingent rentals	925	1,668
	23,109	20,928
Total rental expense	$27,484	$24,527

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

The future minimum rental commitments as of August 31, 1975 for all noncancelable leases are as follows:

	Total	Financing Leases	Operating Leases
1976	$19,586	$ 3,225	$16,361
1977	15,417	2,414	13,003
1978	10,933	1,274	9,659
1979	7,547	699	6,848
1980	5,011	701	4,310
1981-1985	11,102	2,093	9,009
1986-1990	2,017	1,467	550
1991-1995	838	941	(103)
Thereafter	1,000	993	7

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 H — 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.

In 1975, options were granted for 42,000 shares. No options were granted in 1974. During 1975, options for 5,495 shares (none in 1974) were exercised at an aggregate price of $211,000 and options for 5,900 shares (31,910 in 1974) were cancelled. At August 31, 1975, options for 181,871 shares (151,266 in 1974) were outstanding at an aggregate price of $6,656,000 ($5,824,000 in 1974), options for 109,581 shares (88,186 in 1974) were exercisable, and 92,438 shares (128,538 in 1974) were reserved for future grants.

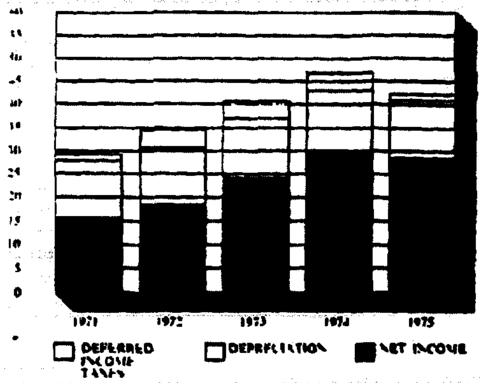
NOTE I — SALE OF ASHTABULA OPERATIONS

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

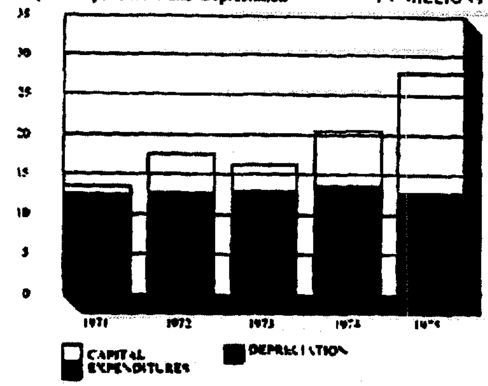
NOTE J — SUBSEQUENT EVENT

Effective September 1, 1975, the Company has sold at approximate book value substantially all of the assets of The Osborn Manufacturing Company for cash which will be utilized in other business areas. Included in the 1975 consolidated statement of income is net income of $1,430,000 related to the operations sold. The disposition of these operations will not materially affect future consolidated results because of the expected return on the redeployed funds.

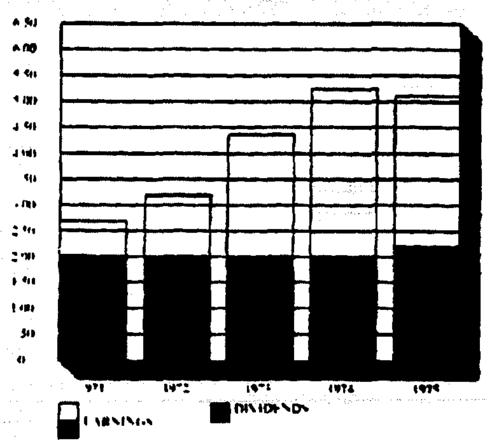
Cash Flow — IN MILLIONS



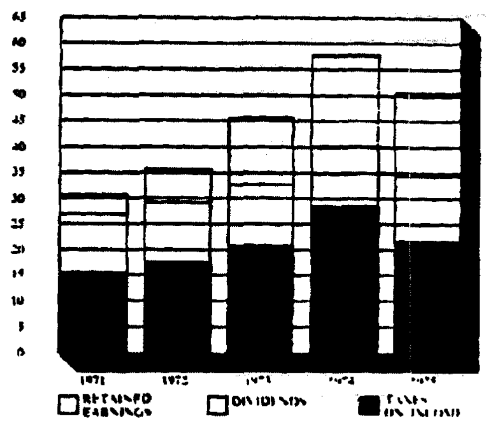
Capital Expenditures and Depreciation — IN MILLIONS



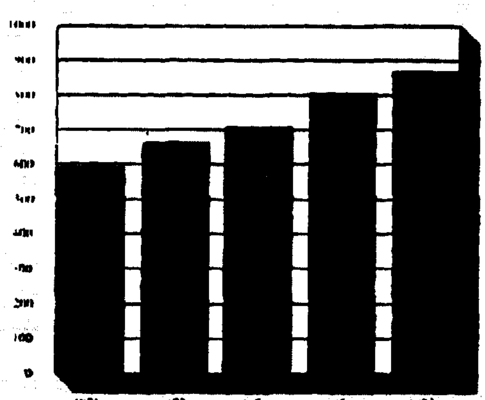
Earnings and Dividends Per Common Share — IN DOLLARS



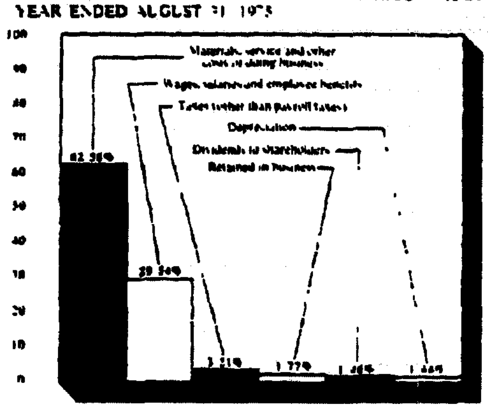
Disposition of Pre-tax Income — IN MILLIONS



Consolidated Net Sales — IN MILLIONS



Distribution of Total Revenue — IN PERCENTAGES
YEAR ENDED AUGUST 31, 1975



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THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Five-Year Comparison

	Thousands of Dollars				
	Year Ended August 31				
	1975	1974	1973	1972	1971
Net sales	$866,853	$802,266	$704,729	$658,285	$590,969
Cost of products sold (A)	576,122	513,037	450,791	418,098	379,423
Interest expense	11,980	8,084	6,424	6,238	6,599
Income before income taxes and extraordinary charge (A)	50,233	57,614	45,346	39,932	30,451
Income taxes (A)	21,645	28,335	20,844	19,435	15,110
Income before extraordinary charge	28,588	29,279	24,502	20,497	15,341
Extraordinary charge	- 0 -	- 0 -	- 0 -	(2,260)	- 0 -
Net income	28,588	29,279	24,502	18,237	15,341
Income per share of Common Stock:					
Income before extraordinary charge	5.11	5.24	4.36	3.63	2.68
Net income	5.11	5.24	4.36	3.21	2.68
Average number of shares of Common Stock outstanding	5,377,695	5,373,280	5,367,755	5,328,524	5,315,371
Income as percent of sales	3.30%	3.65%	3.48%	2.77%	2.60%
Return on invested capital — Common Stock (B)	10.79%	11.87%	10.47%	7.94%	6.72%
Cash dividends declared:					
Preferred	$ 1,092	$ 1,102	$ 1,102	$ 1,107	$ 1,110
Common	11,832	10,746	10,736	10,659	10,631
Cash dividends per share of Common Stock	2.20	2.00	2.00	2.00	2.00
Number of shareholders:					
Preferred	995	1,024	1,018	1,030	1,027
Common (C)	10,405	10,423	9,852	9,353	9,903
Preferred and common shareholders' equity	$296,424	$280,549	$263,109	$249,222	$241,680
Common shareholders' equity	271,276	254,850	237,410	223,456	215,788
Per share	50.44	47.43	44.23	41.94	40.60
Capital expenditures	27,902	20,553	16,042	17,354	13,278
Provision for depreciation	12,750	13,555	12,869	12,519	12,333
Working capital	287,711	227,626	216,849	208,256	201,523
Ratio of current assets to current liabilities	3.89 to 1	2.75 to 1	3.98 to 1	4.05 to 1	4.35 to 1
Total assets	$553,127	$515,563	$440,805	$424,631	$411,164
Number of employees	20,892	22,080	21,646	21,908	21,480

(A) State and local income taxes have been reclassified from costs and expenses to income taxes in prior years to conform with the 1975 presentation.

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

(C) In addition to the registered shareholders, there were beneficial shareholders participating in the Company's Stock Purchase and Savings Plan for salaried employees (7,275 in 1975; 7,106 in 1974; 6,793 in 1973; 6,732 in 1972; and 6,802 in 1971).

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	1975	1974	1973	1972	1971
	Year Ended August 31				
Paint, varnishes, lacquers and allied materials	62%	63%	63%	63%	64%
Paint application and decoration products purchased for resale	20%	20%	21%	21%	20%

Operating Group Table

(Thousands of Dollars)

	1975		1974		1973		1972		1971	
	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	$597,502	$18,436	$562,943	$41,114	$511,048	$39,130	$479,883	$35,944	$425,791	$28,842
% of total	68.9%	36.7%	70.2%	57.4%	72.5%	71.6%	72.9%	73.8%	72.1%	78.2%
Auxiliaries	97,936	19,471	87,697	16,792	70,693	11,097	60,057	10,670	50,417	7,851
% of total	11.3%	38.8%	10.9%	23.5%	10.0%	20.3%	9.1%	21.9%	8.5%	21.3%
Chemicals	69,301	8,728	62,673	8,608	47,901	63	48,172	(1,997)	52,064	(3,312)
% of total	8.0%	17.4%	7.8%	12.0%	6.8%	.1%	7.3%	(4.1%)	8.8%	(9.0%)
Sherwin-Williams Canada	54,148	1,169	50,714	1,587	42,647	482	40,969	898	36,969	518
% of total	6.3%	2.3%	6.3%	2.2%	6.1%	.9%	6.2%	1.9%	6.3%	1.4%
Sprayon	23,498	976	19,948	1,171	18,428	2,090	16,923	1,942	14,281	1,470
% of total	2.7%	1.9%	2.5%	1.6%	2.6%	3.8%	2.6%	4.0%	2.4%	4.0%
International	24,468	1,439	18,291	2,346	14,010	1,816	12,281	1,236	11,447	1,499
% of total	2.8%	2.9%	2.3%	3.3%	2.0%	3.3%	1.9%	2.5%	1.9%	4.1%
Group Totals	$866,853	50,219	$802,266	71,628	$704,729	54,698	$658,285	48,693	$590,969	36,868
	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		—		—		—		—
Corporate expenses unallocated		(12,714)		(14,014)		(9,352)		(8,761)		(6,417)
Income before income taxes and extraordinary charge		$50,233		$57,614		$45,346		$39,932		$30,451

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

The following are Management's operational comments highlighting significant events and reasons for change during the current year as well as the 1974 year. They are intended to be used in conjunction with the Notes to Financial Statements and as a complement to the Five-Year Comparative Financial Summary on page 17.

Fiscal 1975 Compared to Fiscal 1974

Consolidated net sales were the highest in the history of the Corporation at $866,853,000 and represent a $64,587,000, or 8.1%, increase over last year. The 1975 sales increase is primarily due to higher selling prices since most of the Corporation's product lines registered decreases in unit volume.

Consolidated cost of products sold increased 12.3% 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.

Consolidated pre-tax income before the gain on sale of Ashtabula operations for 1975 was $37,505,000, a decline of 34.9% from last 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 former Ashtabula titanium dioxide operations. Consolidated net income in 1975 of $28,588,000 declined a modest 2.4% from last year.

Interest expense increased $3,896,000 from the preceding year, principally the result of the $50,000,000 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 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 new Dealer organization, combined with the presentation of the Corporate Identity Program, comprise the largest segment of the $3,536,000 advertising expense increase.

The Company's effective tax rate declined principally because of the gain of $12,728,000 from the sale of 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 principally results from the combination of lower pre-tax income and the above capital gain.

Fiscal 1974 Compared to Fiscal 1973

Consolidated sales increased 13.8% due to selling price increases and to a lesser extent added volume. The Company's three major groups (Coatings, Auxiliaries, and Chemicals) contributed the larger portion. Sales of the Coatings Group rose 10.2%, with all major paint segments and decorating sales showing gains. Sales increases in the Auxiliaries Group of $17,002,000 (24.0%) were obtained in all divisions, with the Container Division contributing heavily with a sales increase of $9,017,000, or 22.5%. Zinc oxide, saccharin, and cresol products led the Chemicals Group with a 30.8% sales increase.

Consolidated cost of products sold increased 13.8% due to production cost increases and to a lesser extent added volume. All Groups experienced greater production costs due mainly to higher priced raw materials; increased wages, salaries, and employee benefits; and production scheduling problems due to raw materials shortages.

The Company experienced a 10.5% rise in selling, general and administrative expenses, while the expenses as a percentage of sales improved to 28.3% as compared to 29.1% in fiscal 1973. Interest expense rose $1,660,000 (25.8%) as a result of increased short-term borrowings at higher interest rates, principally used to finance increased levels of inventories and receivables. Income taxes increased over 1973 by $6,912,000 (35.7%) primarily because taxable income increased by $11,689,000, or 26.6%.

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Quarterly Market and Dividend Information

	Fiscal Quarter	1975 High	1975 Low	1974 High	1974 Low	Dividends Per Share 1975	Dividends Per Share 1974
Common Stock	First	$32	$25⅛	$39½	$29¼	$ .55	$ .50
($6.25 par value)	Second	39¼	31¾	38⅞	27⅝	.55	.50
	Third	48⅜	39⅛	40⅛	36	.55	.50
	Fourth	45⅞	37	39⅜	29⅛	.55	.50
$4.40 Cumulative Convertible Preferred Stock, Series B (without par value)	First	56⅜	52½	67½	59	1.10	1.10
	Second	66	56	65½	60	1.10	1.10
	Third	76	64	68	62¼	1.10	1.10
	Fourth	74	61	64½	52	1.10	1.10

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 $1.00 per share have been paid in fiscal 1975 and 1974 for Series A preferred stock.

SHERWIN WILLIAMS

The Year in Review

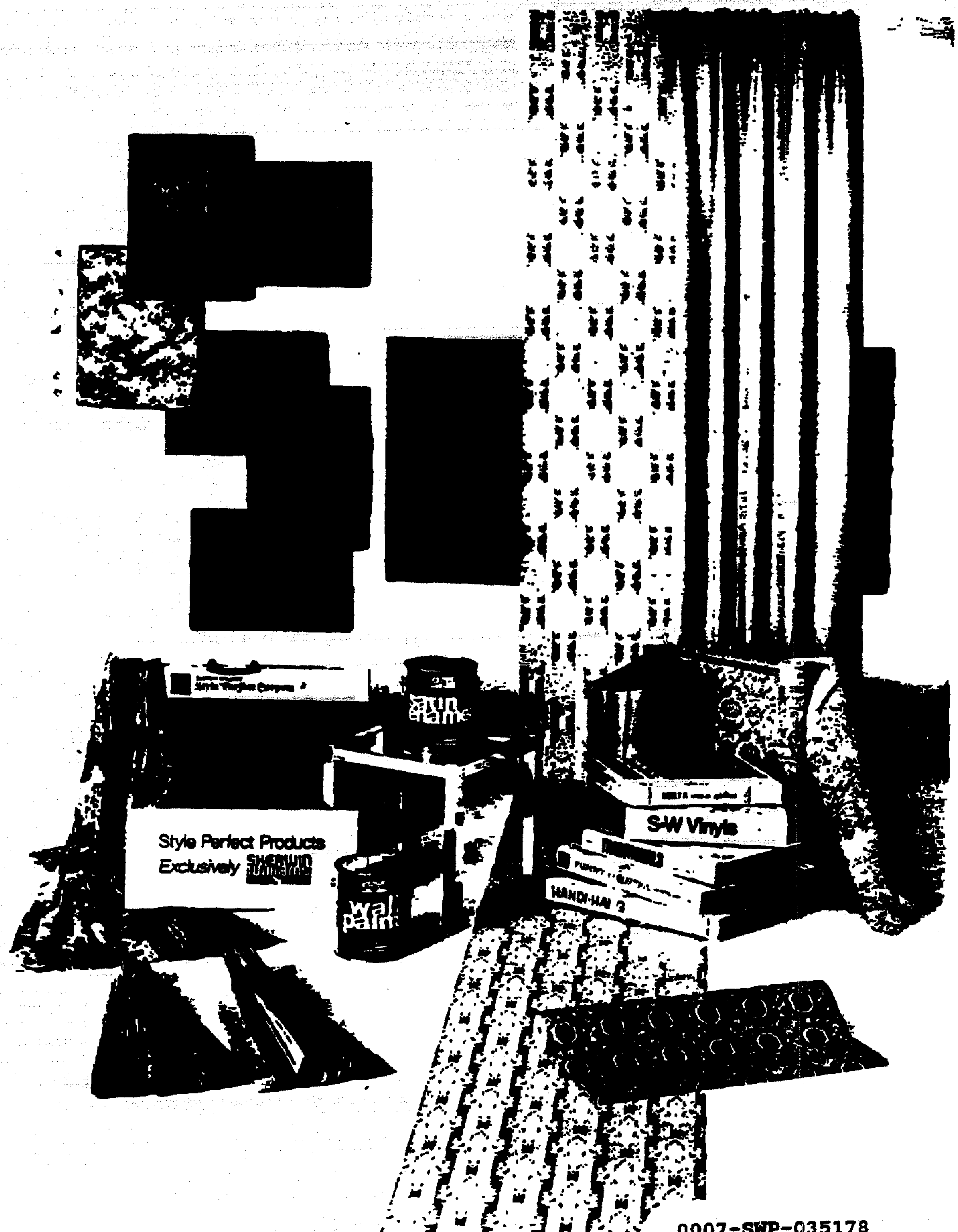
Operations in fiscal 1975 reflected a sales and earnings pattern not dissimilar to the experience of other participants in most of our major markets. Profit margins, particularly in our large Coatings Group, were under pressure most of the year, primarily as a result of lower levels of demand. Price increases simply could not offset rapidly rising costs.

Management of the finances of your Company continues to improve and is better organized to employ its resources more effectively. Larger, more efficient production facilities have been given high priority as part of our business strategy to give us a competitive edge and to place us in a better position to provide our goods and services to the market place.

The ongoing Corporate Identity Program concluded its introductory year, focusing activities on the more highly visible aspects of the Corporation's image. Active consumer markets were given a high priority as retail stores in those markets received new signs and were modified to reflect innovative concepts of marketing.

The Company, as will become obvious in the reports that follow, is no longer tied so closely to one basic major area of activity. As the Coatings segment suffered earnings erosion, other segments, notably the Auxiliaries Group with continued support from the Chemicals Group, were able to make up some of the earnings slack. The better balance of markets served should, in the years ahead, allow us to react and adapt to changes among these various markets.

Such planned and balanced growth will continue to be the objective in the years ahead, for it is only through such growth that we can provide adequate rewards for all who identify with the enterprise — shareholders, employees, customers and the public at large.



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The Coatings Group

The markedly lower demand for paint products during the depressed period dictated lower production levels and with the extremely competitive pricing activity, combined to reduce Coatings Group earnings during the year. Although total sales increased 6.1%, gallons of product sold declined almost 12%, and pre-tax earnings were off 55.2% from the previous year.

We are confident this sharp earnings drop is a short-term aberration that does not indicate any long-term damage to our market position. In fact, during the year we improved our sales position in the key retailing market through both our stores and independent dealers. We enjoyed similar success in the automotive refinishes market through our automotive service centers and through independent distributors.

In the retail area, our sales of paint and other decorative products rose almost 18%, significantly above the increase in the national retail average. This was due directly to two factors: introduction of such new, highly competitive paint offerings as the Style Perfect line; and the continued broadening of our merchandise lines in floor coverings, wall coverings, draperies and decorative accessories. This broadening proved particularly rewarding this year. While total store sales of our manufactured products increased in dollar value by 5.0%, our sales of other merchandise increased by 12.6%.

In May, 1975, our *Decorating World* pilot installation was opened at Charlotte, North Carolina. Our offering there of a new, imaginative method of merchandising and a broad range of decorating products has been well received. Sales have been very close to the targets established. We are continually monitoring operations so we may quickly capitalize on the lessons learned there.

The enlarging and modernizing of company-operated stores continued throughout the year. As the economy improves, this activity will increase. In fiscal 1975, we opened 15 new stores: 22 were remodeled or expanded; 57 were relocated: and we closed 99 low-profit units that were not suitable for renovation or enlargement. As a result, a total of 1,709 stores were in operation at year end.

As part of our long-range consumer product emphasis, we have opened three individually designed prototype stores (in Vermont, Massachusetts and Wisconsin) so that we can, in effect, test market different retailing concepts involving store layout, fixturing, merchandising, etc. Out of this program, we believe, will come a composite idea of the typical Sherwin-Williams store of the future.

We took another decisive step in the area of sales through independent paint retailers. We created a completely new line of paint products tailored specifically to the needs of independent dealers in terms of quality, breadth of line and pricing. This line, available only to these merchants, is backed by sophisticated merchandising support plus a national advertising program.

(left)
To supply the total decorating needs of the consumer, all Sherwin-Williams retail stores will offer the complete STYLE PERFECT line of products for the home: paint, floor and wall coverings, draperies and accessories.

(below)
Decorating World was opened in Charlotte, North Carolina early this year. Here is visible evidence of our commitment to cater to the modern consumer who wants a single source for every decorating need.

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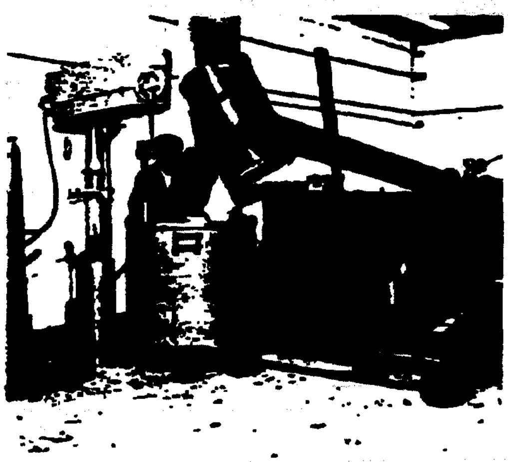

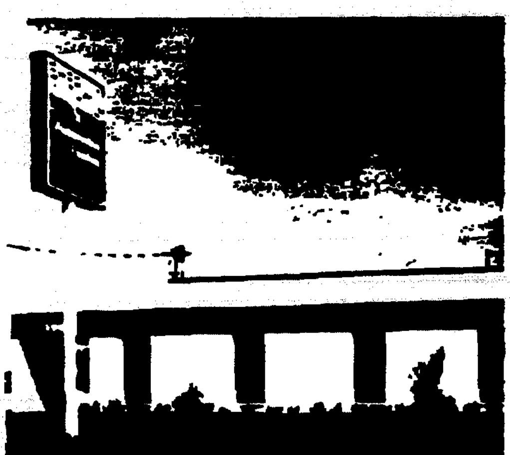

This new line goes to market under the brand name Martin-Senour, a well-respected name in paint that has for many years had outstanding consumer acceptance for high quality and fashion. To support it, we have organized an entirely new Martin-Senour dealer marketing organization with management attuned to the needs of the independent dealer.

The successful launching of this program is evidenced by the sales response from retailers and consumers alike. During the second half of the fiscal year, following the introduction of new merchandise to our private label accounts and the Martin-Senour brand to independent dealers, sales were increased 20.5% in this segment, as opposed to a decline in sales during the first half.

Our continuing efforts were also rewarded in the automotive refinish market. This highly specialized market is supplied with Sherwin-Williams brand products through our own automotive refinishes service centers and jobbers. The Martin-Senour, Acme and Rogers brands go to market through major independent warehouse distributors. A sales increase of over 22% indicates the very strong response of our customers in this field and, thus, the continuing strength of our share of market.

In further support of this expanding market, we opened six additional automotive refinishes service centers during the year. This raised to 62 the number of centers now in operation.

The general industrial market and the building industry market both suffered severely in the recession period. Despite highly competitive pricing and quality offerings, our unit decreases in these markets were such as to more than offset the gains in other areas. However, because of our competitive marketing, we are confident that we retained our market share.

Our efforts in the architectural field are still expanding. In much of the country we continue to hold a preferred position among architectural specifiers. Our specialized color planning service for manufacturing plants, schools, hospitals, hotels and office buildings continues to grow.

Research and development in the coatings area centered largely on low energy/low temperature cure systems. These include water reducible, high solids, electrodeposition and catalyzed systems.

We have also continued to seek substitute raw materials, particularly replacements for those derived from petroleum. A patent application has been filed on what may well prove to be a major breakthrough in this area. It involves a variety of raw materials derived from starch rather than petroleum. These

(top)
Seen here examining the exclusive "Williamsburg" paint line in a Martin-Senour dealer's modern store are: Ronald F. Carley, group vice president-coatings and Harvey M. Lambert, vice president-coatings marketing for Martin-Senour.

(middle)
At our commercial service center in Mayfield Village, Ohio, manager Norman Bove matches a customer's specific tint requirements by adding colorant to a Sherwin-Williams base color.

(bottom)
Our automotive service center in Cincinnati, Ohio, displays the new company identification which is aiding customers to identify more easily all Sherwin-Williams outlets across the country.

unique materials find application in baking enamels and powder coatings and as adjuncts to air-drying latex paints. The use of a renewable resource such as starch provides advantages in economics, processing and performance. Investigation of the possibilities in this development is being continued.

Advertising in fiscal 1975 expanded the theme of helping the customer solve decorating problems. In the coming year emphasis will be given to promoting the decorating center image.

Capital expenditures during fiscal 1975 were approximately $17 million compared to $10.8 million in 1974. The 1975 total was lower than projected because of delays in materials deliveries and various engineering revisions.

During the new fiscal year we are budgeting expenditures of $23.8 million with emphasis on a large number of new stores, completion of the Richmond plant, start of construction of the emulsion coatings plant, and the development of a new point-of-sale data collection system for a number of stores that will result in improved management control by providing more accurate information more quickly.

The Auxiliaries Group

Sales of the Auxiliaries Group reached a record level in fiscal 1975, rising 11.7% above the sales of last year. Pre-tax operating earnings rose 16.0%, also reaching a record level.

The Container Division was the primary contributor to the group's 1975 earnings increase. Sales were up 21.7% over the previous year, accounting for 61.1% of group sales. The division's sales outside the company now total approximately 77% of all its container sales.

Additions were begun at the Elgin container plant in July, 1975, which should be completed in a year. We are now starting to convert this plant's aerosol lines to production of a new type of welded sideseam cans. This change will eliminate the possibility of even minute quantities of lead in the aerosol containers, will increase the lithography area available to the end user and will reduce the manufacturing cost of the container. This work should take approximately two years.

We have also begun a major program in the Elgin plant to convert the lithographic press lines to ultraviolet cure operation. One line has been completely converted, and work is progressing on the other. This change will result in significant natural gas savings and will enable the plant to more than meet Environmental Protection Agency standards. We expect to extend this type of curing operation to other container plants.

The new Applicator Division formed last year accounted for 7.9% of total group sales. The greatest area of sales improvement was in spray equipment, where we have become a significant factor in the total market.

In October, 1975, we announced the sale for cash to Giddings & Lewis, Inc. of the domestic and French assets and business of The Osborn Manufacturing Co. subsidiary. The transaction also included Osborn's interest in a concern in the United Kingdom. We are retaining certain German assets of the company.

The Graphic Arts Division during the past year installed a major new humidification system to improve quality control on all paper products. A new computer-operated photo composition unit has also been installed which gives the division for the first time automatic typesetting capability.

This year's Annual Report is an example of the division's expertise. Type for this report was set on our new equipment, and it was printed on our presses.

Capital expenditures for the Auxiliaries Group in fiscal 1975 totalled approximately $5.1 million. Expenditures in fiscal 1976 are expected to be $9.3 million, all of which will be used to carry through various improvements now underway.

Hadley Adhesives is still being operated as a venture. However, sales and earnings are included in the financial review of the Auxiliaries Group. The division suffered a small loss as it continued to incur costs related to the restructuring of the business along lines consistent with our long-range plans. Further steps are being taken to strengthen the division's retail sales. A new selling organization has been established which gives much broader coverage of retail outlets that are prime prospects for do-it-yourself adhesives and other materials produced by the division. Similar efforts are being made to strengthen industrial sales on an industry-by-industry basis.

Earlier this year Sherwin-Williams directors toured the Elgin, Illinois container plant where significant upgrading of can production and litho-press operations is under way. Seen here (L-R): John Hammarstrom, director of lithography for all container plants; George F. Schlaudecker, Sherwin-Williams group vice president-chemicals and director, and Keith S. Benson, executive vice president-finance and administration, Oglebay Norton Company and Sherwin-Williams director.

The Chemicals Group

Sales of the Chemicals Group were up 10.6% in fiscal 1975, and pre-tax earnings were 1.4% above those of a year ago. This was a creditable performance in view of general economic conditions and the lower demand which resulted in fewer pounds of product being shipped than in the previous year.

The titanium dioxide operations were sold in October, 1974, because they did not fit into our long-range chemical marketing and manufacturing objectives. The funds realized from the sale are being used to advantage in the areas of the business in which we will continue to concentrate.

Fiscal 1975 brought wide swings in the demand for most of our products. When faced with generally reduced sales levels, our customers reacted by reducing inventories significantly. We, in turn, were forced to curtail production. Para-cresol, for example, was in extremely short supply early in the year; by summer, the para-cresol plant was idle for a number of weeks. Similar circumstances caused curtailment of zinc oxide production for the tire industry and manufacture of organic chemicals for dyestuff and pigment production. Production of chemicals for agricultural end uses followed the same trend but with a less serious effect on operations.

Demand for saccharin continues strong, and our production capacity has now reached the point where we keep pace. Over the past few years we have expanded our production capacity several fold. Our Cincinnati plant is today the world's largest producer of saccharin, and we are currently modifying its production capabilities to provide a wider variety of product.

In Germany, Lowi Sherwin-Williams has begun construction of an anti-oxidant plant which will be on stream within one year. The new plant will be supplied with para-cresol from our Chicago facility. Our new German plant is visible evidence of our long-standing interest in the anti-oxidant business.

The Textile Chemicals Division was affected very early in the year by a worsening economy but also enjoyed an earlier recovery than many of our operations. The net result has been a modest improvement in overall sales and earnings for 1975. This past year, this division was able to react quickly to a number of textile manufacturer's needs for trend-setting fashions. For example, we worked closely with one major producer to formulate and supply the chemicals used by the mills in producing the now popular "washed out" fabrics.

The Flavor and Fragrance Division is actively participating in a number of new developments by major companies in the food, cosmetics, soap and candle industries. We have developed a number of specialty products allied with our flavors for the carbonated beverage industry.

(top)
Spray painting equipment introduced this year by the Applicator Division featured this Rubberset Flo-matic electric airless spray gun. This light-weight, self-contained unit produces superior atomization without the need of a cumbersome air compressor.

(bottom)
Hadley Adhesives this year introduced standard retail point-of-purchase displays which accommodate a range of Hadley consumer products, all of which are now marketed under the "Tiger Grip" brand name.

Capital expenditures of $3.3 million in 1975 compare to $4.1 million in 1974. We anticipate these expenditures to approximate $8.0 million in the new fiscal year as we complete several major expansion programs.

Sherwin-Williams Canada

Measured in Canadian funds and before consolidation, the Canadian subsidiary recorded an 11.7% increase in sales in fiscal 1975, and pre-tax operating income rose 9.1%.

Sales through branch stores continued to show progress, increasing 17.7% from a year ago. An increase was achieved in many product categories, including paint, wall coverings and associated decorating and maintenance lines. Paint sales were bolstered through the introduction of the Style Perfect line which is enjoying good consumer acceptance.

The number of stores in operation at the end of the fiscal year stood at 126, which is a decrease of three stores compared to last year. Emphasis in the store program continues to be on increased selling area and more retail-oriented locations.

Independent dealers, through whom a sizeable portion of trade sales products are sold, scored a 4.6% sales increase during the year. Private label sales declined slightly as customers for these products adjusted inventories in line with market conditions. However, automotive refinish sales through jobbers rose 25.4% from the previous year.

Industrial sales declined 2.5%, reflecting the slowdown in many industries supplied by the Chemical Coatings Division. Indications are that performance in this segment of the market will improve during the 1976 fiscal year.

Research and development activity continued to center on reformulation of products to cope with raw material shortages and requirements of the Hazardous Products Act. Emphasis was also given to further development of powder coatings, particularly as they might be applied to wood substrates.

The Winnipeg Paint & Glass Company reversed the downward trend in sales of fiscal 1974 and showed improved results with an 11.7% sales gain. This was achieved despite the generally unfavorable conditions in the building industry. The E. Harris Company Division experienced a 6% decline in sales, a direct result of the drop off in activity in the silk screen industry which is one of the division's principal markets.

The coatings plant at Toronto was closed in August. It was not deemed advisable to attempt to up-date this small, outmoded plant in view of the cost involved. Expanded production in the Montreal and Winnipeg plants will serve the market adequately.

Capital expenditures in fiscal 1975 amounted to $739,000 compared to $682,000 in the previous year. It is expected that

A new and fast-growing use for Sherwin-Williams saccharin is in the form of a "measure-for-measure" sweetener. Today's homemaker can now purchase a saccharin-based sweetener with the bulk and consistency of sugar. Now the coffee drinker or cake baker can add this non-calorie sweetener in the same proportions as if sugar were used without having to make allowances for the higher sweetness of saccharin.

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Directors

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

Keith S. Benson
Executive Vice President
Administration and Finance
Oglebay 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
Executive Vice President

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

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

Victor Holt, Jr.
Retired – Formerly President
The Goodyear Tire & Rubber Company

William Moonan
Group Vice President – Auxiliaries

Robert W. Ramsdell
Retired – Formerly Chairman
The East Ohio Gas Company

George F. Schlaudecker
Group Vice President – Chemicals

Walter O. Spencer
President and Chief Executive Officer

Officers

Walter O. Spencer
President and Chief Executive Officer

William C. Fine
Executive Vice President

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

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

Harvey L. Piepho
Vice President – Purchasing

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

Robert A. Tschannen
Vice President Operations – Coatings Group

Michael D. Welsh
Vice President – International Coatings

William P. Inman
Secretary

Robert Cain
Assistant Vice President – Personnel

John R. Skinner
Assistant Vice President

Martin J. Donelan
Assistant Treasurer

Frank C. Kollath
Assistant Treasurer

Thomas R. Miklich
Assistant Secretary

Subsidiaries

Domestic

The Osborn Manufacturing Company
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 do Brasil S/A — Tintas e Vernizes, São Paulo, Brazil
Sherwin-Williams (West Indies) Limited, Kingston, Jamaica
Société Anonyme des Machines Osborn, Paris, France
*Unconsolidated

Other Affiliates

(50% or less owned)

The Carter White Lead Company of Canada Limited, Montreal, Canada
Deudix Brushes Limited, Chepstow, Monmouthshire, England
Lowi Sherwin-Williams GmbH, Waldkraiburg, Germany
P. T. Unimas Chemicals & Coatings Ltd., Djakarta, Indonesia
Nippon Sherwin-Williams Chemicals Co., Ltd., Osaka, Japan
Rose — The Osborn Manufacturing GmbH, Frankenberg, Germany
Sherwin-Williams de Panamá, S.A., Panama City, Panama
Unimas (Hong Kong) Limited, Hong Kong

Licensees

Aktiebolaget SYD-Ferniss (Sweden)
Astral Sté de Peintures, Vernis et Encres d'Imprimerie (France)
C. A. Quimica 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)
Oxy Foundry Equipment Division (England)
Peintures Idéales S.A. (Haiti)
Pinturas Andinas 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. (Peru)
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)
Taiyo Chuki Company, Ltd. (Japan)
Taubmans Industries Limited (Australia)
Taubmans International (N.Z.) Ltd. (New Zealand)

Plants

Sherwin Williams

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
Henderson, Kentucky
Hubbard, Ohio
Morrow, Georgia
Newark, New Jersey
North Olmsted, Ohio
Oakland, California
Pontiac, Illinois
San Leandro, California

Foreign Plants

Bayamón, Puerto Rico
Frankenberg, Germany
Gravenhurst, Canada
Kingston, Jamaica, W.I.
Mexico City, Mexico
Montreal, Canada
Monmouthshire, England
Panama City, Panama
São Paulo, Brazil
Winnipeg, Canada
Zeist, Netherlands

0007-SWP-035185

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