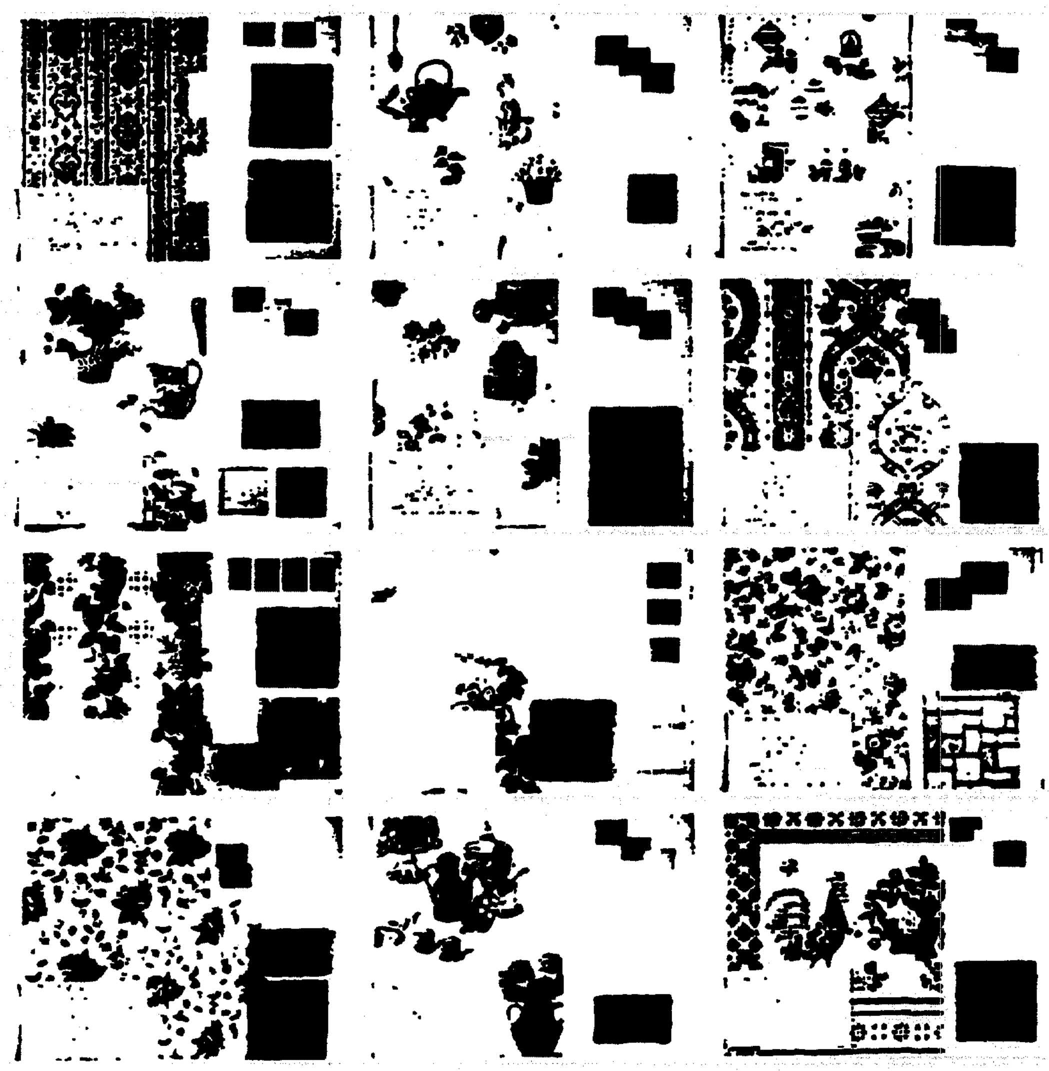
SW/NYC 7 SWP 35091-35322 Annual Reports

Sherwin-Williams Report to Shareholders

1973



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Annual Meeting

The annual meeting of Shareholders will be held at 10:00 A.M., December 19, 1973, at the Sheraton-Cleveland Hotel, Public Square, Cleveland, Ohio.

On The Cover:

A reproduction of part of a microfiche used in the exciting new decorating tool, Color Harmony Guide III, described on page 20.

Transfer Agents

The Cleveland Trust Company
Cleveland, Ohio

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

Registrars

The Cleveland Trust Company
Cleveland, Ohio

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

Trustees

5.45% Debentures Due 1992
The Cleveland Trust Company
Cleveland, Ohio

6.25% Convertible Subordinated Debentures Due 1995
Central National Bank of Cleveland
Cleveland, Ohio

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Financial Highlights

	Thousands of Dollars	
	August 31	
	1973	1972
Net sales	$704,729	$658,285
Income before income taxes and extraordinary charge	43,889	38,745
Income taxes	19,387	18,248
Income before extraordinary charge (Includes loss from discontinued segments of chemical operations of $1,224 in 1972)	24,502	20,497
Extraordinary charge—provision for losses on disposition of certain chemical facilities resulting from discontinuance of operations, net of income tax of $2,240 in 1972	-0-	2,260
Net income	24,502	18,237
Cash dividends declared:		
Preferred	1,102	1,107
Common	10,736	10,659
Per common share:		
Income before extraordinary charge	4.36	3.63
Extraordinary charge	-0-	.42
Net income	4.36	3.21
Dividends paid	2.00	2.00
Working capital	216,849	208,256
Ratio of current assets to current liabilities	3.94 to 1	4.05 to 1
Capital expenditures	16,042	17,354
Provision for depreciation	12,869	12,519

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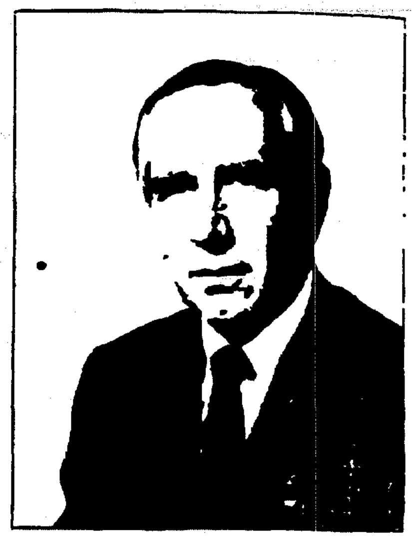
Letter To Shareholders



Chairman E. C. Baldwin

In the concluding paragraph of our letter to the shareholders last year, we commented on the international and domestic political and economic uncertainties facing us in fiscal 1973. Developments during the year certainly confirmed our expectations. We started the year under Phase II, passed through Phase III, and are now enmeshed in Phase IV. By the end of the first six months raw material prices began to rise sharply and a few shortages began to occur in the third and fourth quarters. Credit began to tighten and money rates rose sharply with the prime rate reaching 10% by year end. Added to all of these factors was one of the wettest springs in our history which does tend to depress outside paint sales.

In spite of all these shifting external factors, The Sherwin-Williams Company's efforts for the year produced a new record high in both sales and profits. Our sales increased to $704,729,000, a 7.1% increase over last year, which produced an after-tax profit of $24,502,000. This represented a 34.4% increase over last year's net profit which was depressed by an extraordinary after-tax charge of $2,260,000, resulting from closing down some chemical operations. This year's profit also represents a 19.5% increase over last year's $20,497,000 before extraordinary charges. After providing for preferred dividends, this results in $4.36 per common share, compared to $3.21 last year after extraordinary charges equivalent to $0.42 per share.

Attesting to the strength of our new management organization structure and a much stronger marketing thrust, our sales have increased in the past two years by $113,760,000 or 19.3%. This has been accompanied by a net profit increase of $9,161,000 or 59.7%.

A major portion of this annual report highlights our various marketing approaches and emphasizes our basic strategy of mobilizing Sherwin-Williams skills and resources to satisfy customer needs. It is important to note in this context that our Coatings Group is rapidly changing from a manufacturer that operates stores to a merchandiser that produces many of its own products. This is complemented by our Auxiliaries Group, Chemicals Group, and Sprayon, all of which have a substantial majority of their sales to outside customers rather than primarily to the Coatings operation.

Our Coatings Group completed a record year with sales of $511,048,000, a 6.5% increase over last year. This resulted in a pre-tax profit of $31,042,000, equal to a 7.5% gain over last year. While all parts of the business contributed to this sales gain, we are particularly gratified by the retail sales increase in our branch stores of 10.5%. Our "More Than A Paint Store" theme is working, and sales of non-paint items of these stores reached $121,000,000 this past year, with wall covering and carpeting sales alone totalling almost $60,000,000. Over the last five years, sales of non-paint items in our branch stores have increased over $70,000,000. As featured later in this report, we have brought out our Color Harmony Guide III, a product of advanced technology, to bring authoritative, reliable, interior decorating assistance to the average homeowner. This will be available in every branch store along with all of the products necessary to do the complete decorating job.

Increased sales of related items have not been at the expense of paint sales as evidenced by a new production record in our plants and a new sales record of paint products. Our paint plants are operating at near capacity and two new high volume plants are now in the planning stage.

Our Chemicals operations made a substantial turn-a-round during the year. Operations which were continued following the 1972 shutdown of certain facilities, reported a pre-tax profit of $1,495,000, as compared to a loss of $1,209,000 last year, an improvement of $2,704,000. Four new operations started up during the current year showed a loss of $2,661,000 of which fully absorbed start-up costs amounted to $2,534,000. In total, Chemicals operations show a pre-tax loss of $1,166,000, an improvement of $2,396,000 over last year. The entire group operated at a profit in the second half of the year and should be solidly in the black for fiscal year 1974.

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President W. O. Spencer

Our Auxiliaries operations suffered from rapidly rising costs that we were not able to offset completely by increased productivity or recover by price increases under the stabilization regulations. Therefore, in spite of a sales increase of 17.7% to $70,695,000, the before-tax profit amounted to $9,844,000 for a modest improvement of 3.1%. A bright spot was the 55.7% increase in production at our Elgin Container plant. It is expected that all of these operations will continue their upward climb in profitability in the coming fiscal year.

Although continuing a high rate of expenditure for expansion and staff development, our International Operations was able to increase pre-tax profits to $1,650,000, as compared to $1,094,000 in 1972, an increase of $556,000, or 50.8%. Our new plant in the West Indies will open about the middle of fiscal 1974 and our joint marketing venture in Belgium is in being. We are continuing to open new branch stores in Holland and Belgium and adding to our chain of very successful stores in Mexico. Active discussions for new joint ventures are going on in several parts of the world as we continue to expand our international base.

Our Sprayon subsidiary continued to move rapidly ahead with a new sales record of $18,428,000. Again, a new before-tax profit record of $2,037,000 was set. We are looking forward to another excellent year at Sprayon with their new high speed line at Bedford Heights, Ohio, and the expanded facilities at Anaheim, California.

The Sherwin-Williams Company of Canada, Ltd. showed a sales increase of 4.1% to $42,647,000 and a modest increase in local net profit. However, due to an adverse change in the currency exchange rate, the parent company's share of profit after conversion was less than last year. We are inaugurating a long range planning process in Canada, combined with a more vigorous branch store expansion program to bring about faster sales growth.

Capital expenditures during the year were $16,042,000, compared to last year's $17,354,000. During the coming year capital expenditures will increase by about 25% as we accelerate our branch store renovation, relocation, and expansion program, and as we progress on plans for new paint plant expansions.

In July 1973, we purchased Hadley Adhesives in St. Louis and it is now operated as a wholly-owned subsidiary. This is a small company with good technology and a new plant located in Fulton, Kentucky. Their technology and products fit well into our product line and marketing channels. As manufacturing and fastening technologies change, a high rate of growth in adhesives is projected over the next decade. The Hadley figures are reported as part of the Auxiliary Group totals. As a result of one-time charges connected with the acquisition, a small loss was reported for the two-month period.

Our employees number 21,646 compared to 21,908 last year. We continue to work hard on our Affirmative Action Program to assure equal opportunities for all people. Again, we can point to a year of progress in this important area, but do realize that there is still much to be done.

These 21,646 employees and our millions of customers are the real heart of our business. We owe them all a debt of gratitude for a good year and look forward to serving them even better in the coming year.

E. Colin Baldwin

Chairman of the Board

W. O. Spencer

President

Cleveland, Ohio
October 18, 1973

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Financial Review

The following table presents sales and pre-tax income for each of the operating groups for the fiscal years 1973 and 1972, and the changes that occurred in 1973 as compared to 1972. The income figures have been computed after full absorption by each of the units of all direct and indirect costs and allocation to those units of all corporate costs including interest, pension and general administrative expenses. Since all costs have been fully reflected in the operations of each unit, the total of the income figures agrees with the income before income taxes and extraordinary charge reported in the Statements of Consolidated Income.

	1973		(Thousands of Dollars)		1972				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	$511,048	72.5%	$31,042	70.7%	$479,883	72.9%	$28,876	74.5%	$31,165	$2,166
Auxiliaries	70,695	10.0%	9,844	22.4%	60,057	9.1%	9,548	24.7%	10,638	296
Chemicals: (1)										
New Operations	2,093	.3%	-2,661	-6.0%	—	—	—	—	2,093	-2,661
Continued Operations	45,808	6.5%	1,495	3.4%	38,412	5.8%	-1,309	-3.1%	7,396	2,704
Discontinued Operations	—	—	—	—	9,760	1.5%	-2,353	-6.1%	-9,760	2,353
Total Chemicals	47,901	6.8%	-1,166	-2.6%	48,172	7.3%	-3,562	-9.2%	-271	2,396
Sherwin-Williams Canada	42,647	6.1%	482	1.1%	40,969	6.2%	897	2.3%	1,678	-415
Sprayon	18,428	2.6%	2,037	4.6%	16,923	2.6%	1,892	4.9%	1,505	145
International	14,010	2.0%	1,650	3.8%	12,281	1.9%	1,094	2.8%	1,729	556
Total	$704,729	100.0%	$43,889	100.0%	$658,285	100.0%	$38,745	100.0%	$46,444	$5,144

(1) Several Chemicals Group activities were discontinued in fiscal 1972 and four new operations were started in 1973. The effect of these decisions on operating results is indicated by setting forth separately sales and pre-tax income as related to New, Continued and Discontinued Operations.

Sales

Consolidated net sales in fiscal 1973 amounted to $704,729,000 compared to $658,285,000 in 1972. This is a record high and represents a 7.1% increase over the prior year.

Income

Consolidated net income totalled $24,502,000 or $4.36 per common share after providing for preferred dividends. These results compare to fiscal 1972 net income of $18,237,000 or $3.21 per common share after an extraordinary charge of 42¢ per share incurred in disposing of certain discontinued facilities. Net income before the extraordinary charge was $20,497,000 or $3.63 per common share. Income before extraordinary charge for fiscal 1972 included a loss from discontinued operations in the Chemicals Group of $1,224,000 or 23¢ per common share. Therefore, continued operations generated earnings of $3.86 per common share in 1972 before the extraordinary charge.

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 1973 after-tax income was an addition of approximately 2¢ per common share compared to an addition of approximately 8¢ per common share in 1972. 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 1972, the parent

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company's share of the Canadian company's pre-tax income of $897,000 as reported in the table, included approximately $271,000 due to a favorable exchange rate. In fiscal 1973, 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 $173,000 to the figure of $482,000 shown in the table.

Taxes

The provision for U. S. and foreign income taxes for fiscal 1973 amounts to $19,387,000. Taxes other than Federal continued to rise. In grand total, these amounted to $19,034,000, up from $17,522,000 in 1972.

Dividends

Total dividends of $11,838,000 were declared in fiscal 1973. Dividends on common stock amounted to $10,736,000 and dividends on preferred stock amounted to $1,102,000. Common stock cash dividends for fiscal 1973 were at the annual rate of $2.00 per share. The Company has paid cash dividends in every year since 1885.

Capital Expenditures

Expenditures during fiscal 1973 for property, plant and equipment amounted to $16,042,000, compared with $17,354,000 in 1972. The budget for the 1974 fiscal year provides for an increase in expenditures to a level of just over $20,000,000. Depreciation in 1973 was $12,869,000 compared to $12,519,000 in 1972.

Chemicals — New Operations

The pre-tax loss shown in the table for new operations includes a full absorption of start-up costs in the amount of $2,534,000. The largest of the four operations, a facility at Chicago manufacturing isophthalonitrile, went out of start-up on May 1, 1973 and is on target in terms of volume, quality and earnings contribution.

General Financial Condition

Working capital at August 31, 1973 amounted to $216,849,000, up from $208,256,000 in 1972. The ratio of current assets to current liabilities was 3.94 to 1.

Accounts receivable increased somewhat more than normal, partially due to heavy volume during the late weeks of the fiscal year. Credit losses continued to be well within a normal and acceptable range.

Total inventories increased modestly. The percentage of increase was very much less than the increase in sales and, therefore, considered to be satisfactory. Despite the shortage of many basic raw materials, generally adequate inventory levels have been maintained. However, prices of many raw material items have increased rapidly and substantially.

During the year, $4,465,000 principal amount of the Company's 5.45% Debentures Due 1992 were repurchased by the Company, bringing total repurchases to $8,230,000 principal amount. In April 1973, $2,000,000 in principal amount of these bonds were used to meet the first annual sinking fund payment. At August 31, 1973, $6,230,000 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.

Our projections indicate no need for additional financing during fiscal 1974 except for seasonal borrowings.

Pension Plans

Substantially all employees of the Company and its domestic subsidiaries participate in non-contributory pension plans. The Company's pension expense for fiscal 1973 was $6,937,000, compared to $6,620,000 in 1972. All such expense has been allocated to cost of sales and selling, general and administrative accounts to reflect more properly true operating costs.

Employees Stock Purchase and Savings Plan

Slightly under 6,800 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. The Company in turn, contributed to the fund an amount equal to 25% of the employees' contributions and all such contributions were invested in the Company's Common Stock.

At August 31, 1973, 341,000 shares of Common Stock, representing approximately 6.4% of the total number of shares outstanding, were held in this employee fund.

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Statements of Consolidated Income

	Thousands of Dollars Year Ended August 31	
	1973	1972
Net sales	$704,729	$658,285
Other income—net	2,109	1,444
	706,838	659,729
Costs and expenses:		
Cost of products sold	451,275	418,492
Selling, general and administrative expenses	205,250	196,254
Interest	6,424	6,238
	662,949	620,984
Income Before Income Taxes and Extraordinary Charge	43,889	38,745
Income taxes		
Payable currently	16,126	15,750
Deferred	3,261	2,498
	19,387	18,248
Income Before Extraordinary Charge (Includes loss from discontinued segments of chemical operations of $1,224 in 1972)	24,502	20,497
Extraordinary charge—provision for losses on disposition of certain chemical facilities resulting from discontinuance of operations, net of income tax of $2,240 in 1972	-0-	2,260
Net Income	$ 24,502	$ 18,237
Per Share of Common Stock		
Assuming no dilution:		
Income before extraordinary charge	$ 4.36	$ 3.63
Extraordinary charge	-0-	.42
Net income	$ 4.36	$ 3.21
Assuming full dilution:		
Income before extraordinary charge	$ 3.87	$ 3.26
Extraordinary charge	-0-	.34
Net income	$ 3.87	$ 2.92

See notes to consolidated financial statements.

Statements of Changes in Consolidated Financial Position

	Thousands of Dollars	
	Year Ended August 31	
	1973	1972
Source of Funds		
From operations:		
Income before extraordinary charge	$ 24,502	$ 20,497
Add back charges to operations not requiring funds:		
Provision for depreciation	12,869	12,519
Increase in noncurrent deferred income taxes	2,335	1,782
Funds Provided From Operations Exclusive of Extraordinary Charge	39,706	34,798
Extraordinary charge	-0-	(2,260)
Add back components not requiring funds	-0-	4,636
Funds Provided From Operations	39,706	37,174
Proceeds from sale of stock under stock option plan	1,218	957
	$ 40,924	$ 38,131
Application of Funds		
Cash dividends	$ 11,838	$ 11,766
Additions to property, plant and equipment, net of normal retirements	15,669	16,178
Purchase of 5.45% debentures	4,465	2,462
Increase in working capital	8,593	6,733
Other—net	359	992
	$ 40,924	$ 38,131
Changes in Working Capital—Increase (Decrease)		
Cash and short-term investments	$ (2,342)	$ 719
Trade accounts receivable	11,071	11,173
Inventories	5,907	3,137
Short-term borrowings	(3,162)	(497)
Trade accounts payable	(2,059)	(5,861)
Compensation and amounts withheld	(1,799)	(2,541)
Pension, interest and other accruals	5,027	(2,027)
Income taxes	(2,710)	3,312
Other—net	(1,340)	(682)
Increase In Working Capital	$ 8,593	$ 6,733

See notes to consolidated financial statements.

Statements of Consolidated Shareholders' Equity

	Serial Preferred Stock	Common Stock	Other Capital	Retained Earnings	Common Stock in Treasury
	Thousands of Dollars				
Balance at September 1, 1971	$ 9,198	$ 33,387	$ 1,609	$198,176	$(690)
Common stock issued:					
22,388 shares upon exercise of stock options and 2,164 shares upon conversion of 1,255 shares of Series A preferred stock	(44)	153	848	—	—
Subsidiary's repurchase of its preferred shares	—	—	1,049	(935)	—
Net income	—	—	—	18,237	—
Cash dividends declared:					
Series A preferred stock—$4.00 per share	—	—	—	(293)	—
Series B preferred stock—$4.40 per share	—	—	—	(814)	—
Common—$2.00 per share	—	—	—	(10,659)	—
Balance at August 31, 1972	9,154	33,540	3,506	203,712	(690)
Common stock issued:					
28,276 shares upon exercise of stock options and 93 and 992 shares upon conversion of 54 and 620 shares of Series A and Series B preferred stock, respectively	(24)	184	1,058	—	—
Subsidiary's repurchase of its preferred shares	—	—	39	(34)	—
Net income	—	—	—	24,502	—
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	—	—	—	(10,736)	—
Balance at August 31, 1973	$ 9,130	$ 33,724	$ 4,603	$216,342	$(690)

See notes to consolidated financial statements.

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Consolidated Balance Sheets

	Thousands of Dollars	
	August 31	
Assets	1973	1972
Current Assets		
Cash	$ 12,671	$ 13,875
Short-term investments	4,101	5,239
Trade accounts receivable, less allowances ($1,637 in 1973; $1,590 in 1972)	99,408	88,337
Inventories:		
Finished products	113,811	113,768
Work in process and raw materials	53,011	47,147
	166,822	160,915
Prepaid expenses	6,695	6,468
Deferred income taxes	809	1,753
Total Current Assets	290,506	276,587
Other Assets		
Receivables, advances and other assets	4,737	4,473
Cost in excess of net assets of businesses acquired	2,324	2,324
	7,061	6,797
Property, Plant and Equipment		
Land	6,004	5,981
Buildings	80,631	78,908
Machinery and equipment	173,312	162,425
	259,947	247,314
Less allowances for depreciation	115,900	106,067
	144,047	141,247
	$441,614	$424,631
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings	$ 6,604	$ 3,442
Trade accounts payable	25,779	23,720
Compensation and amounts withheld	18,985	17,186
Pension, interest and other accruals	10,811	15,838
Taxes, other than income taxes	5,359	4,736
Income taxes	6,119	3,409
Total Current Liabilities	73,657	68,331
Long-Term Debt		
5.45% Debentures (exclusive of $6,230 in treasury in 1973; $3,765 in 1972)	41,770	46,235
6.25% Convertible Subordinated Debentures	40,000	40,000
	81,770	86,235
Deferred Income Taxes	11,103	8,768
Reserves—for pensions and other items	6,376	6,507
Minority Interest in Subsidiaries	5,599	5,568
Shareholders' Equity		
Capital stock:		
Serial preferred—without par value	9,130	9,154
Common—$6.25 par value	33,724	33,540
Other capital	4,603	3,506
Retained earnings	216,342	203,712
	263,799	249,912
Less cost of common stock in treasury	690	690
	263,109	249,222
	$441,614	$424,631

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Years Ended August 31, 1973 and 1972

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include all significant subsidiaries and intercompany transactions have been eliminated. Appropriate rates of exchange have been used to translate foreign currency amounts into United States dollars and the gains of $125,000 in 1973 and $441,000 in 1972 are included in other income in the statements of consolidated income.

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, 1973, such undistributed earnings amounted to approximately $13,544,000.

Investment tax credits (accounted for by the flow-through method) aggregated $869,000 in 1973 and $598,000 in 1972.

Property, Plant and Equipment

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

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

Short-Term Investments

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

Cost in Excess of Net Assets of Businesses Acquired

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

Research and development costs are charged to operations as incurred.

NOTE B—LONG-TERM DEBT

The 5.45% Debentures Due 1992 and the 6.25% Convertible Subordinated Debentures Due 1995 are redeemable in whole or in part at the option of the Company at the rates of 103.50% and 105.31%, respectively, and at declining rates to 100% in 1987 and 1990, respectively. The related indentures require annual sinking fund payments of $2,000,000 for each of the issues. The 1973 requirement of $2,000,000 on the 5.45% Debentures was satisfied from debentures held in treasury, and the Company intends to make the 1974 payment in the same manner. Annual sinking fund payments will commence in 1981 for the 6.25% Debentures. These Debentures are convertible into Common Stock at $46 a share subject to adjustment in certain events.

NOTE C—CAPITAL STOCK

Authorized and issued shares of the various classes of stock at August 31, 1973 and 1972:

	Authorized Shares	Issued Shares 1973	Issued Shares 1972
Serial Preferred Stock:	1,500,000		
$4.00 Cumulative Convertible Preferred Stock, Series A		72,697	72,751
$4.40 Cumulative Convertible Preferred Stock, Series B		184,293	184,913
Common Stock (including 22,500 shares held in treasury in 1973 and 1972) . .	15,000,000	5,395,780	5,366,419

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 1974 at $103.50 per share and declining annually to $100 per share in 1980 and thereafter, and the Series B preferred stock at $106.00 until December 1973 and at declining amounts to $100 in 1981 and thereafter. The aggregate preference of the Serial Preferred Stock in involuntary liquidation for 1973 and 1972 is $25,699,000 and $25,766,400, respectively.

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At August 31, 1973 and 1972, an aggregate of 1,576,971 shares and 1,611,422 shares, respectively, were reserved for conversion of Serial Preferred Stock, Convertible Subordinated Debentures and exercise of stock options.

NOTE D—NET INCOME PER COMMON SHARE

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.

Net income per common share assuming full dilution also assumes the conversion of Series A and B preferred stock and the 6.25% Convertible Subordinated Debentures (after adding to net income interest on the debentures net of income taxes) and the exercise of stock options (with proceeds from options used to purchase Common Stock of the Company).

NOTE E—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 policy is to accrue pension fund contributions, representing normal cost and amortization of unfunded prior service cost over 30 years. Pension expense was $6,937,000 in 1973 and $6,620,000 in 1972. For three of the plans in 1973, 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 $2,900,000. For the other plans, vested benefits are fully funded.

NOTE F—LEASES

Branches, offices and certain warehouses and plants are leased for various periods. The rental expense of leased premises for the year ended August 31, 1973 was approximately $19,500,000. Approximately 85% of these rentals relate to leases expiring in five years or less.

NOTE G—STOCK OPTIONS

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

No options were granted in 1973 or in 1972. During 1973, options for 28,276 shares (22,388 in 1972) were exercised at an aggregate price of $1,217,784 ($957,337 in 1972) and options for 12,180 shares (3,337 in 1972) were canceled. At August 31, 1973, options for 183,176 shares (223,632 in 1972) were outstanding at an aggregate price of $7,304,729 ($9,044,455 in 1972), options for 83,426 shares (84,392 in 1972) were exercisable, and 96,628 shares (84,448 in 1972) were reserved for future grants.

Accountants' Report

Board of Directors
The Sherwin-Williams Company
Cleveland, Ohio

We have examined the consolidated financial statements of The Sherwin-Williams Company and subsidiaries for the years ended August 31, 1973 and 1972. 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 accompanying balance sheets and statements of income, shareholders' equity, and changes in financial position present fairly the consolidated financial position of The Sherwin-Williams Company and subsidiaries at August 31, 1973 and 1972, and the consolidated results of their operations, changes in shareholders' equity, and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Cleveland, Ohio
October 18, 1973

Ernst & Ernst

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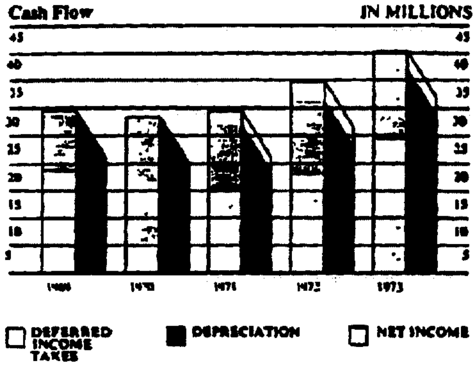
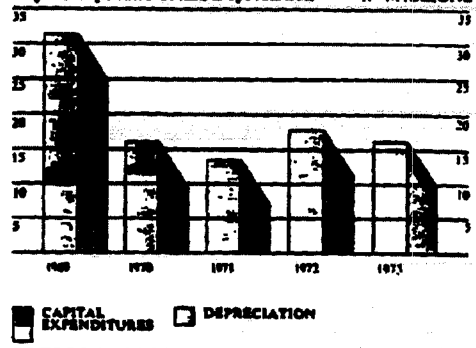
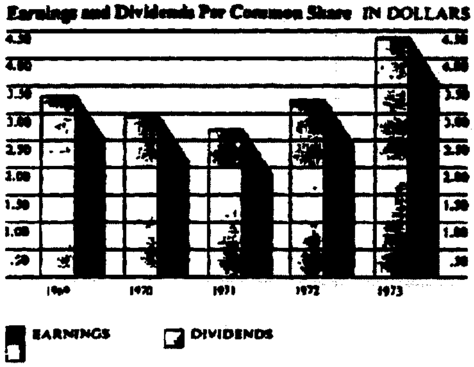
Cash Flow IN MILLIONS



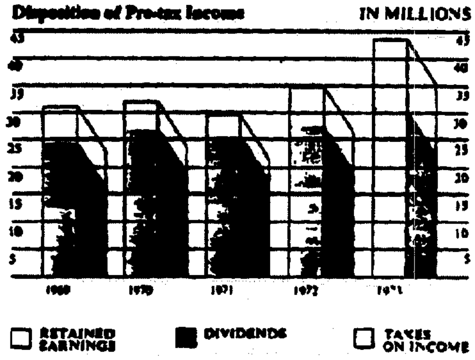
Capital Expenditures and Depreciation IN MILLIONS



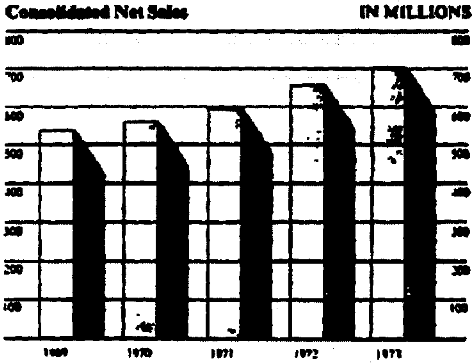
Earnings and Dividends Per Common Share IN DOLLARS



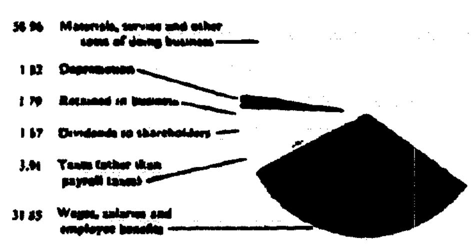
Disposition of Pre-tax Income IN MILLIONS



Consolidated Net Sales IN MILLIONS



Distribution of Total Revenue
YEAR ENDED AUGUST 31, 1973



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Five-Year Comparison

	Thousands of Dollars				
	Year Ended August 31				
	1973	1972	1971	1970	1969
Net sales	$704,729	$658,285	$590,969	$559,924	$534,068
Income before income taxes and extraordinary items	43,889	38,745	29,404	29,541	30,835
Income taxes	19,387	18,248	14,063	14,689	12,150
Income before extraordinary items	24,502	20,497	15,341	14,852	18,685
Extraordinary (charge) credit	-0-	(2,260)	-0-	1,745	-0-
Net income	24,502	18,237	15,341	16,597	18,685
Earnings per share of Common Stock:					
Income before extraordinary items	4.36	3.63	2.68	2.58	3.30
Net income	4.36	3.21	2.68	2.91	3.30
Earnings as percent of sales	3.48%	2.77%	2.60%	2.96%	3.50%
Return on invested capital—Common Stock (A)	10.47%	7.94%	6.72%	7.46%	8.84%
Cash dividends declared:					
Preferred	$ 1,102	$ 1,107	$ 1,110	$ 1,110	$ 1,045
Common	10,736	10,659	10,631	10,657	10,651
Cash dividends per share of Common Stock	2.00	2.00	2.00	2.00	2.00
Number of shareholders:					
Preferred	1,018	1,030	1,027	1,078	1,075
Common (B)	9,852	9,353	9,903	8,996	8,278
Preferred and common shareholders' equity	$263,109	$249,222	$241,680	$237,721	$233,432
Common shareholders' equity	237,410	223,456	215,788	211,828	207,548
Per share	44.23	41.94	40.60	39.75	38.98
Capital expenditures	16,042	17,354	13,278	15,900	31,106
Provision for depreciation	12,869	12,519	12,333	11,061	9,690
Working capital	216,849	208,256	201,523	197,318	180,581
Ratio of current assets to current liabilities	3.94 to 1	4.05 to 1	4.35 to 1	4.22 to 1	4.41 to 1
Total assets	$441,614	$424,631	$411,164	$408,152	$378,921
Number of employees	21,646	21,908	21,480	22,017	21,935

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

(B) In addition to the registered shareholders, there were beneficial shareholders participating in the Company's Stock Purchase and Savings Plan for salaried employees (6,793 in 1973, 6,732 in 1972, 6,802 in 1971, 7,068 in 1970 and 7,220 in 1969).

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Sherwin-Williams in the Market Place

Getting the many and varied products of Sherwin-Williams into the hands of the people who use them is a critical part of your company's business. It is the basic purpose of every other activity — research and development, manufacturing, financial management, administration. Unless this final step is performed efficiently and to the complete satisfaction of the buyer, what has gone before is waste motion.

This marketing function is, ultimately, an interaction between people. And the lines of communication between them must be as direct, open and conducive to confidence as human ingenuity can make them.

Advertising plays an important role by acquainting prospective buyers with what we can do for them. Efficient distribution is another essential ingredient. It is this that

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BUSINESS	PRODUCTS/SERVICES	MARKETS SERVED
COATINGS The Sherwin-Williams Co. Allied Trade Sales Division Martin-Senour Division The Sherwin-Williams Co. of Puerto Rico	Broad line of interior and exterior paints, varnishes, stains and other decorative, protective and special-purpose finishes. Purchases for resale: painting tools and equipment; carpeting and other floor coverings; paper, plastic and fabric wall coverings; drapery fabrics, unfinished furniture and other decorating items. Markets paint products under the Sherwin-Williams, Acme, Lawrence, Lowe, Martin-Senour and Rogers labels.	Retail Market: Wholesale Market: Industrial Market: Automotive Aftermarket:
AUXILIARIES Container Division Deshler Products Division Printing Division Rubberset Division (U. S.) Rubberset Co. (Canada) Ltd. The Osborn Manufacturing Co. The Osborn Manufacturing International Co. Societe Anonyme des Machines Osborn Schmitz und Ludwig GmbH *Joint Venture* Rose-The Osborn Manufacturing GmbH	General line of metal containers; paint rollers and trays, tack rags, color metering devices; printing services; paint brushes and paint spray equipment; power driven industrial brushes, grinding wheels, foundry equipment and supplies, janitorial brushes; vehicular engine components.	Retail Market: Wholesale Market: Industrial Market:

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	DISTRIBUTION CHANNELS
Home-owners and other do-it-yourself customers.	Most of retail market served through company-operated branch stores and leased departments in mass-retailing outlets. This distribution augmented by extensive dealer-organization, multiple-unit retailers and dealer-owned buying groups.
Painting contractors; architects and builders; industrial, commercial, educational and health-care facilities maintenance accounts.	Bulk of wholesale market served by company-operated branch stores; certain segments served by company's specialized sales force and by certain dealers.
Original equipment manufacturers including: manufacturers of wood, plastic and metal building components; producers of furniture, appliances, office equipment; manufacturers of agricultural implements and earth-moving equipment; the automotive field; paper converters; railroad, marine and aircraft operations.	Industrial market served by company's specialized sales organization and by the branch stores.
Automotive refinishers, commercial fleet maintenance accounts.	Automotive aftermarket served by company-operated automotive refinishes service centers and by automotive supply jobbers.
	All distribution in Puerto Rico is through Sucs.de A.Mayol & Co., a wholesale-retail distributing organization that serves the retail market through its own stores and independent dealers. The wholesale market is served through a specialized sales force.
Home-owners and other do-it-yourself customers.	Consumer products reach the ultimate user through Sherwin-Williams branch stores and leased departments, independent dealers and multiple-unit retailers.
Industrial and hardware supply distributors; Sherwin-Williams branch stores, dealers, multiple-unit retailers and dealer-owned buying organizations; painting contractors.	The wholesale market is served by specialized sales organizations for each division and subsidiary.
Contract fillers and packagers; jobbers; manufacturers of paint and allied products, chemicals and chemical specialties, petroleum products, specialty food and personal products; metal cutting, cleaning, polishing, finishing and fabricating industries; foundry industry; European vehicular industry.	Industrial customers purchase from direct representatives of the divisions and subsidiaries and from distributors.

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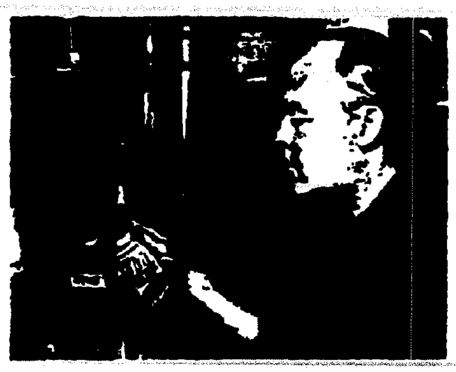
BUSINESS	PRODUCTS/SERVICES	MARKETS SERVED
CHEMICALS Sherwin-Williams Chemicals Division Textile Chemical Division Maumee Flavor and Fragrance Division	Pigments; vehicles and resins; organic and inorganic chemicals; fine chemicals; plastic color concentrates and plastic colorant systems; products for metal fabrication, finishing and protection; custom chemical manufacturing; thermo-curing textile printing and pad-dyeing formulations; extenders, binders and anti-crocking agents; flavor and aroma chemicals, intermediates and pheromones.	Wholesale Market: Industrial Market:
CANADIAN OPERATIONS The Sherwin-Williams Co. of Canada, Ltd. E. Harris Co. Division Winnipeg Paint & Glass Div.	Products and services closely parallel those of the Coatings Group in the United States and include, in addition, building supplies and hardware. Activities are confined to Canada.	Retail Market: Wholesale Market: Industrial Market: Automotive Aftermarket:
AEROSOL PACKAGING Sprayon Products, Inc.	Custom packaging of aerosol products and a line of aerosol-packaged industrial products.	Wholesale Market: Industrial Market:
INTERNATIONAL OPERATIONS Compania Sherwin-Williams, S. A. de C. V. (Mexico) Ralston B. V., (Netherlands) Sherwin-Williams do Brasil S/A Tintas e Vernizes The Sherwin-Williams Co. of Europe, Inc. Sherwin-Williams (Caribbean) N. V. Sherwin-Williams (West Indies), Ltd. *Joint Ventures* The Sherwin-Williams Co. of Belgium Sherwin-Williams de Panamá, S. A. *Licensees in 20 Countries*	Interior and exterior paints, varnishes, stains and other decorative, protective and special-purpose finishes; provides services to licensees, some of whom produce a full line of Sherwin-Williams paint products while others are licensed to produce certain specialized coatings; Export Department supplies countries where no representation exists.	Retail Market: Wholesale Market: Industrial Market:

		DISTRIBUTION CHANNELS
ket:	Agents in 39 countries other than the United States who purchase products for resale to industrial market.	All domestic markets are served by specialized sales organizations within the divisions.
ket:	Paint and printing ink manufacturers; producers of anti-oxidants: plastics, glass and ceramics industries; soft drink, food and pharmaceutical industries; animal feed and agricultural chemicals industries; dyestuff and pigment industries; textile finishing industry; petroleum industry; tobacco processors; rubber industry; photographic and copier chemicals industries; paper industry; metal cutting, cleaning, polishing, finishing and fabricating industries.	
ket:	Home-owners and other do-it-yourself customers.	Retail market served through company-operated branch stores and an extensive dealer organization.
ket:	Paint dealers; painting contractors; architects and builders; industrial, commercial, educational and health-care facilities maintenance accounts.	Company-operated branch stores and a specialized sales organization serve the bulk of this market.
ket:	Original equipment manufacturers of a variety of products.	This market served by company's specialized sales force.
cet:	Automotive refinishers; commercial fleet maintenance accounts; truck body builders.	Specialized automotive sales organization augmented by automotive supply jobbers.
cet:	Producers of paints, cosmetics, marking inks, soaps, lubricants, insecticides, cleaners, polishes, fabric protectors and other aerosol specialties.	A specialized sales organization serves all markets, with some distribution handled through mill supply, bearing and electrical wholesalers.
et:	Broad spectrum of industries with emphasis on the metal-working industry.	
:et:	Home-owners and other do-it-yourself customers.	In countries where company branch stores are operated, notably Mexico, the Netherlands and Belgium, these are a major source of supply for the retail market. In other countries this market is served by dealer organizations.
.et:	Paint dealers; painting contractors; architects and builders; industrial, commercial, educational and health-care facilities maintenance accounts.	The wholesale market is served by company-operated branch stores and by specialized sales organizations.
.et:	Original equipment manufacturers of a variety of products.	The industrial market is served by specialized sales organizations of subsidiaries and licensees.

enables us to have our products where people want to buy them when they want to buy them. Basic to both are quality products that will perform as well or better than customers *expect them to perform. No less essential, in our view, is* fulfillment of the responsibility to inform buyers on the proper way to use our products so results will measure up to expectations.

Your company produces a broad range of products designed to meet a wide variety of needs. This requires that our marketing efforts be equally varied. Overleaf is a tabular summary showing how we channel our marketing energies to serve the many people in many places who are our customers. We believe it will give you an informative overview of our approach to serving them well.



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COLOR HARMONY GUIDE III is a space-age version of the long-popular Color Harmony Guide book offered to customers to help them make satisfying decorative color selections. In place of the familiar printed material, Color Harmony Guide III uses microfiche and a large TV-like screen to show interesting color combinations in a variety of materials.

Each full-fidelity color illustration — and there are more than 1,500 in the Color Harmony Guide III library — identifies the paint color, the wall covering pattern and the carpet color and texture used in the photographic vignette. This makes it easy to locate in-store samples of the materials displayed on the screen, thus saving the customer time in making a final decision.

Color Harmony Guide III was developed in cooperation with Eastman Kodak. It is a unique application of microfilm technology. Only Sherwin-Williams has it. In addition to the in-store viewer shown here, portable viewers are available for in-home showing of the professionally-selected color ideas that are the heart of this intriguing innovation in decorating guidance.

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The Year in Review

Continued emphasis on marketing was a dominant activity during the 1973 fiscal year. It led to the development of programs designed to insure even more direct involvement with the users of our products.

An outstanding example was the transition in our branch store marketing from the "More Than A Paint Store" concept to the "Idea Center" approach. This grew out of the desire, among do-it-yourself customers particularly, for ideas as well as products for their home decorating and improvement projects.

To underscore our position vis-a-vis our customers, we are now going to market with this promise: "Sherwin-Williams Helps You Do It All." The new advertising-merchandising theme bespeaks our determination to give our customers the products, the services and the aid and direction they need to accomplish what they set out to do.

The concept is being applied corporation-wide. Whether the customer purchases products of the Coatings, Auxiliaries or Chemicals Groups, or chooses from the products and services of The Sherwin-Williams Co. of Canada, Ltd., Sprayon Products, Inc. or International Operations, your company is committed to helping the purchaser reap the full benefit of what we offer.

With all segments of the company pursuing such a total concept marketing approach, the corporation is moving more deeply into the strong marketing orientation envisioned a few years ago. It is an orientation geared to meet not only present market demands but also the demands the future will bring.

It is also an orientation we believe is essential to the fulfillment of other corporate objectives: the expectations of shareholders; the aspirations of employees; and our responsibilities to society in general.

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The Coatings Group

Sales of the Coatings Group rose 6.5% in fiscal 1973. Despite the pressure of higher raw material costs, the Group achieved a 7.5% increase in pre-tax earnings. This was accomplished through effective internal cost control and greater productivity. Steps have now been taken, within Phase IV guidelines, to modify the growing imbalance between costs and selling prices and bring the latter more nearly into line with present economic realities.

The planned program to improve branch store effectiveness continued throughout the year. After opening 35 new units and closing or consolidating 95 branches, there were a total of 1,778 in operation. During the year, 73 of these were relocated, and an additional 88 were expanded and remodeled. The average size of stores increased, with the sales area growing more rapidly than total store space. Sales increases led to improved operating margins and stepped-up earnings in the branch organization.

Sustained interest in wall coverings other than paint was a highlight of the considerable increase in sales of interior decorating products moving through the branch stores. Such sales of wall coverings, carpeting, draperies and associated items produced approximately one-quarter of the total volume of Group sales and over one-third of the volume of trade sales branches.

The trend in leased department operations continues to be for retailers to conduct these businesses themselves. As this occurs, the Coatings Group in most cases becomes a supplier of paint products, and the departments formerly leased become dealer outlets. This change in relationship, and stepped-up sales to dealer-owned buying organizations, resulted in an increase in sales to dealers.

A record number of housing starts in fiscal 1973 had a favorable effect on sales to painting contractors. This was reflected not only in sales for new construction but to an even greater extent in sales for redecoration and home improvement. Such sales are generated in chain reaction fashion as new housing units are occupied and people move into newly-vacated older homes.

Industrial maintenance sales continued their steady growth. They were enhanced by the introduction of new products that provide higher corrosion resistance yet meet safety and environmental requirements by being free of heavy metals and containing a minimum of photo-chemically reactive solvents. Greater use of color in industrial plants for safety and esthetic considerations also figured prominently in expanding the use of industrial maintenance products in a broad range of industries.

Architects specified Sherwin-Williams materials more frequently and in greater volume during the year than ever before. This favorable development stemmed directly from the comprehensive program of service to architects begun some time ago.

Finishes for the products of industry were in strong demand throughout the year, and indications are that this trend will continue. Coil coatings, electro-deposition materials and finishes that can be rapidly cured through the use of high energy mechanisms showed particularly good sales gains. Air pollution and energy conservation factors are spurring increased interest in powder coatings, and further expansion of the Pontiac, Illinois, plant is underway.

Sales of automotive refinishes by Sherwin-Williams and the Martin-Senour, Acme, and Rogers divisions again exceeded those of a year ago. At year's end, 53 automotive refinishes service centers were operating, and this number is scheduled to be increased in fiscal 1974.

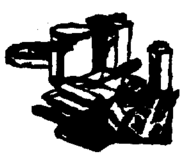
Three external factors had decisive influence on the direction of much of the Coatings Group's research and development effort during the year. These were: (1) raw material shortages; (2) changing and potentially more restrictive air pollution requirements; and (3) the developing energy crisis. These translated into: (1) intensified search for substitute raw materials and reformulation of products to accommodate procurable materials without affecting quality; (2) development of finishes, particularly industrial finishes, whose characteristics will enable customers to meet more stringent pollution regulations; and (3) development of finishes that cure by methods requiring less energy, notably chemical cross-linking and ultraviolet and electron beam curing. Marked progress has been made in all three areas.

The Group's 13 plants broke all previous records for gallons of product during the year. This was achieved through a moderate improvement in productivity and an increase in second and third shift activities. Mutually satisfactory labor relations were maintained at all facilities. Contract negotiations will be conducted at two locations during fiscal 1974.

Capital investment amounted to approximately $6,762,000 during the year. Improvements in marketing facilities claimed a large share. Occupational Safety and Health Act and environmental control requirements were other important investment areas.

In fiscal 1974 advertising and merchandising effort will again be increased. Some of the selling tools backing this expansion, such as the Color Harmony Guide III described on page 20, are now functioning. Coupled with the indicated strength in all markets served by the Coatings Group, this stepped-up advertising and merchandising emphasis should bring further growth during the 1974 fiscal year.

The Auxiliaries Group



Although sales of the Auxiliaries Group climbed 17.7% over the previous year, the pre-tax earnings gain was held to 3.1% due to the adverse effects of price controls and cost increases.

The metal container division had a sales gain of 18.1% and accounted for 57.1% of total Group sales. About 70% of the division's shipments were to outside customers, the balance going to the Coatings Group and the Sprayon Products, Inc. subsidiary. Although performance of all four container plants continued to improve, the division was frequently hard-pressed to keep up with demand and allocation of production time was occasionally required.

Reflecting the stepped-up activity in the capital equipment market, sales of the Osborn Manufacturing Co. subsidiary rose 17.7% and made up 31.5% of the Group's overall sales. Both the French and German operations shared in the sales improvement. A joint venture in Germany, formed by the A. J. Rose Manufacturing Co. and Osborn to produce vehicular engine components, is currently engaged in market exploration and has had initial success in having its products accepted for test by a prominent automobile manufacturer.

Marking its centennial in 1973, the Rubberset Co. division scored a 5.4% gain in sales. Divisional sales were 5.8% of the Group total. The increase in sales to mass merchandisers was especially noteworthy. Not included in sales were shipments to the Coatings Group which represented 54.8% of total production. Planned changes in manufacturing procedures, use of alternate raw materials and price relief should ease cost-price pressures in the year ahead.

The Rubberset Co. (Canada) Ltd. subsidiary enjoyed one of its best years in sales with a gain of 17.7% and accounted for 5.3% of Group sales. Lumber for brush handles was a special problem since it was in short supply and at increased prices. The installation of equipment for producing plastic brush handles is reducing dependence on lumber and improving the outlook for a more favorable cost picture.

Introduction of DANELLO®, a universal-type paint roller fabric, has had the anticipated favorable effect on manufacturing and inventory costs at the Deshler Products divison. Further cost reductions are expected to develop through recent improvements in plant layout, materials handling and warehousing procedures.

Production at the printing division, virtually all of which is for internal use, was increased through the installation of new equipment. Much of the production increase was necessitated by the change from metal lithographed containers to paper foil labels for a number of the Coatings Group's paint products.

The Auxiliaries Group had capital expenditures of $3,114,000 in fiscal 1973. Funds were invested primarily in production equipment at a number of locations. Additionally, the Henderson, Kentucky, plant of the Osborn Manufacturing Co. subsidiary was enlarged, and a new warehouse at the Deshler Products division is currently underway.

In July the company acquired Hadley Adhesives. This is an initial move into the fast-growing adhesives market and provides a broad base for growth in this area. The acquisition includes a modern plant at Fulton, Kentucky. Sales and earnings of this new subsidiary, which were not significant for the two-month period, are included in the financial review of the Auxiliaries Group. However, the division is being considered a new venture at present with the manager reporting to the Director of Corporate Development.

The Chemicals Group

Regaining most of the sales volume lost when seven operations were discontinued in fiscal 1971 and 1972, the Chemicals Group closed fiscal 1973 with sales approximately ½ of 1% under the previous year and a substantial improvement in operating results. Higher costs and the general shortage of chemical raw materials have created problems in many operations. However, despite this situation, operations were profitable during the last two quarters of the year.

Production of isophthalonitrile, a versatile chemical intermediate, in the converted phthalic anhydride plant at Chicago is on target. Its derivatives and certain co-products of this operation appear to be promising chemical compounds themselves, and these are being offered to various chemical users for testing and evaluation.

The titanium dioxide pigment plant at Ashtabula substantially exceeded design capacity. Plans are now being drawn for a facility that will produce synthetic rutile ore to replace the expensive, scarce natural rutile now used as a raw material in the manufacture of titanium dioxide pigment.

Para-cresol capacity at Chicago was significantly increased during the year, and further increase in production of this important chemical intermediate is planned for fiscal 1974 as a result of capital expenditures for process improvements. Production of barium chemicals at Coffeyville, Kansas, is also slated for expansion.

A second zinc-molybate pigment in the MOLY-WHITE® line has been introduced for use in water-base paint systems. This new product, MOLY-WHITE 212™, as well as the original MOLY-WHITE 101™ for use in solvent-base systems, is attracting world-wide attention in the paint industry. Both pigments are highly corrosion-resistant and non-toxic, a combination of qualities of particular importance from an ecological point of view.

The textile chemicals division continued to make progress during the year. A new textile printing material that meets strict fire retardant standards has been brought to market, and a water-based system for printing on linoleum is now being tested.

The Maumee Flavor and Fragrance Division has moved into its new facility at Danbury, Connecticut. A synthetic jasmine has been developed for use in the fragrance and soap industries. This new chemical compound, methylanthranilate, and new para-cresol derivatives are expected to be significant additions to the division's broad line of products for the perfume, cosmetic, food and beverage industries.

Capital investment in the Chemicals Group totalled $3,329,000 in fiscal 1973. A major portion of this went into facilities begun prior to the beginning of the year for the purpose of producing isophthalonitrile and a new type of zinc oxide. Further investment was also made in the waste water treatment and handling system at the titanium dioxide installation. An addition to the Greensboro, North Carolina, plant is being built to house offices and laboratories of the textile chemicals division.

Sherwin-Williams Canada

Sales of this Canadian subsidiary increased 4.1% in fiscal 1973, growing to $42,647,000 with a 2% increase in local net profit. However, because of an adverse change in the currency exchange rate, the parent company's pre-tax share of earnings was reduced to $482,000 from $897,000 last year.

The improved sales performance stemmed largely from increases in the sales of the branch stores, chemical coatings and automotive refinishes. Consumer sales through dealers were at about the same level as in the previous year.

During the year, three new branch stores were opened, seven were relocated and five were closed. A total of 131 branch stores were in operation at year's end. A program of consolidation and renovation of branches is underway. In the coming year, particular emphasis is being placed on certain retail centers and on facilities to serve the professional painter and industrial maintenance accounts.

The Quebec furniture industry continued to be a strong growth area for industrial finishes. Manufacturers of all types of furniture are finding new markets in the United States, a development that augurs well for future sales.

The powder coatings plant recently completed at Montreal is now in commercial operation. Prospects for growth in sales of its products are highly promising.

The E. Harris Co. division enjoyed another sales increase in fiscal 1973. This division is a supplier of graphic arts materials and sign finishes. The Winnipeg Paint & Glass division, which sells building supplies and hardware as well as paints, benefited from the high level of building activity in Western Canada and particularly in the Winnipeg area.

A compensating price increase effected in recent months helped to offset, in part, the increased costs brought about by inflationary influences in Canada.

Investment in plant improvements also helped in this regard as production efficiency increased. However, inflation continues and, in addition, shortages of many key raw materials are now being felt. These add another dimension to the problem of controlling costs.

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Sprayon Products

Total sales of Sprayon Products, Inc. in fiscal 1973 rose to $18,428,000, an increase of 8.9% over the previous year. Pre-tax earnings were $2,037,000, up 7.7% from fiscal 1972. Shipments to the Coatings Group were 24.5% of total production. The industrial supply segment of the business was particularly strong, and the subsidiary has introduced a number of new products for this market.

An especially promising area for growth is the electrical and electronics business where aerosol-packaged products — cleaners, degreasers, circuit coolers, etc. — are in growing demand. To serve this expanding market more effectively, several new distributors have been secured to insure broader distribution of products for this industry.

A new field in the custom packaging part of Sprayon's business is that of garden specialties. Spot weed killers and other useful garden chemicals in aerosol packages are comparatively new and demand is expected to grow rapidly in the future.

The additional automatic packaging system installed during the year at the Bedford Heights, Ohio, plant is now operating satisfactorily, and the anticipated change-over difficulties have been overcome. The system has brought an almost 30% increase in production capacity. Similarly, the warehouse addition at Anaheim, California, has eliminated the bottlenecks that were interfering with shipping efficiency. Leasing of additional tractors and trailers has also contributed to better service for customers.

Sprayon will mark its 25th year in business in fiscal 1974. As a pioneer custom packager, it has paced the aerosol packaging industry in both technological innovation and growth. It expects to continue that pattern.

International Operations

Overall results in International Operations were better than forecast. Pre-tax earnings climbed to $1,650,000, a 50.8% increase over a year earlier.

A new joint venture, Sherwin-Williams Belgium S.A., has been established in Belgium. Sherwin-Williams holds a 60% interest and a Belgian group the balance. This company has three branch stores, and early results are encouraging. Results at Ralston B.V., the subsidiary in the Netherlands, were improved substantially. Three new branch stores were opened in Holland, and 71 new Kem Products dealers were established.

In the Caribbean, a plant is under construction in Kingston, Jamaica. This facility is expected to be in production early in 1974. A branch store was established in Jamaica, and plans are to open several more in various parts of the West Indies in fiscal 1974.

The new factory of Peintures Idéales S.A., the licensee in Haiti, began production during the year.

Compania Sherwin-Williams, S.A. de C.V. in Mexico continued its steady growth. Seven new branch stores were added during the year increasing to 58 the number now serving the Mexican market.

Sherwin-Williams de Panama, S.A., the joint venture in Panama, had improved results.

In Hong Kong, a license agreement for technical services has been entered into with China Paint Mfg. Co. (1946) Ltd. This company produces a broad and diversified line of coating products.

Nearly all licensees enjoyed improved business in fiscal 1973, and many showed improved earnings. Especially good results were achieved by Sherwin-Williams de Centro América, S.A. and Sherwin-Williams Venezolana C.A., the oldest licensee which celebrated its 20th anniversary in August. Political uncertainties and foreign exchange controls imposed hardships on some companies.

During the year an International Coil Coating Seminar was held to bring together all licensees and subsidiary companies interested in this market. Those attending were brought up to date on recent developments. Improvement in technical service to overseas affiliates continues, and over the next two years the Technical Department will be strengthened still further.

For its expansion, International Operations has increased needs for skilled and experienced staff. Development plans have worked well and are being intensified. Management around the world now comprises more than 18 different nationalities and origins.

The cost of maintaining staff in a number of overseas posts increased markedly as a result of currency changes. However, the recurring currency crises during the year had no other significant adverse effects.

Currently, International Operations is exploring a number of joint venture possibilities. It is believed this approach will bring more satisfactory, stable and rapid growth than could be achieved through traditional licensing.

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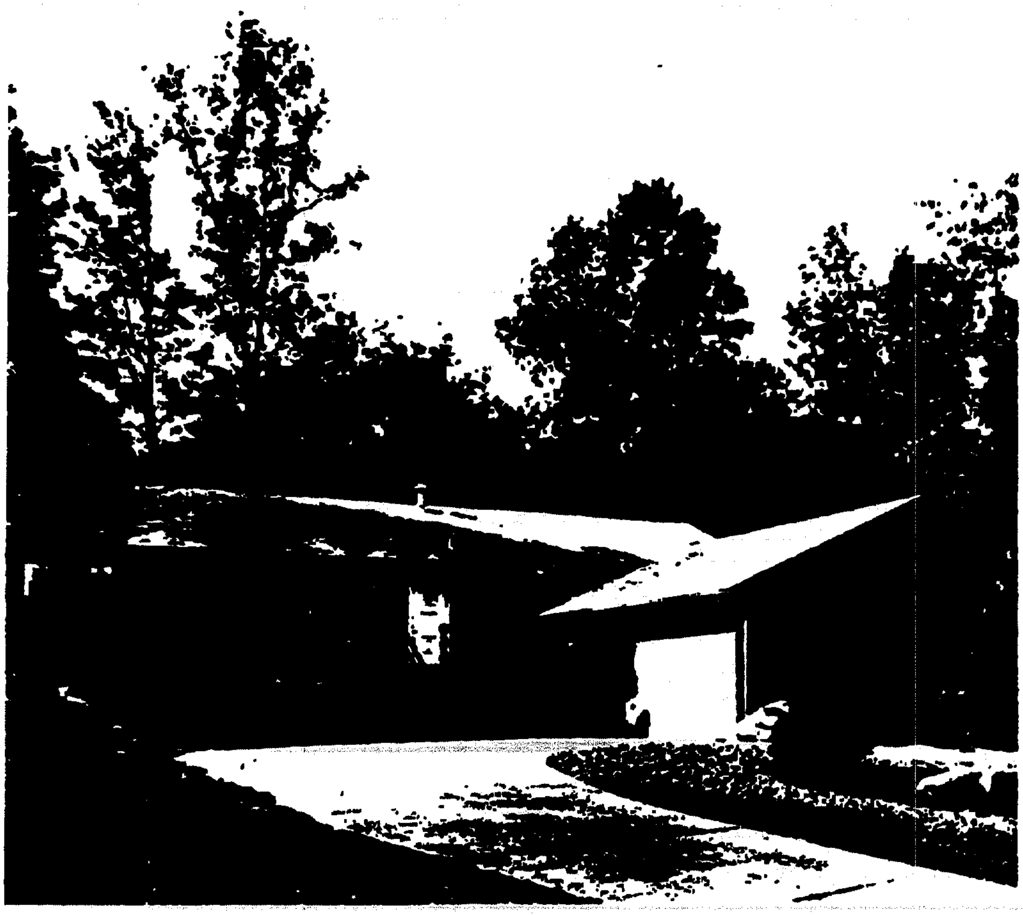
THE TRUE BEAUTY of natural wood is emphasized and protected by new exterior stains developed through research. This type of exterior house treatment is gaining widespread popularity.

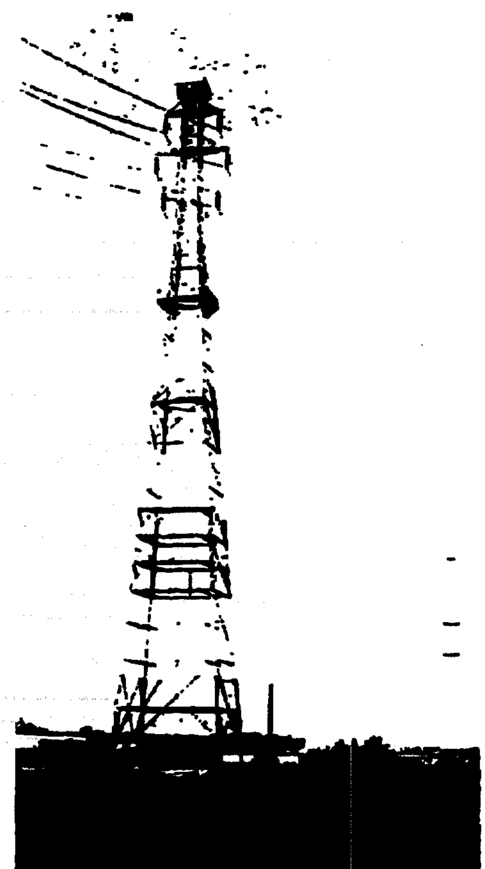


The varied products produced by the several segments of Sherwin-Williams touch the lives of many people in many different ways. Some of those products are as familiar as the proverbial household name. Others are more exotic and the ultimate user might not recognize them even when their names are clearly spelled out.

These and the following pages present a pictorial portfolio of Sherwin-Williams products at work. Space limitations preclude a complete catalog. However, this telescoped presentation suggests some of the contributions made to the daily lives of many people by the people of Sherwin-Williams.

These contributions range from enhancing and preserving homes to safeguarding pedestrians and motorists. From providing ingredients for cosmetics to improving the environment in factories. From making household tasks easier to insuring longer useful lives for motor vehicles.

The foregoing brief summary is far from all-inclusive, for the world of Sherwin-Williams is a broad and diverse one. It is dedicated to serving people by providing readily-available, quality products that meet a variety of needs.



TRANSMISSION TOWERS lead a lonely, rugged life as these 500 feet high examples attest. The colors — white and international orange — are used for safety, in paints that protect the steel girders against all the hazards of wide-open-spaces exposure.

MILADY'S MAKEUP benefits from some of the products produced in Sherwin-Williams chemical plants. An ingredient of lipstick is one example. Fragrances for perfumes and colognes are others.

HOUSEHOLD BEAUTY AIDS, aerosol-packaged by Sprayon Products, Inc., keep furniture sparkling. The subsidiary also supplies industry with its many aerosol-packaged industrial products.

NOT A NEW CAR — but a new finish! Automotive refinishing products give older cars new, long-lived eye appeal and protection. Colors of both domestic and imported cars can be readily matched.

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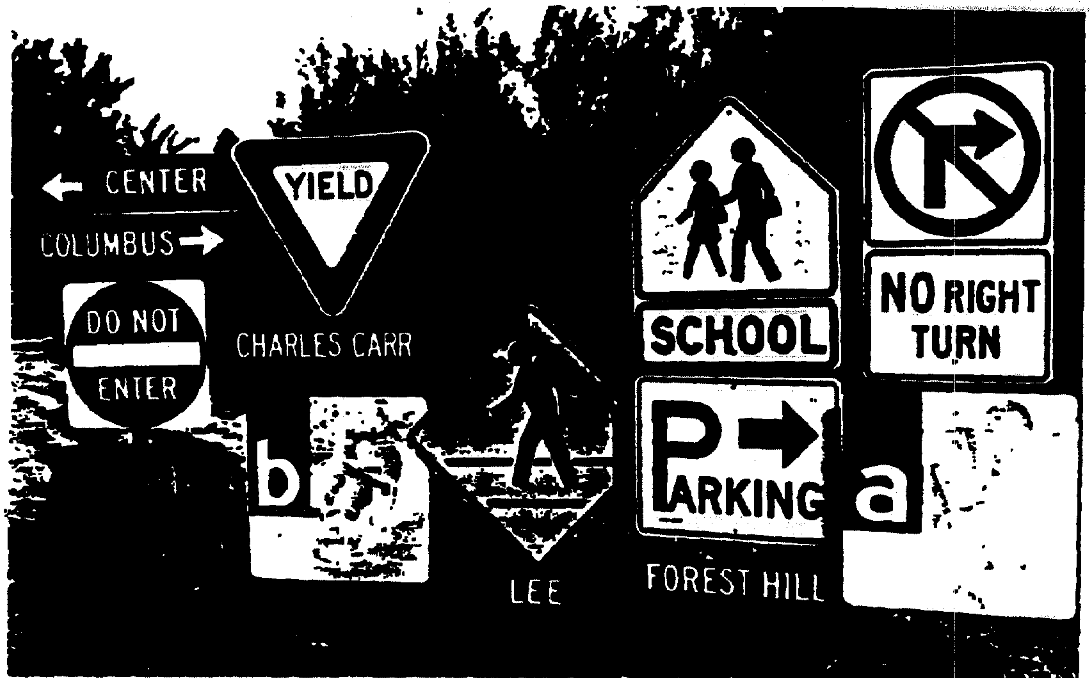

TRAFFIC SIGNS *must be bright enough to be readily seen and rugged enough to withstand constant exposure to the elements. Products of the Chemical Coatings Division, used on many traffic signs, fulfill both requirements.*

COLOR IN INDUSTRY serves many purposes. It identifies equipment and signals the contents of process piping; it encourages good housekeeping that contributes to safety; it gives employees a psychological "lift" that promotes productivity. Color planning for industry is a service of the Professional Coatings Division.

THE SHERWIN-WILLIAMS COMPANY

Founded in 1866

EXECUTIVE OFFICES

101 Prospect Avenue, N. W., Cleveland, Ohio 44115

Directors

E. Colin Baldwin
Chairman of the Board

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

Willis B. Boyer
Chairman of the Board and
Chief Executive Officer
Republic Steel Corporation

Gene C. Brewer
Vice Chairman
Southwest Forest Industries, Inc.

Richard G. Bull
Group Vice President—Coatings

William C. Fine
Senior Vice President—
Finance and Administration

Robert F. Hennig
Vice President—Purchasing

John A. Hill
Vice Chairman of Board and
Chairman of Executive Committee
Hospital Corporation of America

Allen C. Holmes
Partner
Jones, Day, Cockley & Reavis
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

John D. Wright
Director and Retired Chairman
TRW Inc.

Arthur W. Steudel
Honorary Director

Officers

E. Colin Baldwin
Chairman of the Board

Walter O. Spencer
President and Chief Executive Officer

William C. Fine
Senior Vice President—
Finance and Administration

Richard G. Bull
Group Vice President—Coatings

William Moonan
Group Vice President—Auxiliaries

George F. Schlaudecker
Group Vice President—Chemicals

James F. Cole
Vice President and Treasurer

Richard R. Crow
Vice President—Personnel

Ronald F. Curley
Vice President Marketing—Coatings Group

Robert F. Hennig
Vice President—Purchasing

Virgil A. Hollis
Vice President—Financial Operations

Robert A. Tschannen
Vice President Operations—Coatings Group

Michael D. Welsh
Vice President—International Operations

Robert Cain
Assistant Vice President—Personnel

Alan D. Childs
Assistant Vice President and General Counsel

Harvey L. Piepho
Assistant Vice President—Purchasing

William P. Inman
Secretary and Corporate Director of Taxes

Frank H. Clark
Assistant Treasurer and Assistant Secretary

Martin J. Donelan
Assistant Treasurer

Frank C. Kollath
Assistant Treasurer

John R. Skinner
Assistant Treasurer

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Subsidiaries

Domestic

Hadley Adhesives Inc.
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
Dendix Brushes Limited, Chepstow, Monmouthshire, England
Lowi Sherwin-Williams GmbH, Waldkraiburg, Germany
Rose — The Osborn Manufacturing GmbH, Frankenberg, Germany
Sherwin-Williams de Panamá, S.A., Panama City, Panama

Licensees

Aktiebolaget SYD Fernias (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)
Duco S. p. A. — Montedison Group (Italy)
Fábrica Nacional de Pinturas "Espintbol" S.A. (Bolivia)
Fábrica Nacional de Pinturas Sherwin-Williams de Colombia S.A. (Colombia)
Industrias Quimicas Procolor S.A. (Spain)
Nippon Paint Company, Ltd. (Japan)
Oxy Foundry Equipment Division (England)
Peintures Idéales S.A. (Haiti)
Pinchin Johnson & Co. (N.Z.) Ltd. (New Zealand)
Pinturas Andina S.A. (Chile)
Sherwin-Williams Argentina Industrial y Comercial S.A. (Argentina)
Sherwin-Williams del Ecuador Fábrica Nacional de Pinturas S.A. (Ecuador)
Sherwin-Williams Peruana S.A. (Perú)
Sherwin-Williams Philippines, Inc. (Philippines)
Sherwin-Williams de Centro América S.A. (El Salvador)
Sherwin-Williams de Costa Rica S.A. (Costa Rica)
Sherwin-Williams Venezolana C.A. (Venezuela)
Shinto Paint Co., Ltd. (Japan)
Taiyo Chuki Company, Ltd. (Japan)
Taubmans Industries Limited (Australia)

Plants

Domestic Plants

Anaheim, California
Ashtabula, Ohio
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
Los Angeles, California
Morrow, Georgia
Newark, New Jersey
Oakland, California
Pontiac, Illinois
San Leandro, California

Foreign Plants

Bayamón, Puerto Rico
Frankenberg, Germany
Gravenhurst, Canada
Mexico City, Mexico
Montreal, Canada
Monmouthshire, England
Panama City, Panama
São Paulo, Brazil
Toronto, Canada
Vancouver, Canada
Winnipeg, Canada
Zeist, Netherlands