NATIONAL LEAD COMPANY

ANNUAL REPORT

55TH ANNUAL REPORT

FOR FISCAL YEAR ENDED
DECEMBER 31, 1946

NATIONAL LEAD COMPANY

DIRECTORS

LEONARD T. BEALE
Philadelphia, Pa.
WILLIAM V. BURLEY
St. Louis, Mo.
WALTER P. CARROLL
Chicago, Ill.
WILLIAM H. CROFT
Chicago, Ill.
CLAUDE F. GARESCHE
Short Hills, N. J.
CHARLES A. GEATTY
Red Bank, N. J.
KENDALL MARSH
New York, N. Y.

JOSEPH A. MARTINO
Jamaica, N. Y.
DAVID A. MERSON
Great Neck, N. Y.
JOSEPH J. MORSMAN
Chicago, Ill.
FLETCHER W. ROCKWELL
Greenwich, Conn.
HAROLD ROWE
Englewood, N. J.
CHARLES SIMON
Jamaica, N. Y.
JAMES A. TAYLOR
Toronto, Ont.

HERMAN T. WARSHOW
New York, N. Y.

EXECUTIVE COMMITTEE

FLETCHER W. ROCKWELL, Chairman

WILLIAM H. CROFT
CLAUDE F. GARESCHE
CHARLES A. GEATTY

JOSEPH A. MARTINO
HAROLD ROWE
CHARLES SIMON

HERMAN T. WARSHOW

EXECUTIVE OFFICERS

President
FLETCHER W. ROCKWELL

Executive Vice President
JOSEPH A. MARTINO

Vice Presidents
WILLIAM V. BURLEY
WILLIAM H. CROFT
CLAUDE F. GARESCHE
HAROLD ROWE
HERMAN T. WARSHOW

Secretary
HENRY O. BATES

Treasurer
CHARLES SIMON

Comptroller
HARRY C. WILDNER

Assistant Secretary
JOHN B. HENRICH

Assistant Treasurer
JOSEPH J. MORSMAN, Jr.

Assistant Comptrollers
GEORGE A. DEWEY
JOSEPH J. MORSMAN, Jr.

General Counsel
ALEXANDER & GREEN, 120 Broadway, New York, N. Y.

Stock Transfer Agent
THE CHASE NATIONAL BANK
11 Broad St., New York, N. Y.

Registrar of Stock
BANKERS TRUST CO.
14 Wall St., New York, N. Y.

March 7, 1947

TO THE STOCKHOLDERS:

The Annual Report of National Lead Company for the year 1946 is submitted herewith. The formal financial statements for 1946 and 1945 are included, together with a review of the Company's operations during 1946.

This report, marking the end of the Company's fifty-fifth year of business, will be presented at the Annual Meeting of Stockholders which will be held on April 17, 1947 at the principal office of the Company in Sayreville, New Jersey.

EARNINGS

Net income for the year 1946, after the deduction of all charges and taxes, amounted to $9,677,084, as compared with $6,538,508 earned in the preceding year. After payment of the regular dividends of $2,059,323 on the outstanding shares of both classes of the Company's Preferred stock, the balance of net income remaining, $7,617,761, was equivalent to $2.46 per share on the 3,090,664 Common shares outstanding throughout the year.

The increase in net earnings over the $1.45 per Common share reported for the year 1945 resulted primarily from (1) a substantial reduction in the amount of depreciation and depletion charged against operations, reflecting the return of this item of expense to a pre-war basis after the final write-off in 1945 of those war facilities which were being amortized under Certificates of Necessity and (2) an increase in Other Income as the result of the receipt of a dividend paid by the Company's Argentine subsidiary. An important offset was the increase in the provision for federal income taxes over the 1945 figure.

Equity in net undistributed earnings of foreign subsidiaries, excluding those located in Continental Europe, and of domestic companies controlled but not wholly owned is estimated for 1946 to be seven cents per share on the Common stock.

DIVIDENDS

During the year, regular dividends were declared and paid to the holders of the Company's Class A and Class B Preferred shares. In addition to the $2,059,323 paid to the Preferred holders, there were paid on the Common shares outstanding during the year dividends aggregating $4,635,996, representing quarterly payments of 12½c per share and extra dividends of 25c and 75c per share in June and December respectively. A total of $1.50 was thus paid on each Common share and the balance of net income, amounting to $2,981,765, was transferred to Earned Surplus.

This marks the 41st consecutive year in which dividends have been paid on the Company's Common stock and the 55th in which they have been paid on the outstanding Preferred stock.

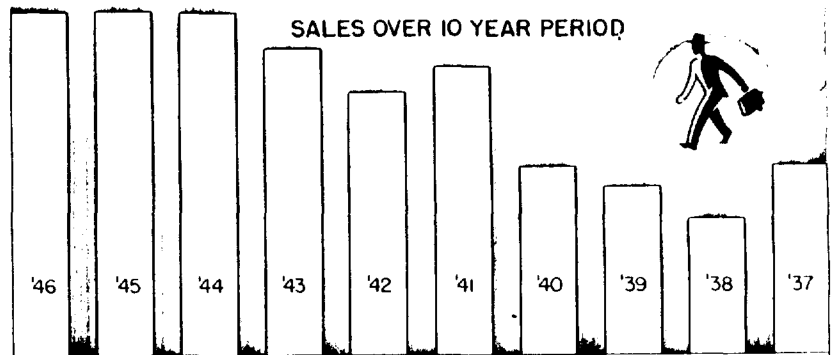
TAXES & RENEGOTIATION

The Company's tax bill for the year 1946 totalled $8,691,845, equivalent to $2.81 per share of Common stock outstanding. This figure represents an increase of $2,424,852 over the 1945 charge to earnings for this item of expense. The increase results from the greater provision for federal income taxes necessitated by the substantial rise in earnings before taxes as detailed above.

A final determination has not yet been received from the War Department Price Adjustment Board with respect to the renegotiation of the Company's transactions for the year 1945, and it seems likely that the Company will in due course be notified that no liability for refund exists for that year.

SALES

Volume of sales for the year 1946 reached a total of $167,447,243, approximately equal to the business done in 1945. There was a slight reduction in the number of units sold as compared with the preceding year, but this was offset by higher unit prices received for some of the Company's products, reflecting primarily increases in raw material costs.



1946	$ 167,447,243	1941	139,192,540
1945	167,562,928	1940	90,696,461
1944	166,168,715	1939	80,906,329
1943	148,622,919	1938	65,229,970
1942	127,679,608	1937	91,947,303

FOREIGN INVESTMENTS

During the year 1946, dividends aggregating $1,203,619 were received from foreign corporations. The increase in this item over the $42,909 received in 1945 is comprised largely of a dividend declared and paid by the Company's Argentine subsidiary.

As of December 31, 1946, the Company acquired the outstanding 51% of bonds and capital A shares of Canadian Titanium Pigments Limited, which now becomes a wholly owned subsidiary.

No other material changes took place in the Company's foreign holdings during 1946. As the result of visits made by Company personnel, it was found that the properties in which the Company has financial interests in Norway and England are operating on a pre-war basis. Some damage was suffered by plants in Germany, and studies are now being made to determine what is to be the future course of action with respect to them. The problems posed by the present system of control of Germany are many, and the ultimate outcome is difficult to predict.

PLANT INVESTMENT

Compared with the close of the year 1945, the Company's gross investment in fixed assets at December 31, 1946 showed an increase of $5,998,994, reflecting expenditures of $8,365,722 for the expansion of the capacity of various operating units, as part of the Company's plans for the future, and retirements amounting to $2,366,728. The last figure represents the elimination of fully depreciated plant and equipment which has been replaced in the adoption of more modern and efficient methods of operation. The program presently under way contemplates the investment in new plant and equipment in the near future of a minimum of the $10,000,000 set aside on the balance sheet for that purpose.

The Company's property account, net of depreciation, showed an increase of $5,127,699 during 1946. Depreciation and depletion charged against earnings totalled $2,912,144 as compared with $7,205,062 in 1945. The latter figure included amortization of $4,517,371, as the result of the write-off of war facilities as permitted under Certificates of Necessity.

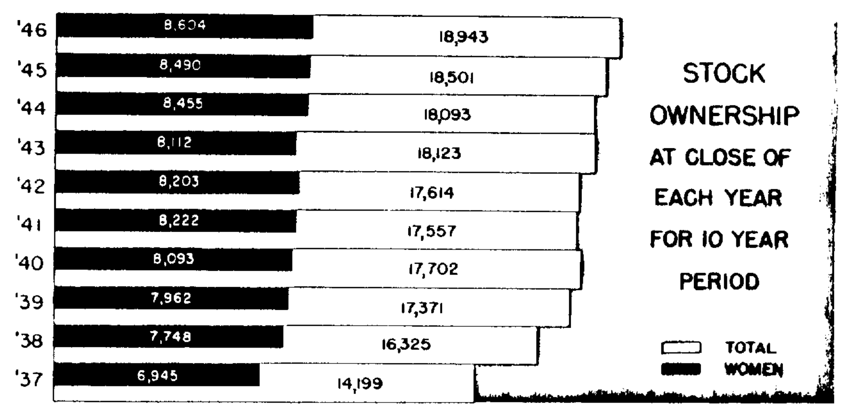
INVENTORIES

It will be noted that the Company's consolidated balance sheet shows reserves for Inventory of $9,734,662 and $5,366,726 at December 31, 1946 and 1945 respectively. These amounts represent the values reserved under the normal stock method of inventory

valuation which were, in previous years, deducted from the value of inventories carried on the asset side of the balance sheet. The gross figures are shown this year to present a more complete picture of the actual situation.

The Company continues to operate under the normal stock system with the amount of the reserve required at December 31, 1946 substantially greater than at the close of 1945 because of the increase in the price of common pig lead (New York) between those dates from 6.50c per pound to 12.55c and the larger deficiencies in the normal stocks on hand, resulting primarily from the shortage of raw materials. Inventories at the year-end were valued on the usual basis except for flaxseed and linseed oil, in which case the Company does not contemplate the replacement of deficiencies at current prices. Had the Company not adopted this course of action, full adherence in its accounting procedure to the requirements of the normal stock system would have necessitated the transfer of an additional two million dollars to the Inventory reserve and the reduction of the earnings reported for the year by a corresponding amount. On the other hand, with the return of prices of metals, linseed oil and flaxseed to lower levels, the Company's earnings in subsequent years would have been similarly overstated irrespective of the extent to which these deficiencies were replaced.

STOCK OWNERSHIP



PERSONNEL

At the present writing, the Company has welcomed back 1,022 of the 2,114 employees who had been called for military service. Of the remainder, 870 are still members of the armed forces, and it is hoped that they too will soon rejoin their fellow employees in the Company's plants and offices. The management has spared no effort to smooth the readjustment period for the returning veteran and is pleased to report that of the total number returning from military service, only 17% have not re-entered the Company's employ.

The end of the war in 1945 made it possible for the Company to resume the practice of awarding gold watches to those who had completed 25 years in its service, and early in 1946 presentation was made to all who had observed their 25th anniversaries during the war period. Since inauguration of the plan in 1940, 891 watches have been awarded, and an average of 85 employees receive them annually.

In the Annual Report for the year 1945, reference was made to the fact that the amount established in the Pension reserve at the close of the year represented the Company's liability for the period prior to January 1, 1937 for past service pensions to individuals still in the employ of the Company. The balance of this reserve was reduced by $1,056,082 during 1946 as the result of the application of a portion of the fund to the purposes for which it was established.

At December 31, 1946, there were 449 surviving pensioners (including beneficiaries) receiving annuities from the Metropolitan Life Insurance Company at the annual rate of $367,080 under the provisions of the Company's Retirement Annuity Plan. In addition, death claims aggregating $330,445 were filed during 1946 on behalf of the beneficiaries of employees covered under the group plan.

In December of 1946, there was paid to every individual employed by the Company, except its officers and directors, extra compensation equivalent to 5½% of the initial $3,000 of salary or wages earned during the first eleven months of the year. The management is aware of the problems brought home to its employees by a fluctuating cost of living and will do what it can within the limits of reasonable business judgment to assist them.

Under the provisions of the Company's Profit Sharing Plan, a payment has again been made to the trustee for the benefit of eligible employees, in accordance with the agreement approved by the stockholders at the annual meeting in 1945.

The industrial scene has been a troubled one in the year just past, but the loyalty and cooperation of the Company's employees has been gratifying. So long as all of us are aware of and recognize the difficulties which each of us must face, then intelligent discussion can lead to a solution of any controversy which may arise.

THE YEARS TO COME

The Company was faced during all of 1946 with the world-wide shortage of lead, which may continue for some time. It is hoped that the recent increase in price of the metal will result in greater availability of this basic raw material for so many of the Company's products.

To minimize to as great a degree as possible the effects of the lead shortage, the Company has expanded considerably the scope of its activities in the field of reclaiming and refining scrap metals containing lead, tin and antimony. In this connection, there were acquired in 1946 the outstanding minority shares of the capital stock of American Lead Corporation, smelters of secondary metals at Indianapolis, Indiana, in which the Company has been financially interested since 1932.

The Company also uses substantial tonnages of antimony in its operations and to insure a continuous supply of this metal, which is also in short supply, there were acquired as of December 31, 1946, the plant, properties and equipment of the Texas Mining and Smelting Company of Laredo, Texas. This operation, to be conducted henceforth as the Texas Mining and Smelting Division of National Lead Company, produces metallic antimony and antimony oxides from ores mined primarily in Mexico.

The Company's program relating to the introduction of a line of exterior mixed paints under the Dutch Boy trade mark is progressing and it is anticipated that these products will reach the market within the next few months.

Closely correlated with the Company's new programs, as well as its long-established lines, are the activities of its research laboratories. The management recognizes the importance of technological advance and will continue the policy of aggressive action which it has followed for a number of years.

To complement the work of the various research groups, there was established during 1946 a new Sales Development Department to which has been delegated the function of introducing new products to potential users and promoting customer acceptance of new developments. This unit will operate in close coordination with the regular sales organization of the Company.

The status of the suit by the Government against the Company remains as described in the 1945 report. The case was recently argued on appeal before the United States Supreme Court, and it is expected that a decision will be forthcoming shortly.

ORGANIZATION

In April of 1946, Joseph A. Martino was elected a vice president of the Company, and in November was named executive vice president. Mr. Martino has been associated with the Company since 1916 and, prior to his election to the vice presidency, served as comptroller.

Harry C. Wildner succeeded Mr. Martino as comptroller. He has been in the employ of the Company since 1921 and was appointed assistant comptroller in 1938.

Claude F. Garesche was elected a vice president of the Company in November of 1946. Mr. Garesche observed his 25th anniversary with the Company earlier in the year and is manager of the Titanium Division.

In January 1947, Edward F. Beale retired from the Board of Directors, of which he had been a member since the organization of the Company in 1891. Mr. Beale had been associated with our subsidiary, John T. Lewis & Bros. Company of Philadelphia, since 1875.

Mr. Beale was succeeded as a member of the Board of Directors by David A. Merson who joined the staff of the Research Laboratory in 1923. Mr. Merson has served as manager of the Oxide Sales Department since 1939 and early in 1946 was named to head the new Sales Development Department of the Company.

CONCLUSION

The year 1946 marked your President's fiftieth year of service to the Company. During this half century, National Lead as a name has come to mean much more to the American industrial scene than the white lead and companion products which constituted the basis for its first operations.

So that you, the Stockholders, may have a broader view of the scope of the activities of your Company, we have expanded somewhat the form of Annual Report used in previous years. It is hoped that you will find the section devoted to the Company's products interesting and informative and that the comparative form in which the financial statements are presented will facilitate your study of them.

The past year has not been an easy one. We have had to face problems which were the aftermath of the war—material shortages, rising costs and the like. Despite these difficulties, the Company has achieved a gratifying picture during this first full year of peace, and we turn to the future with the hope that the combination of loyal personnel and quality products will enable us to meet successfully whatever it may hold in store for us.

Respectfully submitted,

Fletcher W. Rockwell

FLETCHER W. ROCKWELL, President

NATIONAL LEAD COMPANY

COMPARATIVE CONSOLIDATED BALANCE SHEET

December 31, 1946
and
December 31, 1945

● ASSETS

	1946	1945
Current Assets:		
Cash	$ 11,681,055	$ 9,571,663
United States Government securities, at cost (approximately equivalent to amounts at market quotations)	17,864,127	17,370,137
Other marketable securities, at cost less reserves of: 1946, $522,892; 1945, $522,892 (at market quotations: 1946, $3,257,472; 1945, $2,708,829)	529,421	532,117
Accounts and notes receivable, less reserves of: 1946, $1,429,848; 1945, $1,297,473	15,519,836	11,739,045
Notes receivable from employees	53,257	28,491
Post-war refund of excess profits taxes		754,951
Claims for prior years' tax refunds arising from accelerated amortization of emergency facilities		2,648,648
Inventories (Note 1)	32,617,337	29,361,453
Total current assets	78,265,033	72,006,505
Fund for deferred expenditures on expansion and development:		
United States Government securities, at cost (approximately equivalent to amounts at market quotations)	10,000,000	10,000,000
Investments (at cost or below) in and advances to unconsolidated subsidiaries, less reserves of: 1946, $4,014,414; 1945, $3,832,413 (Note 2)	4,158,561	3,669,946
Miscellaneous investments, at cost or below, less reserves of: 1946, $846,778; 1945, $1,030,561	990,270	1,021,656
Plant, property and equipment, at 1915 appraised values, subsequent additions at cost (including intangibles of $20,692,311 not being amortized), less reserves for depreciation, depletion and amortization of: 1946, $56,018,905; 1945, $55,147,610	50,774,755	45,647,056
Patents and licenses, less amortization	289,015	397,337
Prepaid expenses, deferred charges, etc	665,423	489,495
	$145,143,057	$133,231,995

The accompanying notes to financial statements are integral parts of these statements.

● LIABILITIES

		1946	1945
Current Liabilities:			
Accounts payable and accrued liabilities		$ 9,508,394	$ 7,603,511
Payable to unconsolidated subsidiaries		403,524	806,292
Provisions for taxes, including federal taxes on income		12,381,957	8,317,520
Dividends payable February 1, 1947 and 1946 on Class B preferred stock		116,193	116,193
Total current liabilities		$ 22,410,068	$ 16,843,516
Reserves:			
Fire insurance		$ 4,797,284	$ 4,797,284
Employer's liability		426,664	426,664
Pension		4,419,513	5,475,595
Contingencies		4,080,358	4,080,358
Inventory (Note 1)		9,734,662	5,366,726
		$ 23,458,481	$ 20,146,627

● CAPITAL

		1946	1945
Capital Stock:			
Preferred Class A, 7 per cent cumulative, noncallable (par value $100); shares authorized 250,000, issued 243,676		$ 24,367,600	$ 24,367,600
Preferred Class B, 6 per cent cumulative, noncallable (par value $100); shares authorized 250,000, issued 103,277		10,327,700	10,327,700
Common (par value $10); shares authorized 5,000,000, issued 3,098,310		30,983,100	30,983,100
		65,678,400	65,678,400
Capital Surplus		485,295	485,295
Earned Surplus		38,159,061	35,126,405
		104,322,756	101,290,100
Less, Reacquired capital stock, at cost:			
Preferred Class A, 15,883 shares	$2,006,316		
Preferred Class B, 25,815 shares	2,925,066		
Common, 7,646 shares	116,866	5,048,248	5,048,248
		$ 99,274,508	$ 96,241,852
		$145,143,057	$133,231,995

The accompanying notes to financial statements are integral parts of these statements.

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NATIONAL LEAD COMPANY

COMPARATIVE CONSOLIDATED STATEMENTS OF INCOME AND EARNED SURPLUS

For the years ended December 31, 1946 and December 31, 1945

	1946	1945
Sales, less returns and allowances (Note 3)	$167,447,243	$167,562,928
Cost of sales (Notes 1 and 3)	$131,174,970	$132,734,503
Depreciation, depletion and amortization (Note 4)	2,912,144	7,205,062
Administrative, selling and general expenses	17,115,013	15,698,010
Taxes, other than federal taxes on income	1,655,450	1,587,273
	$152,857,577	$157,224,848
	$ 14,589,666	$ 10,338,080
Other income (Note 5)	2,504,356	1,192,018
	17,094,022	11,530,098
Other charges and additions to reserves (Note 6)	380,543	311,870
Net income before provisions for federal taxes on income	16,713,479	11,218,228
Provisions for federal taxes on income (including $1,275,000 excess profits taxes in 1945) (Note 7)	7,036,395	4,679,720
Net income for the year (Note 1)	$ 9,677,084	$ 6,538,508

	1946	1945
Earned surplus balance, January 1	$ 35,126,405	$ 33,737,884
Net income for the year (Note 1)	9,677,084	6,538,508
Equity in earned surplus of domestic subsidiary, previously unconsolidated, which became wholly owned in 1946, less amounts paid to minority stockholders in excess of their equity, etc.	50,891	
	$ 44,854,380	$ 40,276,392
Dividends:		
On Class A preferred stock, $7 per share	$ 1,594,551	$ 1,594,551
On Class B preferred stock, $6 per share	464,772	464,772
	2,059,323	2,059,323
On common stock, $1.50 per share in 1946, $1 per share in 1945	4,635,996	3,090,664
	$ 6,695,319	$ 5,149,987
Earned surplus balance, December 31	$ 38,159,061	$ 35,126,405

The accompanying notes to financial statements are integral parts of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. *Inventories are priced at the lower of cost (on various "average" or "first in, first out" bases)* or market. The "normal stock" principle is applied with respect to quantities shown below:

	Normal Quantities (Short Tons)	Fixed Inventory Price per Pound
Lead	49,687½	$.03
Tin	1,124½	.21
Antimony	259	.05
Linseed oil	3,125	.06
Flaxseed	5,600	.0348

In prior years the "normal stock" reserve was deducted from inventories. In the accompanying balance sheets such reserves have been included in the reserve section.

The "normal stock" principle contemplates that if physical quantities are less than the established normal quantities, the reserve shall include a provision for replacement representing the difference between current market prices and fixed inventory prices with respect to the deficiency in physical quantities. As stated on page 7 of the accompanying report, the company does not contemplate the replacement of deficiencies at December 31, 1946 in inventories of flaxseed and linseed oil at current market prices and has computed the required reserve on the basis of prices lower than current market. In addition, at December 31, 1946 there have been included in the "normal stock" calculations certain secondary metal stocks, the prices of which are lower than those of primary metals.

Had the reserve for replacement of flaxseed and linseed oil been determined on the basis of current market prices and had only primary metal prices been included in the "normal stock" computations, net income for 1946 would have been approximately $1,938,000 less than is shown in the accompanying statement of income, representing a $2,000,000 difference in the computed "normal stock" reserve amount less $62,000 of net effect upon the profit-sharing provision and related taxes.

The inventory reserves shown in the balance sheets include, in addition to the "normal stock" reserves, the following general inventory reserves:

December 31, 1946	$800,000
December 31, 1945	700,340

Intercompany profits in inventories are not considered to be material in amount.

2. Unconsolidated subsidiaries comprise domestic subsidiaries more than 50, but less than 100 per cent owned and foreign subsidiaries. American Lead Corporation, previously an unconsolidated subsidiary, became wholly owned during 1946 and its financial statements for that year, including net income of $127,644, have been included in the consolidated statements. Canadian Titanium Pigments Limited, carried in miscellaneous investments at December 31, 1945, became wholly owned as of December 31, 1946 and National Lead Company's investment therein at that date is included among the investments in unconsolidated subsidiaries.

Based upon financial statements as of the close of their respective fiscal years, National Lead Company's equity in the net assets of unconsolidated subsidiaries (other than those in Continental Europe) exceeded its investments in and advances to such subsidiaries, after deducting applicable reserves on the books of National Lead Company, by approximately $6,120,000 at December 31, 1945 and $6,930,000 at December 31, 1946, representing increases in such excesses of approximately $668,000 in 1945 and $810,000 in 1946. These increases are after dividends paid by unconsolidated subsidiaries and included in net income of the consolidated group of $38,750 in 1945 and $1,264,779 in 1946.

Financial statements of the Continental European subsidiaries are not yet available, but National Lead Company's investments in such countries are covered by reserves.

3. Intercompany transactions between consolidated companies have been eliminated from sales and cost of sales.

4. Depreciation, depletion and amortization charges for 1945 included $4,547,371 of amortization of emergency facilities, which completed the write-off of war facilities acquired under certificates of necessity.

5. Other income comprises:

	1946	1945
Dividends received (including $1,264,779 from unconsolidated subsidiaries in 1946 and $38,750 in 1945)	$1,695,505	$ 368,950
Interest (net) and miscellaneous	357,164	203,490
Net profits on sales and redemptions of securities	70,760	465,241
Group life insurance dividends	194,578	154,337
Investment reserves no longer required	186,349	
	$2,504,356	$1,192,018

6. Other charges and additions to reserves comprise:

	1946	1945
Net losses on sales of fixed assets, and miscellaneous	$ 94,534	$ 157,533
Addition to pension reserve		154,337
Additions to investment and general inventory reserves	286,009	
	$ 380,543	$ 311,870

7. Numerous differences exist between taxable income and book income, including fluctuations in the "normal stock" reserves, changes in other reserves effected through other income and other charges not affecting taxable income, percentage depletion and the following payments in the respective years, each deductible for tax purposes but charged on the books to reserves:

	1946	1945
Purchase of past service annuities (charged to reserve for pensions)	$1,056,082	$1,037,176
Damage claims resulting from fire (charged to reserve for contingencies)		$ 454,000

(*Continued on next page*)

General:

Renegotiation proceedings covering the year 1945 have not been completed, but no provision for refund is believed necessary.

Portal to portal pay suits for substantial amounts have been instituted against the companies. The status of this type of litigation against industry generally awaits clarification by Congress or the courts and the company has made no provision therefor.

The company and a subsidiary have been named in an indictment alleging violation of the Anti-trust Laws in connection with its Titanium business. The maximum amount of the fines which might be imposed is $10,000 as to each company. A decision in a civil suit against National Lead Company, et al., in which the Government made similar allegations and requested injunctions, etc., was handed down in 1945 but was appealed by all contesting parties. The appeal was argued before the United States Supreme Court in February, 1947 and a decision is expected shortly. The company and others have been named in a complaint by the Federal Trade Commission alleging violation of the Clayton Act with respect to white lead and lead oxide sales.

The company acquired the plant, properties and equipment and inventories of the Texas Mining and Smelting Company, Laredo, Texas and all of the outstanding capital stocks of two Mexican mining companies as of December 31, 1946. Pending final determination of the total price, these acquisitions have not been entered in the company's accounts or the accompanying financial statements.

No provision has been made for such taxes as may be paid if and when accumulated earnings of subsidiaries are distributed to the parent company, since such taxes may never accrue.

LYBRAND, ROSS BROS. & MONTGOMERY
Certified Public Accountants
90 Broad Street
New York City

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

We have examined the consolidated and individual balance sheets of NATIONAL LEAD COMPANY and its subsidiaries (other than those incorporated in Europe, Argentina and Canada) as of December 31, 1946 and 1945, and the related consolidated and individual statements of income and earned surplus for the fiscal years then ended and have received reports of chartered accountants upon their examinations of the balance sheets of the Argentine subsidiary as of October 31, 1946 and 1945, and the Canadian and English subsidiaries as of December 31, 1946 and 1945, and the related statements of income and surplus for the fiscal years ended those dates. We have reviewed the systems of internal control and the accounting procedures of National Lead Company and its subsidiaries (other than as mentioned above) and, without making detailed audits of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examinations were made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

As explained in Note 1 to the consolidated financial statements, inventory reserves at December 31, 1946 are approximately $2,000,000 less and net income for the year then ended is approximately $1,938,000 more than would have been the case had certain changes in the application of the "normal stock" principle not been effected during 1946.

Except as mentioned above, in our opinion, based upon the above outlined examinations and the above-mentioned reports of chartered accountants, the accompanying comparative consolidated balance sheets and related comparative consolidated statements of income and earned surplus present fairly the consolidated position of National Lead Company and its wholly owned domestic subsidiaries at December 31, 1946 and 1945 and the consolidated results of their operations for the respective fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, March 1, 1947.

HIGHLY DIVERSIFIED LINE MAKES THE COMPANY AN IMPORTANT FACTOR IN MANY INDUSTRIES

In the year 1891, the time of National Lead Company's incorporation, the business was centered around two products—white lead and linseed oil. Twenty years later the Annual Report of 1911 listed two dozen different and distinct items that the Company manufactured and sold.

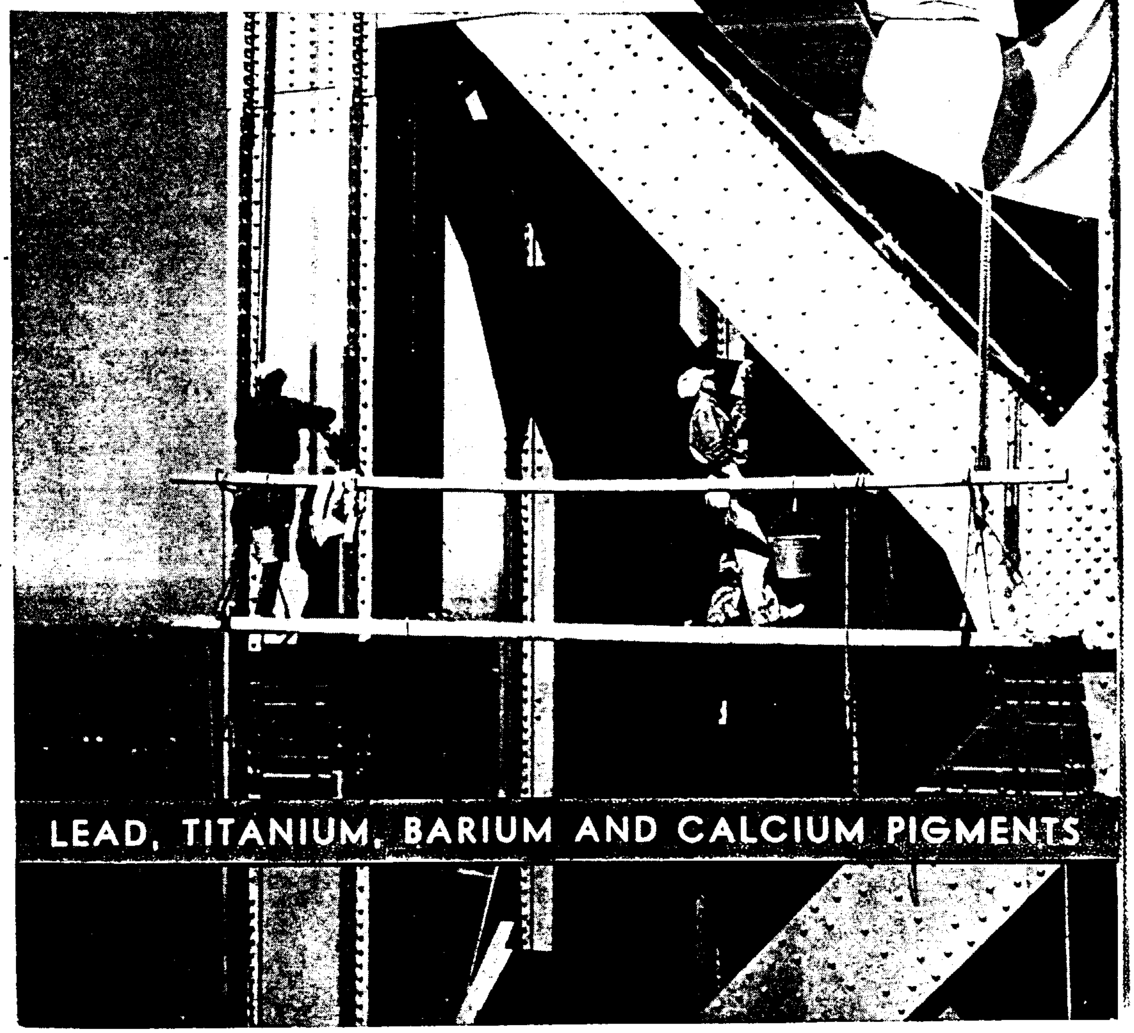
The Company now has reached its fifty-fifth year and a full and complete roster of the products in its line totals nearly one hundred and fifty basic items, not including the many varieties of some that would swell the total to hundreds.

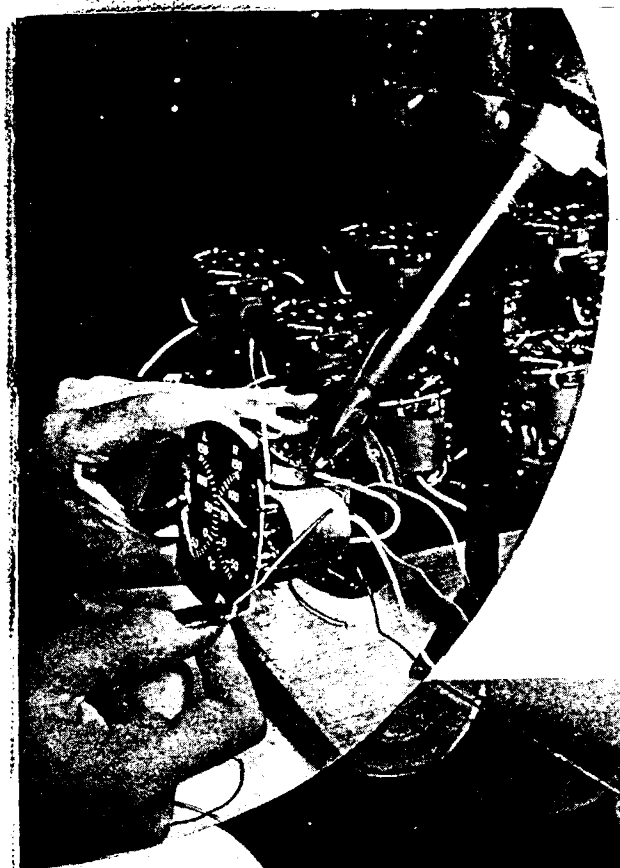
This high multiplication of the number of manufactured items over the years forcefully illustrates one of the management's dominant policies since early days, that of diversification. The practice of exploring new fields of operation and of developing likely products has continued throughout the Company's growth. It is a policy that has been conservatively exercised, however, and with very few exceptions the various lines that have been developed have added substantial profits to the Company's earnings.

It should be interesting to every stockholder of National Lead Company to learn something of the wide range of products the Company now makes and the still broader fields of activity into which these many products go and are used. Therefore, we are devoting the next few pages to a picture story indicating how National Lead Company materials play a large part in the manufacture of many products and why the Company has become an important supplier to many industries.

In addition to finished paints, National Lead Company products in the painting field include pigments such as white lead, well known for its durability; titanium dioxide, noted for its whiteness and hiding power; and calcium carbonate, widely used in mixed-pigment paints. The Company also produces a varied line of oils for paints including raw, boiled and treated linseed oil, lead mixing oil and flatting oil.

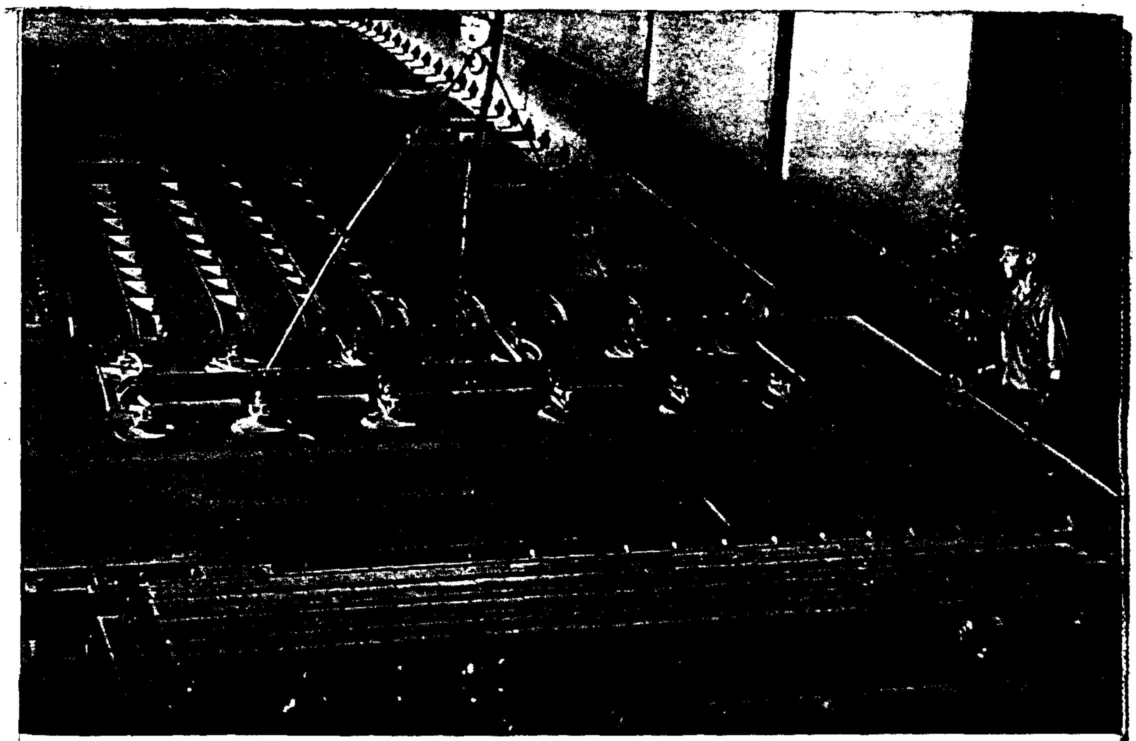
Red lead holds the dominating position in the structural metal painting field. National Lead Company is the largest producer of this outstanding paint pigment, so widely used on bridges, ships, oil, gas and water tanks, and other structures. Applied directly to iron and steel, red lead paint forms a water-resistant, protective coating that prevents rusting. White lead paint also has wide application on structural metal where it is used as a decorative outer-coating.





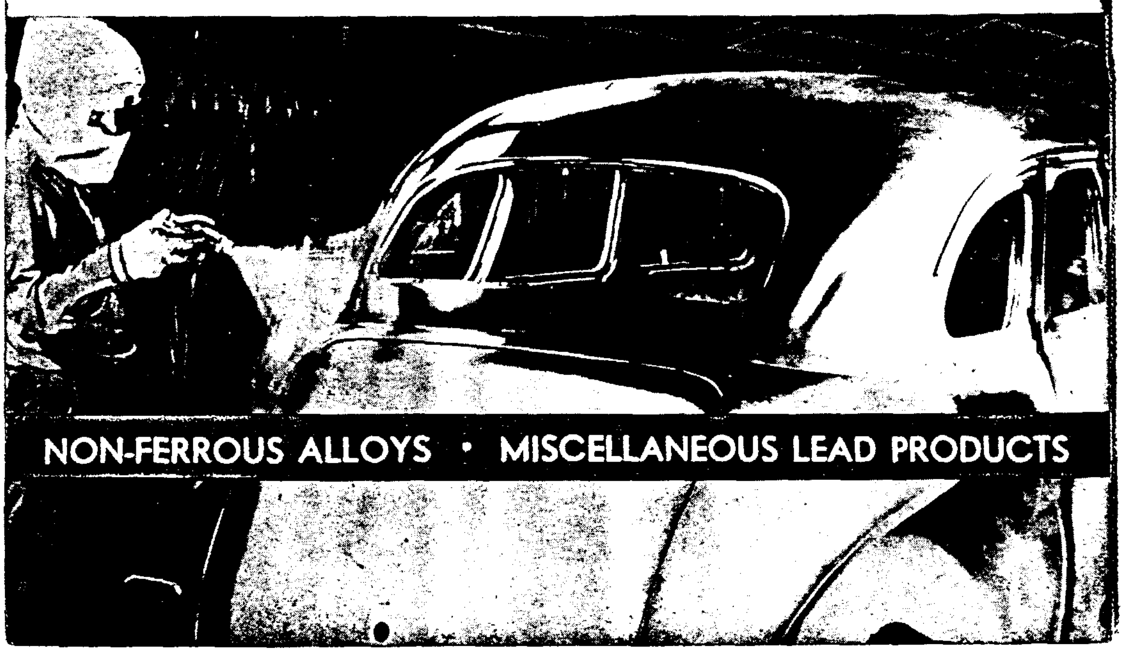
Recognized as the leading producer of solder, National Lead Company markets brands that are known and used by many industries and craftsmen. For example, manufacturers of electrical equipment, auto radiators and tin cans are large consumers of solder, while tinsmiths, plumbers and electrical repairmen also use a large volume of National Lead products. The Company makes all of the conventional types of solder, as well as flux-core and other special types.

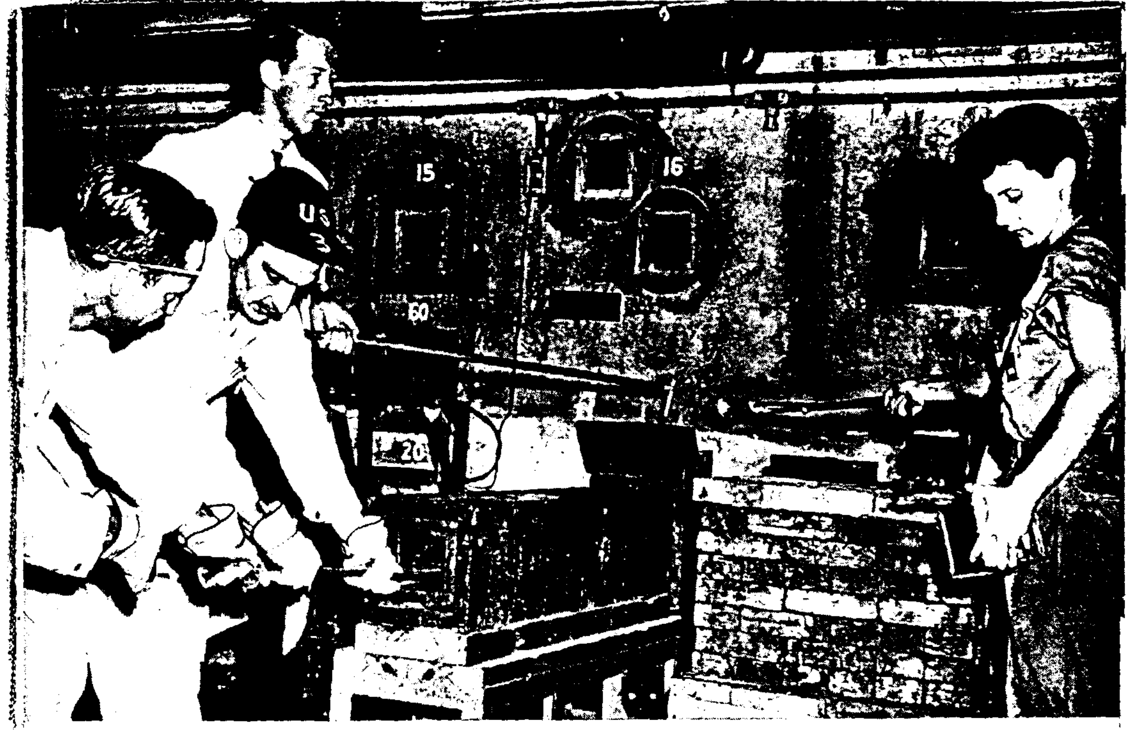
Unquestionably, this nation's business economy would stagger to a faltering halt without the products of the paper-making industry. Manufacturers of fine paper, in turn, are highly dependent upon titanium pigment, a National Lead Company product that adds opacity and whiteness to many different types of better quality paper. In addition, the Company's Magnus Metal Division makes both bronze and chrome nickel steel screen plates used by paper manufacturers to filter the paper pulp.



National Lead Company products answer the needs of another important industry — glass manufacturing. In making window glass, for example, barium sulfate is used as a flux. Other products, including litharge, red lead and titanium pigments, are used in making cut glass and optical glass to increase the refractive power of the glass. In addition, the artisans of stained glass windows use carefully formed decorative pieces of lead called "cames" to join the glass segments together and form part of the design.

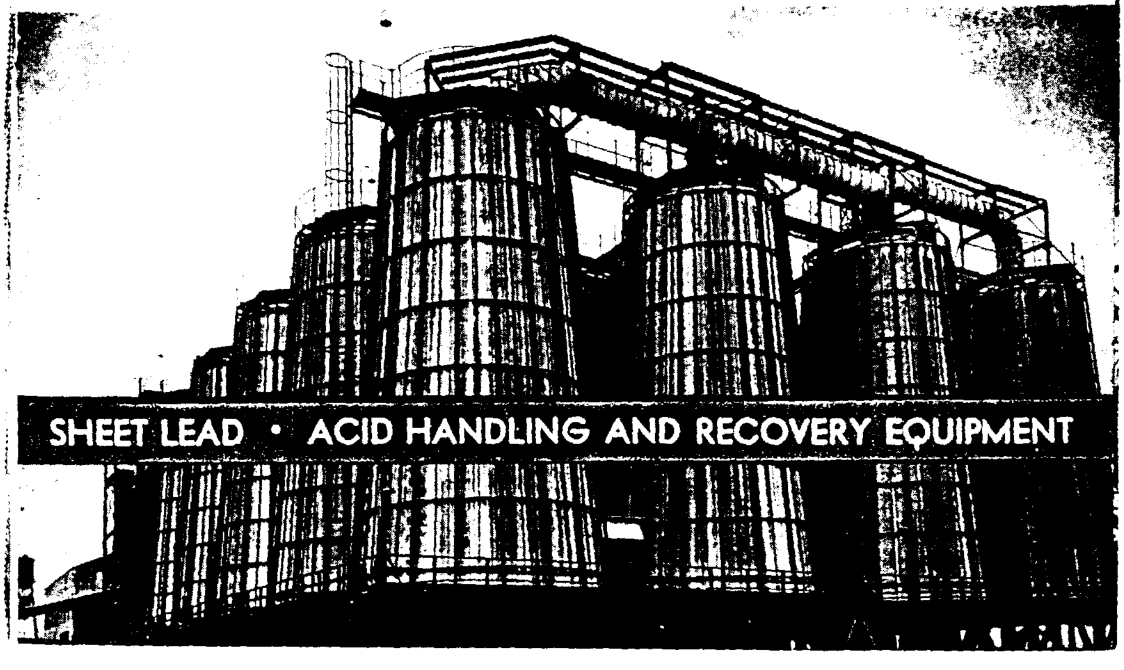
The spray painting of many products is now an integral part of mass production. This is of direct interest since National Lead Company supplies both elements necessary for the top-quality industrial paints and enamels used in spray work — high-hiding titanium pigments and special quick-drying oils. The latter are a development of the Baker Castor Oil Company, an affiliate of the Company.



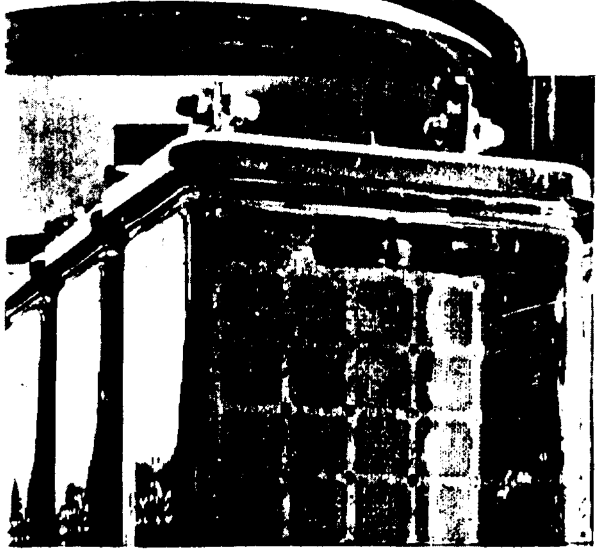


The accompanying picture shows several workers at the atomic bomb plant in Oak Ridge, Tenn. A National Lead Company product — sheet lead — is on guard to prevent radio-activity from injuring nearby workers. Not so dramatic, but just as important, is the use of this same protective material in X-ray rooms. These are frequently lined with sheet lead to guard working personnel from harmful rays.

National Lead Company has long been recognized as a leading manufacturer of acid-handling and recovery equipment. A list of the Company's products in this field includes chemical sheet lead and pipe, lead and lead-lined valves and fittings, homogeneous lead-lined and lead-covered acid equipment, acid pumps and special tellurium lead sheet and pipe. In fact, the Company even maintains a special department for designing and erecting complete acid recovery plants.



Some of National Lead Company's products play an important part in the rubber industry. For example, red lead is used in synthetic rubber manufacture to impart heat resistance to the rubber, as well as to make it retain its elasticity better. The Company also supplies titanium pigments to rubber manufacturers for use in whitening and brightening such rubber goods as bathing suits and caps, sheeting and white wall tires.



National Lead Company products are known throughout the plumbing industry. The foremost manufacturer of lead pipe and many types of lead fittings used in the trade, the Company also supplies a large percentage of the wiping solder used to join these pipes and fittings together. The above photo shows a craftsman joining a valve to a section of lead pipe.

A storage battery is largely lead. First, there are the lead oxides (red lead and litharge), the activating elements in a battery. Then, there are the lead grids or plates which hold the oxides. Finally, there are the lead posts and connecting straps. Storage battery oxides and metal for plates and other battery parts are major National Lead Company products. The importance of these products is illustrated by the wide reliance on storage batteries for electrical power, such as in automo-

Whether it's your daily newspaper or a best-seller novel rolling off the presses, you can be fairly certain that National Lead Company products are involved somewhere along the line. For example, the Company is a major source of supply for the various metals from which type is cast, for the lead used as backing on printing plates, and for impression lead sheets used in duplicating engravings. A specialty product is the Blatchford plate mounting system, which insures accurate printing on jobs where fine registry is required. Even sheet music is printed through the use of special lead sheets.

From Casey Jones up in the cab to the flagman at the rear, the entire train crew depends on a number of National Lead Company products for smooth transportation. The diesel engines which power many of the country's "name" trains are equipped with main bearings made by the American Bearing Corporation, a Company unit. And thousands of freight and passenger cars are rolling on journal bearings made by the Magnus Metal Division.

The petroleum industry is another field in which National Lead Company products play an important part. In the drilling of an oil well, for example, it is necessary to lubricate the cutting head, support the walls of the well and carry off unwanted rock particles. The minerals and chemicals produced by the Company's Baroid Division, known as "drilling mud" materials, completely fill this need. Then, too, various lead and lead-lined products — pipes, valves, tanks — are used in oil refining to handle highly corrosive acids, while red lead in paint preserves the structural metal used so extensively in

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AMERICAN LEAD CORPORATION, Indianapolis
C. HAAN, Manager — Smelters of Secondary Metals

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R. M. EVANS, President — Distributors of Lead Oxides

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SOCIETE INDUSTRIELLE DU TITANE, Paris, France
BRITISH TITAN PRODUCTS CO., LTD., London, England
Manufacturers and *Distributors of Titanium Oxide Pigments*

TITANIUM PIGMENT CORPORATION, New York
C. F. GARESCHE, President — Distributors of Titanium Oxide Pigments

PRODUCTS MANUFACTURED BY NATIONAL LEAD COMPANY AND AFFILIATED COMPANIES

PAINT MATERIALS

White Lead, Dry and in Oil	Red Lead, Dry and in Oil
Colors, Dry and in Oil	Linseed Oil—Raw, Boiled, Refined, Varnishmakers'
Flatting and Lead Mixing Oils	Titanium Pigments
Wall Primer	
Liquid Drier	

TITANIUM PIGMENTS

Titanium Dioxide (Rutile)	Titanium Barium Pigments
Titanium Dioxide (Anatase)	Titanium Calcium Pigments

Titanium Pigments are used to add opacity to, whiten or brighten, Paints, Inks, Paper, Rubber, Linoleum and Floor Coverings, to deluster Rayon, and in Welding Rod Coatings as an arc stabilizer.

ARCHITECTURAL MATERIALS

Lead Pipe	Sheet Lead
Glaziers' Lead	Lead Sash Weights
Solder	Lead Traps and Bends
Antimonial Lead Products	Cinch Expansion Bolts

ACID MANUFACTURING EQUIPMENT

Acid Pumps	Acid Concentrators
Antimonial Lead Lined Valves	Antimonial Lead Lined Fittings
Hard Lead Valves	Chemical Lead Pipe
Antimonial Sheet Lead and Pipe	Chemical Sheet Lead
Tin Lined Valves and Fittings	Special Tellurium Lead Lined Fittings

PRINTERS' METALS

Linotype Metal	Stereotype Metal
Monotype Metal	Electrotype Metal
Impression Lead	*Blatchford Sectional Base*

BEARING METALS

Babbitt Metals	Pressure Die Castings
Precision Bearings	Satco Metal

LEAD OXIDES

Red Lead	Rubbermakers' Oxides
Litharge	Varnishmakers' Oxides
Orange Mineral	Enamelmakers' Oxides
Glassmakers' Oxides	Potters' Oxides
Colormakers' Oxides	Storage Battery Oxides

MISCELLANEOUS METAL PRODUCTS

Kirksite "A" Die Metal	Tin Lined Pipe
Bar Lead	Lead Wool
Special Tellurium Lead Products and Castings	Lead Wire
Block Tin Pipe	Pewter and Britannia Metal
	Tellurium Sheet Lead and Pipe

GENERAL PRODUCTS

Brown Sugar of Lead	Castor Oil
White Sugar of Lead	Copper Sulphate
Copperas—Iron Sulphate	Sodium Sulphide
Zinc Sulphate	Oil Well Drilling Mud Products
Zinc Chloride	Pyrites Iron Cinder
Magnetite—Iron Ore	Antimony
Magnetite Sinter	Antimony Oxides
Linseed Oil Cake and Meal	