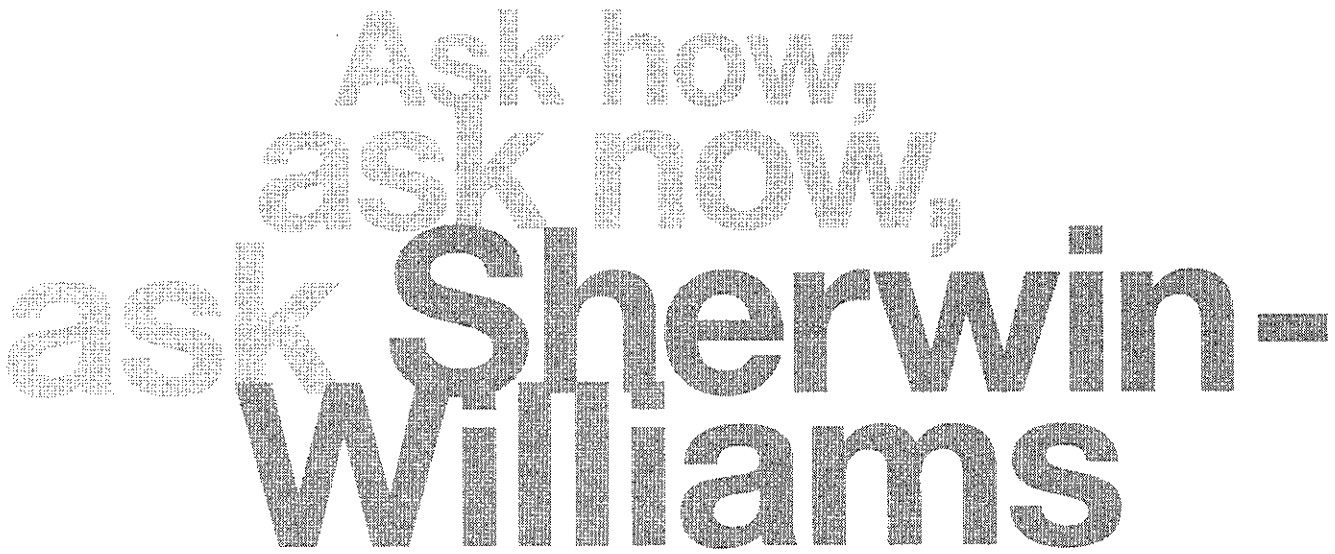
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The Sherwin-Williams Company recruits, selects and hires the best qualified people available– without discrimination based on race, religion, color, creed, sex, national origin, age, disability, status as a special disabled veteran, veteran of the Vietnam era or any other unlawful consideration.

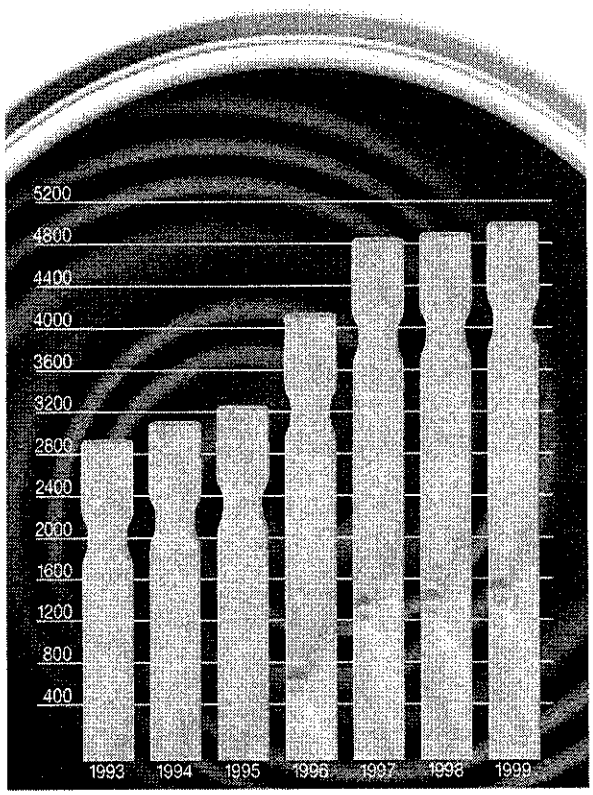


Highlights

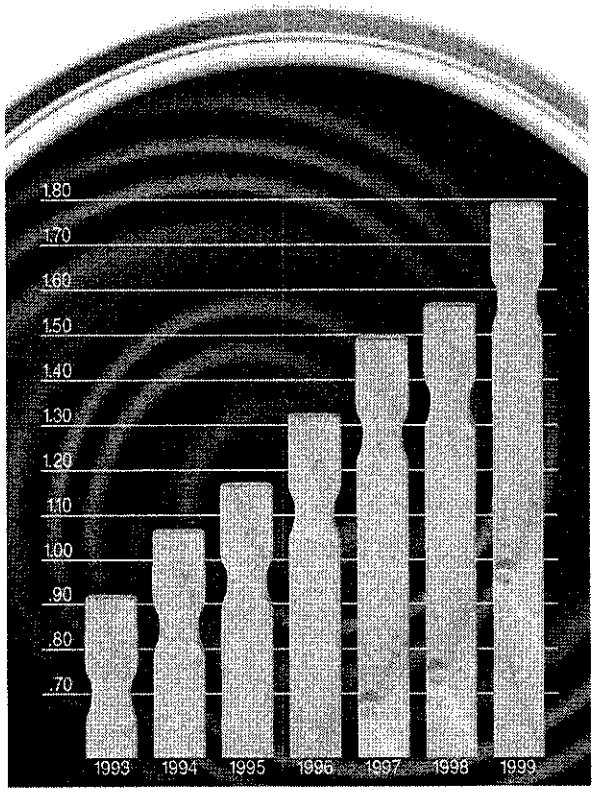
(Thousands of Dollars Except Per Share Data)

	1999	1998	1997
Net sales	$ 5,003,837	$ 4,934,430	$ 4,881,103
Net income	303,860	272,864	260,614
Per share:			
Net income - basic	1.81	1.58	1.51
Net income - diluted	1.80	1.57	1.50
Cash dividends	.48	.45	.40
Book value	10.25	10.03	9.21
Average shares outstanding (thousands)	167,925	172,162	172,107
Return on sales	6.1 %	5.5 %	5.3 %
Return on shareholders' equity	17.7 %	17.1 %	18.6 %
Total debt to capitalization	30.5 %	33.1 %	38.7 %
Times interest earned	9.0 x	7.1 x	6.3 x
Current ratio	1.3	1.4	1.4
Total technical expenditures[1]	$ 78,189	$ 73,417	$ 62,633
Advertising expenditures	265,411	282,817	295,942
Number of employees	25,697	24,822	24,964

(1) See Note 1, page 28, for a description of technical expenditures.



Sales (Millions)



Net Income Per Share – Diluted

Financial Summary

(Millions of Dollars Except Per Share Data)

	1999	1998	1997	1996	1995
Operations					
Net sales	$ 5,004	$ 4,934	$ 4,881	$ 4,133	$ 3,274
Cost of goods sold	2,755	2,804	2,784	2,405	1,877
Selling and administrative expenses	1,673	1,598	1,574	1,309	1,075
Interest expense	61	72	81	25	3
Income before income taxes	490	440	427	375	318
Net income	304	273	261	229	201
Financial Position					
Inventories	$ 703	$ 683	$ 722	$ 643	$ 463
Accounts receivable - net	606	605	546	452	334
Working capital	408	435	417	365	620
Property, plant and equipment - net	712	719	692	549	456
Total assets	4,052	4,065	4,036	2,995	2,141
Long-term debt	624	730	844	143	24
Total debt	747	848	1,005	313	25
Shareholders' equity	1,699	1,716	1,592	1,401	1,212
Per Share Data					
Average shares outstanding (000's) (A)	167,925	172,162	172,107	171,117	169,942
Book value	$ 10.25	$ 10.03	$ 9.21	$ 8.15	$ 7.09
Net income - basic (A)	1.81	1.58	1.51	1.34	1.18
Net income - diluted (A)	1.80	1.57	1.50	1.33	1.17
Cash dividends	.48	.45	.40	.35	.32
Financial Ratios					
Return on sales	6.1 %	5.5 %	5.3 %	5.5 %	6.1 %
Asset turnover	1.2 x	1.2 x	1.2 x	1.4 x	1.5 x
Return on assets	7.5 %	6.7 %	6.5 %	7.7 %	9.4 %
Return on equity (B)	17.7 %	17.1 %	18.6 %	18.9 %	19.0 %
Dividend payout ratio	26.6 %	28.5 %	26.5 %	26.2 %	27.2 %
Total debt to capitalization	30.5 %	33.1 %	38.7 %	18.3 %	2.1 %
Current ratio	1.3	1.4	1.4	1.3	2.0
Times interest earned (C)	9.0 x	7.1 x	6.3 x	16.3 x	126.8 x
Working capital to sales	8.1 %	8.8 %	8.5 %	8.8 %	18.9 %
Effective income tax rate	38.0 %	38.0 %	39.0 %	39.0 %	37.0 %
General					
Capital expenditures	$ 134	$ 146	$ 164	$ 123	$ 108
Total technical expenditures (D)	78	73	63	53	50
Advertising expenditures	265	283	296	212	153
Repairs and maintenance	46	45	45	38	32
Depreciation	105	98	90	76	63
Amortization of intangible assets	50	50	49	27	15
Shareholders of record	11,475	11,929	11,964	11,933	12,078
Number of employees	25,697	24,822	24,964	20,768	18,458
Sales per employee (000's)	$ 195	$ 199	$ 196	$ 199	$ 177
Sales per dollar of assets	1.23	1.21	1.21	1.38	1.53

(A) Amounts reflect adoption of Statement of Financial Accounting Standards (SFAS) No. 128 effective December 31, 1997. All average share and per share amounts shown for periods prior to adoption have been restated. See Note 1, page 28.
(B) Based on Shareholders' equity at beginning of year and Net income.
(C) Ratio of pre-tax income before interest expense to interest expense.
(D) See Note 1, page 28, for a description of technical expenditures.

To Our Shareholders

In 1999, the Company achieved its twenty-second consecutive year of earnings improvement, increased the annual dividend and realized another year of sales improvement. The Company's consolidated net sales increased 1.4 percent to just over $5 billion. Net income increased 11.4 percent to $303.9 million and diluted net income per share rose to $1.80 per share from $1.57 per share last year. The Company also continued its track record of generating substantial amounts of operating cash flow, which it reinvested to grow the business and increase its financial strength. Cash flow from operations enabled the Company to further reduce total debt by $101.8 million, acquire 5,925,000 shares of Company stock for treasury at a cost of $145.8 million, and spend $134.2 million for capital additions to strengthen the infrastructure. In spite of these results and our record of improvements, the market price of the stock has not performed up to our expectations. The declining market value of the Company's stock, regardless of consistent sales growth, earnings improvement and financial success, has been the most crucial concern of both management and investors in the past year. We will continue to focus our resources and energies on activities that provide the highest return on investment and improved sales performance.

In spite of the Company's improved performance, we believe the weakness in our stock price has been caused by our poor year-over-year sales comparisons and a market perception that the Company will not be able to sustain its consistent track record of consolidated sales and earnings improvement. We strongly disagree with this perception.

Our primary growth continues to come from the development of our own store distribution network where we have the opportunity to directly control marketing, merchandising, service and pricing decisions. The continued expansion of our paint store distribution network for the past 133 years has positioned us well as leaders in the growing professional painting contractor market. Today, professional painters have become the fastest growing portion of the paint-buying sector resulting from demographic and culture changes brought about by an aging population, increased family income, a more hectic lifestyle and a greater desire for leisure time activity. These factors have resulted in less time available for do-it-yourself painting.

The development of our automotive branches has positioned the Company well for servicing the vehicle refinish market. The network of automotive branches provides superior levels of color matching, product availability and customer service that are critical in the vehicle refinish business. Our extensive Sherwin-Williams® brand product and service offering has further differentiated us from our competition in both our Paint Stores and Automotive Finishes Segments and enabled us to consistently grow by gaining market share. The Paint Stores Segment opened 73 net new stores in 1999, a 3.1 percent increase over last year's store base, bringing our total North American store count to 2,396. The Automotive Finishes Segment also added branches in 1999 finishing the year with 172 branches worldwide.

While we have demonstrated an ability to generate strong sales growth through the Company's controlled distribution, there is a perception that the Company's overall sales cannot grow at acceptable levels because the Consumer Segment is unable to achieve significant sales increases in other non-controlled distribution channels. Once again, we strongly disagree with this perception. Although our paint presence at some home center retailers is small, the Consumer Segment has ample additional opportunity for growth through other growing retailers who serve various demographic paint buying segments. The Consumer Segment continues to represent an important element to the Company in reaching consumers who choose to shop at other retail outlets.

Several other factors influenced our soft year-to-year sales comparisons in 1999 and challenged our management to new levels of performance. The devaluation of the Brazilian real early in 1999 and poor economic conditions in some South American countries required local management within the International Coatings and Automotive Segments to adjust quickly to changing economic conditions with new marketing programs, customer incentives and cost reductions. The bankruptcy

liquidation of a large domestic customer and the loss of cleaning solutions sales due to geographic limitations resulting from a 1998 plant closing adversely impacted year-to-year sales comparisons for the Consumer Segment. Weak domestic markets also restricted the Consumer and Automotive Segments in their efforts to achieve the same sales as 1998.

During 1999, the Company saw a number of top management changes. As we noted in last year's annual report, Thomas A. Commes retired as President and Chief Operating Officer of the Company effective March 31, 1999. During the fourth quarter of 1999, Christopher M. Connor was elected Vice Chairman and Chief Executive Officer and Joseph M. Scaminace was elected President and Chief Operating Officer. John G. Breen remains Chairman of the Board. Following these changes of management, the Company adopted new business segment reporting guidelines that have expanded the number and composition of reported segments. The new reporting structure will provide more detail concerning the Company's performance in different markets and geographic locations in which we compete. The four operating segments are Paint Stores, Consumer, Automotive Finishes and International Coatings. All prior periods presented in this report have been restated to conform to the 1999 presentation.

The Paint Stores Segment again set the pace for the Company in 1999 by achieving its nineteenth consecutive year of sales improvement, surpassing the $3.0 billion mark. Net sales increased 6.3 percent and comparable-store net sales increased 4.0 percent. The Segment's operating profit for the year increased 8.6 percent to $376.8 million, the eighth consecutive year of operating profit improvement. The improved results were due to new product introductions, productivity gains, new stores, improved product quality in product finishes and better customer service. Gallon gains were achieved in the architectural, industrial maintenance and product finishes categories.

The Consumer Segment's net sales declined $58.2 million, or 4.5 percent, during 1999 to $1.2 billion. On lower sales volume, operating profit increased 23.7 percent to $154.9 million due primarily to operating cost savings realized as a result of the 1998 consolidation of four divisions into one.

The Automotive Finishes Segment's sales declined 0.6 percent in 1999 to finish at $471.0 million for the year. Operating profit for the Automotive Finishes Segment increased 2.0 percent to $66.5 million. The Automotive Finishes Segment increased its sales to the Class 8 original equipment truck manufacturers which helped offset some of the effects on sales of the devaluation of the Brazilian real, poor South American economic conditions and a soft domestic vehicle refinish market.

International Coatings Segment was successful in overcoming the negative effects on operating profits from the devaluation of the Brazilian real and poor economic conditions in South America through volume increases and expense reductions. Sales for this Segment declined from $347.8 million to $299.2 million while operating profit improved from $24.2 million to $33.9 million. We were pleased with the increases in gallons sold in Chile and Brazil. Sales increased in Brazil and Argentina, in local currencies, despite the poor economic conditions. We remain optimistic about the business prospects in this geographic area and have positioned ourselves to take advantage of growth opportunities in this region as the local economies begin to turn around.

Other management changes were also made during 1999. In the Consumer Segment, Thomas W. Seitz was named President, Consumer Group. In the International Coatings Segment, Donald R. Fields was named President, International Division. In the Paint Stores Segment, John G. Morikis was named President, Paint Stores Group, Thomas R. Brummet was named President & General Manager, Eastern Division, and Robert J. Davisson was named President & General Manager, Southeastern Division. Salvatore V. Sanzone retired in 1999 after more than 41 years of dedicated and distinguished service to the Company. Sal's career was marked by a number of successful assignments, culminating in being named President & General Manager, Southeastern Division, in April 1994. On behalf of the Company and its employees, we would like to take this opportunity to thank Sal for the years of

dedication and exemplary service he has given. We wish Sal and his wife, Bernadette, many years of peace, happiness and good health.

We are committed to the task of achieving sales and earnings improvement for yet another consecutive year, at an accelerated pace. In the Paint Stores Segment, continuing the aggressive new store-opening program throughout North America will increase our market penetration and market coverage. More new product introductions will continue to attract professional painters and do-it-yourself customers into our stores. In the Consumer, Automotive Finishes and International Coatings Segments, we will enhance our customer service, maintain our leadership position in architectural paint, expand our position in vehicle refinish and automotive original equipment manufacturers, promote sales gallon growth and continue to contain manufacturing and SG&A costs. We expect that the adverse economic conditions that plagued South America in 1999 as a result of the Brazilian currency devaluation, poor export performance to Asian markets and commodity price deflation will begin to stabilize and that the market will return to significant growth. We will continue to pursue domestic and international acquisitions that fit our strategic needs through improving shareholder returns. In addition, cash generated by operations will be used to continue our track record of debt reduction and treasury stock purchases.

Whenever top management changes are implemented, different strategic and operating goals are often adopted. While there are a number of new initiatives and programs directed at accelerating our financial performance, we believe that the strategies established over the past 133 years continue to be viable for the long-term success of the Company. In addition to the primary growth strategy of expanding our controlled distribution network, other critical strategies to sales expansion and growth include product innovation, product quality, exemplary customer service and high business integrity. With a renewed focus, we will continue implementing strategies that are designed to increase our sales and expand our global market leadership in all segments of our business. We are confident that 2000 will be another year of improvement, continuing our consecutive years of sales increases and our twenty-third year of earnings improvement for the Company.

The employees of the Company are hard at work increasing value for our shareholders. We are grateful for the continuing support of our employees, customers and suppliers.



Joseph M. Scaminace
President and
Chief Operating Officer

John G. Breen
Chairman

Christopher M. Connor
Vice Chairman and
Chief Executive Officer

Reportable Segment Information

Basis for Reportable Segments

During the fourth quarter of 1999, following the appointment of a new chief operating decision maker, the Company adopted revised segment reporting guidelines that changed the number and composition of its reportable segments and changed the value of goods that are transferred domestically between segments. Effective for the fourth quarter and year 1999, the Company will report financial information for five reportable segments - the Paint Stores, Consumer, Automotive Finishes, International Coatings (collectively, the "Operating Segments") and Administrative Segments. The value assigned to goods that are transferred domestically between segments represents the approximate fully absorbed manufactured cost plus distribution costs. Previously reported annual Reportable Segment Information for years 1995 through 1998 was restated to conform to the Company's 1999 presentation which is shown on page 13 of this report. Unaudited quarterly Reportable Segment Information for 1999 and 1998, which was reported in the Company's 1999 quarterly reports filed with the Securities and Exchange Commission on Form 10-Q, has also been restated as described in Note 14 on pages 36 and 37 of this report.

Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires an enterprise to report segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources. One of the characteristics identified by SFAS No. 131 that must be considered in the determination of reportable segments is the regular review of performance by the enterprise's chief operating decision maker. The Company's chief operating decision maker has been identified as the Chief Executive Officer because he has final authority over performance assessment and resource allocation decisions. Each reportable segment identified by the Company meets the SFAS No. 131 criteria for external reporting in the same way that current management internally has organized the Company. The new segment reporting meets other SFAS No. 131 characteristics of earning revenue and incurring expenses in carrying out a business activity and making discrete financial information about the business component available to the chief operating decision maker.

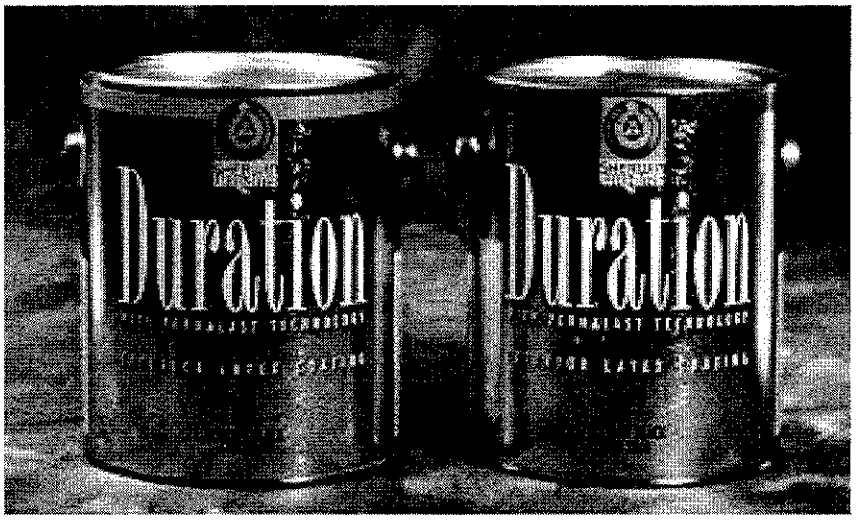
Because of the global, diverse operations of the Company, the chief operating decision maker regularly receives discrete financial information about each operating segment as well as a significant amount of additional financial information about certain aggregated divisions, operating units and subsidiaries of the Company. The chief operating decision maker uses all such financial information for performance assessment and resource allocation decisions.

Factors considered in determining the five reportable segments of the Company include the nature of the business activities, existence of managers responsible for the operating and administrative activities and information presented to the Board of Directors. Information about net sales, operating profits and assets attributable to the United States and to all foreign consolidated subsidiaries can be found on pages 12 and 13 of this report. Revenues and operating profits attributable to any individual country outside the United States are not material.

The Company evaluates the performance of each operating segment and allocates resources based on profit or loss and cash generated from operations before income taxes, excluding corporate expenses and financing gains and losses. The accounting policies of the reportable segments are the same as those described in Note 1 - Significant Accounting Policies on pages 28 and 29 of this report.

Paint Stores Segment

The Paint Stores Segment consists of four geographically divided domestic domiciled divisions - Eastern, Southeastern, Mid Western and South Western - which include all paint stores in the United States, Canada, the Virgin Islands and Puerto Rico. The domestic divisions have the same business activity of selling identical national and similar regional products through company-operated specialty paint stores to the same types of customers. The Paint Stores Segment now includes



New in 1999, Duration™ exterior latex house paint delivered superior product performance, exceeding first year sales forecasts.

the manufacturing and technical operations of the Product Finishes Business Unit that produces original equipment manufacturer (OEM) product finishes sold through the paint stores and by direct outside sales representatives. These operations were previously reported in the Coatings Segment. The Paint Stores Segment also consists of certain operations in Mexico that include a manufacturing facility, distribution activities, specialty paint stores and outside selling functions to dealers and other distributors. The Mexico operations were also previously reported as part of the Coatings Segment. The Paint Stores Segment consisted of 2,396 company-operated paint stores in the United States, Canada, the Virgin Islands, Puerto Rico and Mexico on December 31, 1999. A map on the inside back cover of this report shows the approximate geographical separation of each domestic division and the number of paint stores in each state or province and in the Virgin Islands, Puerto Rico and Mexico.

The Paint Stores Segment is the exclusive North American marketer and seller of Sherwin-Williams® branded architectural coatings, industrial maintenance and marine products, and related items produced by the Consumer Segment and the Paint Stores Segment's Mexican manufacturing operations. This Segment is also the exclusive North American marketer and seller of Sherwin-Williams® branded industrial OEM product finishes produced by its manufacturing facilities. In addition, this Segment markets and sells Con-Lux®, Old Quaker™, Mercury™, Brod Dugan™, Pro-Line®, SeaGuard®, JetGlo®, AcryGlo®, other control-branded coatings, and related products also manufactured by the Consumer Segment. Complementary coatings and associated products manufactured by third parties are sold through the Paint Stores Segment to complete its product offering.

Paint, applicators, wallcoverings, floorcoverings, spray equipment and associated products are marketed and sold by store personnel and direct sales representatives to the do-it-yourself customer, professional painting contractor, home builder, property manager, industrial maintenance and marine customer, aviation market, OEM customer, and product finishing job shop customer. The loss of any single customer would not have a material adverse effect on the business of this Segment.

During 1999, the Segment opened 73 net new stores, remodeled 81 and relocated 41. Included in the 73 net new stores were 66 stores in the United States, one each in Canada, the Virgin Islands and Puerto Rico, and four in Mexico. There were 64 net new stores opened in 1998 (55 in the United States) and 47 net new stores in 1997 (36 in the United States). This Segment introduced many new national and regional architectural products, industrial maintenance and marine products, and industrial OEM product finishes in 1999. The exterior paint "Duration™" was launched in March 1999 and exceeded its first year sales forecasts. This product was well accepted by the painting contractor looking for long-lasting durability, ease of application and excellent appearance. It was also well accepted by the do-it-yourself customer looking for superior performance and a one-coat application. Growth in the faux finishing area, which is used to achieve unique finishes for home remodeling projects and new home

construction, has continued. In addition to introducing new products in this area, this Segment added several well-received customer services such as an in-store merchandiser, application tools, in-store clinics and "how to" brochures and videos.

In 2000, the Paint Stores Segment plans to open approximately 80 net new stores while investing in new sales territories and field technical personnel. Service levels will continue to improve through added investments in staffing, color matching equipment and other productivity improving equipment. This Segment will also invest in a key project designed to dramatically enhance color offering and product consistency. This multi-year project will launch in 2000 with the introduction of an "Extra White" base, a brighter and cleaner white base, which will allow Sherwin-Williams® products to be tinted to a wider range of colors than ever before. Projects to enhance existing product lines while introducing new technology will continue, as product quality remains a key issue to both new and existing customers.

The Company launched its extremely successful web site, "www.sherwin-williams.com" in January 1999. It has received favorable reviews from a number of internet trade publications and won the Dow Jones Directory's site of the month award in August 1999. Customer and employee feedback included high marks for ease of navigation, logical organization structure, and breadth and depth of content. By the end of 1999, the site consisted of more than 12,000 pages of information and received 5.5 million hits per month with 165,000 user sessions. This site will be expanded to further leverage the existing store distribution platform by enabling customers and vendors to conduct business electronically.

The successful advertising campaign theme, "Ask How, Ask Now, Ask Sherwin-Williams" will continue in 2000. The campaign capitalizes on the strong brand name recognition and quality perception inherent in the Sherwin-Williams name.

Consumer Segment

The Consumer Segment develops, manufactures and distributes architectural paints, stains, varnishes, industrial maintenance products, wood finishing products, paint applicators, corrosion inhibitors, and paint-related products in the United States and Canada. In addition, a wide variety of cleaning products and custom, industrial and automotive aerosols are filled, packaged, distributed and sold by this Segment. The Consumer Segment employs a wide variety of trade names and trademarks in pursuit of its business. Sherwin-Williams®, Dutch Boy®, Krylon®, Minwax®, Cuprinol®, Thompson's®, Formby's®, Red Devil®, Kem-Tone®, Martin Senour®, Pratt & Lambert®, H&C®, White Lightning®, Dupli-Color®, Rust Tough®, Rubberset®, Sprayon®, Moly-White®, Cello® and Tri-Flow™ are some of the trade names and trademarks that have high national customer recognition and collectively contribute significantly to the external sales of the Consumer Segment.

Domestically, Sherwin-Williams® branded architectural coatings, stains, varnishes, industrial maintenance products, wood finishing products, paint applicators, aerosols, adhesives and related products are manufactured solely for the Paint Stores Segment. Approximately 40 percent of the total sales, including intersegment transfers, of the Consumer Segment in 1999 represented products sold through the Paint Stores Segment.

Certain control-branded, other branded and private label coatings, stains, varnishes, wood finishing products, paint applicators, aerosols and related products are manufactured for and distributed through many of the leading mass merchandisers, home centers, independent dealers and industrial maintenance distributors. Sales and marketing of these branded and private label products is performed by a direct sales staff. The products distributed through these third-party customers are intended for resale to the ultimate end-user of the product. Cleaning products and custom, industrial and automotive aerosols produced by this Segment are distributed through various mass merchandisers and the homecare products, institutional, insecticide and industrial markets.

The Consumer Segment has sales to certain customers that,

individually, may be a significant portion of the sales of the Segment. However, the loss of any single customer would not have a material adverse effect on the overall profitability of the Segment. This Segment incurs most of the Company's capital expenditures related to ongoing environmental compliance measures.

During 1999, the Consumer Segment's sales and marketing organizations began to benefit from the consolidation of the former Consumer Brands, Coatings, Transportation Services and Diversified Brands Divisions that started in 1998. The consolidation was precipitated by customer expectations for improved service, the necessity to lower operating costs, and the need for additional field service personnel to support the customers' businesses. In 1999, a new sales and marketing organization was put in place to provide proper focus to the key brands as well as this Segment's large, diverse customer base. Technology changes throughout the Consumer Segment allowed for the complete integration of marketing and sales information into a data warehouse for acquired brands as well as core business brands. This Segment also installed supply chain software into many of its manufacturing and distribution sites to speed up the supply chain process and increase responsiveness to customer demand.

In 1999, the Consumer Segment's Chicago Emulsion Plant was accepted into the Occupational Safety and Health Administration's Voluntary Protection Program as a "Star" site. This program recognizes U.S. facilities that have designed and implemented outstanding health and safety practices. This acceptance marks the first time that a U.S. coatings manufacturer has achieved this status. The Consumer Segment continued its promotion of the unique Dutch Boy® ClimateGUARD™ exterior house paint product line. Climatological research identifies five U.S. regions with distinctively different climates. Five unique ClimateGUARD™ formulas were developed for each different weather condition it guards against and are all backed by the Company's 20-year limited warranty.

In 2000, several new marketing and sales programs will be initiated. The Segment has launched a new Thompson's® exterior architectural paint program. This program is a premium branded program that leverages the well-known Thompson's® brand name at a leading mass merchandiser. The product is being supported with a lifetime warranty for moisture resistance. This program provides a branded paint program along side the customer's private label paint program. Additionally, the Consumer Segment will introduce an extension pole program for the professional contractor. This program will involve separate sizes of extension poles for paint rollers with a lifetime warranty on the patent-pending pin lock mechanism on the extension poles.

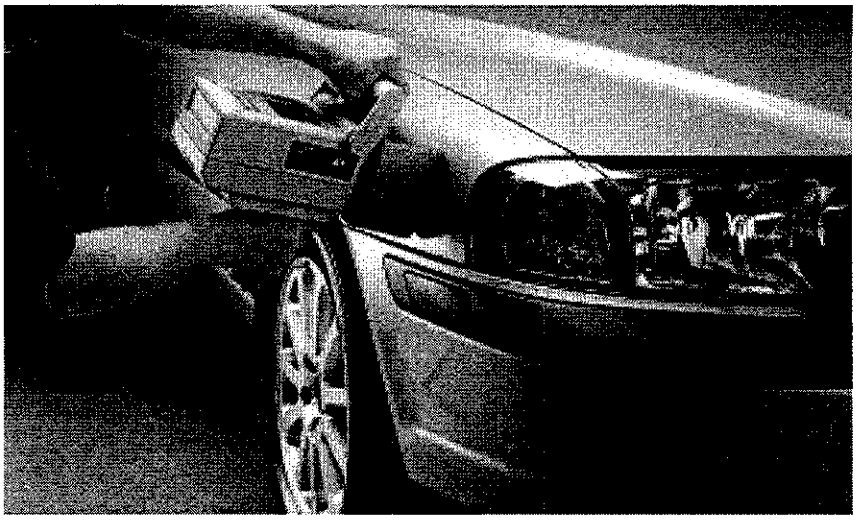


Dutch Boy® ClimateGUARD™ is available in formulas for the Northwest, Sunbelt, Heartland, Southeast and Northeast regions.

Automotive Finishes Segment

The Automotive Finishes Segment develops, manufactures and distributes motor vehicle finish, refinish and touch-up products primarily throughout North and South America and the Caribbean Islands. This Segment also licenses certain technology and trade names worldwide. This Segment employs a variety of trade names and trademarks

worldwide in pursuit of its business. Sherwin-Williams®, Martin Senour®, Western®, Lazzuril™, Excelo™ and Marson™ are some of the trade names and trademarks that have high national and international customer recognition and collectively contribute significantly to the sales of the Automotive Finishes Segment. Sherwin-Williams® branded automotive finish and refinish products are distributed throughout North America solely through this Segment's network of company-operated automotive branches. At December 31, 1999, the Segment consisted of a network of 172 company-operated automotive branches worldwide. In the United States there were 121 branches open at that date and 51 foreign branches in Canada (21), Jamaica (12) and Chile (18). A map on the inside back cover of this report shows the geographical demographics and the number of branches in each state, province or country. Some control-branded, other branded and private label refinish and touch-up products are manufactured for and distributed through many of the leading independent dealers, automotive program distributors, automotive jobbers, independent jobbers, wholesale distributors, automotive body shops, automotive dealerships, fleet owners and refinishers, production shops, body builders and manufacturers requiring a factory-applied finished product. At December 31, 1999, the Automotive Finishes Segment included nine foreign wholly-owned subsidiaries in five foreign countries and 12 foreign licensing agreements in 29 countries outside the United States.



Automotive Finishes Color Eye™ spectrophotometer can help achieve one-step simplicity and exacting results first time, every time using the power of this advanced four-angle instrument.

During 1999, the Automotive Finishes Segment opened five new branches – one in the United States and two each in Chile and Jamaica. This Segment also acquired thirteen branches in 1999 – ten in Canada, two in Chile and one in the United States. The branch network continued to increase sales and gain market share in the collision shop sector. Unique sales programs, national account management and the high performing Ultra 7000™ system were key factors contributing to sales increases in the branch network. Sales and profits increased significantly in product lines sold to suppliers to the automotive and truck OEM businesses. Genesis™ high solids urethane systems for OEM heavy truck and bus application was launched during 1999, adding to the growth in that business. Increased unit builds and new product approvals by automobile parts suppliers and truck manufacturers were key to the growth in the OEM business.

In 2000, the Automotive Finishes Segment will continue to focus on sales growth in the OEM business and expansion of its branch network. The development of additional, improved color technology in international markets will aid in sales growth as well. This Segment will continue to pursue growing market opportunities including international business to better compete on a global basis.

International Coatings Segment

The International Coatings Segment develops, licenses, manufactures and distributes architectural paints, stains, varnishes, industrial maintenance products, product finishes, wood finishing products and paint-related

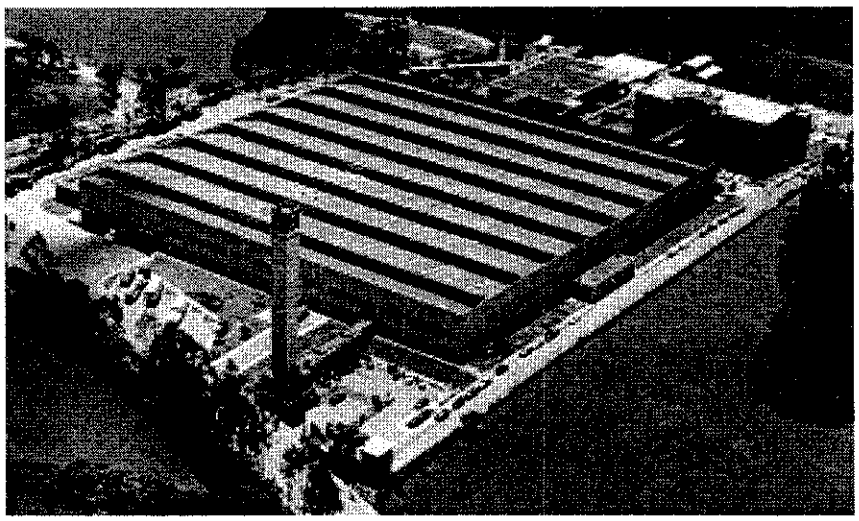
products worldwide. In addition, custom, industrial and automotive aerosols are filled, packaged, distributed and sold by this Segment. The International Coatings Segment employs a wide variety of trade names and trademarks worldwide in pursuit of its business. Sherwin-Williams®, Dutch Boy®, Krylon®, Kem-Tone®, Pratt & Lambert®, Minwax®, Ronseal™, Colorgin™, Globo™, Sumare®, Andina™ and Marson™ are some of the trade names and trademarks that have high customer recognition and collectively contribute significantly to the sales of the International Coatings Segment. Some other branded and private label coatings, stains, varnishes, wood finishing products, paint applicators, aerosols, adhesives and related products are manufactured for and distributed through various marketing channels. The International Coatings Segment manufactures, distributes and sells its products primarily through wholly-owned subsidiaries, joint ventures and licensees of technology, trademarks and trade names. At December 31, 1999, this Segment included ten foreign wholly-owned subsidiaries in seven foreign countries, four foreign joint ventures and 32 licensing agreements in 24 foreign countries. This Segment also sells its products through 33 company-operated specialty paint stores in Chile and ten in Brazil. The majority of the sales from licensees and subsidiaries occur in South America, the Segment's most important international market.

The economic climate throughout South America was difficult in 1999. Despite Brazil's maxi-devaluation of its currency in January, and the resultant impact on the economy, improved sales and operating profits were achieved in local currency. In spite of the harsh economic climate and recessions in Argentina and Chile, the operations in these countries managed to increase market share. S-W Argentina achieved record sales and profits. In the United Kingdom, Ronseal achieved record sales and profits with continued growth in its do-it-yourself and home improvement market.

In 2000, the less-than-favorable economic conditions in South America are expected to continue although some improvement may be realized in Brazil and Chile. Nonetheless, cost containment remains a focal point of the businesses in South America, especially in Argentina where a continuation of the recession is possible. Additionally, proper servicing of key accounts, new product introductions, entry into new market segments and a broadening of distribution will be necessary to achieve planned goals.

Administrative Segment

The Company and certain consolidated subsidiaries have corporate headquarters expenses that are considered part of the Administrative Segment and not a part of an Operating Segment. The Administrative Segment includes the expenses of headquarter sites, interest expense which is unrelated to certain financing activities of the Operating Segments, investment income, certain foreign currency transaction losses related to dollar-denominated debt and other financing activities, certain provisions for disposition and environmental-related matters, and other expenses which are not directly associated with any Operating Segment.



Taboão da Serra, São Paulo, Brazil

Reportable Segment Information

The Administrative Segment expenses and assets reconcile Operating Segment data to total consolidated income before income taxes, identifiable assets, capital expenditures and depreciation.

Also included in the Administrative Segment is a real estate management unit that is responsible for the ownership, management, leasing of non-retail properties held primarily for use by the Company, including the Company's headquarters site, and disposal of idle facilities. Sales of the Administrative Segment represent external leasing revenue of excess headquarters space or leasing of facilities no longer used by the Company in its operations. Gains and losses from the sale of property are not a significant factor in determining the performance of this Segment. At the end of 1999, this Segment owned 22 and leased two properties consisting of office buildings, distribution service centers, idle manufacturing facilities and vacant land. Occasionally, such properties are acquired or developed to provide the lowest cost alternative for expansion of distribution operations by the Consumer or Automotive Finishes Segments. Locations that have been utilized profitably in the past that can no longer contribute to the Company's future plans are offered for sale or lease. If a location is no longer in usable condition, all buildings on the property are razed and the vacant land is then offered for sale or lease. During 1999, two owned properties were sold and early termination of a lease was successfully negotiated at a third site. Sales agreements are currently being pursued for three other facilities with anticipated sale dates in 2000. The second phase of a demolition plan was completed at a former manufacturing facility in 1999. The occupancy rate for external non-retail office space was 95 percent at December 31, 1999. For 2000, the lease expiration of a large tenant in the Company's headquarters building and the reduction in leased space of another tenant will result in decreased revenue for the near term.

Notes to Financial Table

Operating profit is total revenue, including intersegment transfers, less operating costs and expenses. Administrative expenses include interest which is unrelated to certain financing activities of the Operating Segments, certain foreign currency transaction losses related to dollar-denominated debt and other financing activities, certain provisions for disposition and termination of operations and environmental remediation which are not directly associated with any Operating Segment, and other adjustments.

Identifiable assets are those directly identified with each reportable segment. Administrative Segment assets consist primarily of cash, investments, deferred pension assets, headquarters property, plant and equipment, and other real estate.

The operating margin for each Operating Segment is based upon total external sales and intersegment transfers. Domestic intersegment transfers are accounted for at the approximate fully absorbed manufactured cost plus distribution costs. International intersegment transfers are accounted for at values comparable to normal unaffiliated customer sales.

Net external sales of all consolidated foreign subsidiaries were $497 million, $521 million and $523 million for 1999, 1998 and 1997, respectively. Operating profits of all consolidated foreign subsidiaries were $70 million, $47 million and $55 million for 1999, 1998 and 1997, respectively. Domestic operations account for the remaining net sales and operating profits. Long-lived assets consist of net property, plant and equipment, goodwill, and intangibles. Long-lived assets of consolidated foreign subsidiaries totaled $242 million, $312 million and $320 million at December 31, 1999, 1998 and 1997, respectively. The consolidated total of long-lived assets for the Company was $2,026 million, $2,134 million and $2,164 million at December 31, 1999, 1998 and 1997, respectively. Administrative expenses do not include any significant foreign operations. No single geographic area outside the United States was significant relative to consolidated net external sales or operating profits. Consolidated foreign operations were not material for any year prior to 1997.

Export sales and sales to any individual customer were each less than 10 percent of consolidated sales to unaffiliated customers during all years presented.

Reportable Segment Information

(Millions of Dollars)

	1999	1998*	1997*	1996*	1995*
Net External Sales					
Paint Stores	$ 3,002	$ 2,822	$ 2,639	$ 2,414	$ 2,143
Consumer	1,224	1,282	1,409	1,162	729
Automotive Finishes	471	474	476	434	385
International Coatings	299	348	350	114	8
Administrative	8	8	7	9	9
Consolidated totals	$ 5,004	$ 4,934	$ 4,881	$ 4,133	$ 3,274
Operating Profits					
Paint Stores	$ 377	$ 347	$ 315	$ 277	$ 239
Consumer	155	125	167	126	88
Automotive Finishes	67	65	64	52	39
International Coatings	34	24	36	20	2
Administrative:					
Interest expense	(59)	(70)	(79)	(22)	(1)
Corporate expenses and other	(84)	(51)	(76)	(78)	(49)
Income before income taxes	$ 490	$ 440	$ 427	$ 375	$ 318
Identifiable Assets					
Paint Stores	$ 930	$ 881	$ 832	$ 757	$ 674
Consumer	1,804	1,850	1,938	1,122	431
Automotive Finishes	279	275	274	274	157
International Coatings	294	356	312	194	86
Administrative	745	703	680	648	793
Consolidated totals	$ 4,052	$ 4,065	$ 4,036	$ 2,995	$ 2,141
Capital Expenditures					
Paint Stores	$ 49	$ 57	$ 56	$ 49	$ 31
Consumer	40	37	57	44	53
Automotive Finishes	10	8	14	10	13
International Coatings	11	15	13	12	2
Administrative	24	29	24	8	9
Consolidated totals	$ 134	$ 146	$ 164	$ 123	$ 108
Depreciation					
Paint Stores	$ 42	$ 38	$ 40	$ 35	$ 27
Consumer	29	30	24	21	18
Automotive Finishes	8	8	7	7	7
International Coatings	6	6	6	1	1
Administrative	20	16	13	12	10
Consolidated totals	$ 105	$ 98	$ 90	$ 76	$ 63
Operating Margins					
Paint Stores	12.5 %	12.3 %	11.9 %	11.5 %	11.2 %
Consumer	7.6 %	6.1 %	8.0 %	7.0 %	6.6 %
Automotive Finishes	13.3 %	12.8 %	12.5 %	11.1 %	9.4 %
International Coatings	11.4 %	6.9 %	10.2 %	17.5 %	18.2 %
Operating segment totals	10.8 %	9.8 %	10.4 %	9.9 %	9.4 %
Intersegment Transfers					
Paint Stores	$ 8	$ 5			
Consumer	817	771	$ 666	$ 645	$ 608
Automotive Finishes	31	34	37	33	28
International Coatings			2		3
Administrative	12	11	9	9	7
Segment totals	$ 868	$ 821	$ 714	$ 687	$ 646

* Amounts have been restated to conform to the Company's 1999 Reportable Segment Information presentation.

Financial Condition – 1999

Net operating cash flow for 1999, as shown in the Statements of Consolidated Cash Flows, is calculated in accordance with SFAS No. 95, "Statement of Cash Flows." SFAS No. 95 requires that material effects of exchange rate changes on cash held in foreign currencies be reported on a separate line of the Statements of Consolidated Cash Flows. Effective January 1, 1999, the Company began reporting the effects of exchange rate changes on cash in accordance with SFAS No. 95 for its Brazilian operations due to the January 1999 devaluation of the Brazilian real. The effects of exchange rate changes on cash were not material for 1998 or 1997. Net operating cash flow generated by the Company during 1999 was $485.1 million. This cash flow provided the funds to invest in property, plant and equipment, reduce total debt, acquire treasury stock and increase the annual dividend. The Company's current ratio declined to 1.34 at December 31, 1999 from 1.39 at the end of 1998. The Company's Consolidated Balance Sheets and Statements of Consolidated Cash Flows, on pages 25 and 26 of this report, provide more detailed information on the Company's financial position and cash flows.

There were no short-term borrowings outstanding at December 31, 1999 under the Company's commercial paper program. The commercial paper program had unused borrowing availability of $747.2 million at December 31, 1999. Borrowings under the commercial paper program are fully backed by and limited to the borrowing availability under the Company's revolving credit agreements which aggregated $732.8 million effective January 3, 2000.

The Current portion of long-term debt increased $4.1 million to $122.3 million at December 31, 1999. This increase was primarily due to the reclassification of 6.25% Notes due February 1, 2000 of $100.0 million. Substantially offsetting this reclassification was the repayment of Floating Rate Notes of $50.0 million and a portion of 5.5% Notes, due October 15, 2027. The 5.5% Notes permit holders to exercise put options beginning on October 15, 1999 and annually on each October 15 thereafter. Put options were exercised by holders that required the Company to repay $38.9 million of these debt securities in October 1999. The remaining $11.1 million of these debt securities is included in Current portion of long-term debt at December 31, 1999. Inventories increased $20.9 million at December 31, 1999 due primarily to planned inventory builds to support new product introductions planned for early 2000. Some of these new products are expected to dramatically enhance color and product consistency. Increases and decreases in other components of net working capital were primarily due to timing during 1999.

Deferred pension assets of $334.1 million at December 31, 1999 represent the excess of the fair market value of the assets in the Company's defined benefit pension plans over the actuarially-determined projected benefit obligations. The 1999 increase in Deferred pension assets of $30.1 million represents primarily the recognition of the current year net pension credit, described in Note 6 on pages 30 to 32 of this report. The assumed discount rate used to compute the actuarial present value of projected benefit obligations was increased from 6.75 percent to 7.25 percent at December 31, 1999 due to increased rates of high-quality, long-term investments. The slight increase in the actual return on plan assets during 1999 over the assumed return of 8.5 percent was primarily the result of favorable returns on equity investments.

Goodwill, which represents the excess of cost over the fair value of net assets acquired in purchase business combinations, decreased $83.6 million in 1999. Intangible assets, which represent items such as trademarks and patents, decreased $16.8 million in 1999. These decreases were due primarily to amortization expense of $48.3 million and foreign currency translation adjustments, related primarily to the devaluation of the Brazilian real, of $63.7 million. These decreases were

partially offset by increases resulting from 1999 acquisitions. The increase in other assets of $14.0 million was primarily due to the capitalization of costs incurred related to designing, developing, obtaining and implementing internal use software in accordance with Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," net of amortization expense of $2.1 million.

Net property, plant and equipment decreased $7.2 million to $711.7 million at December 31, 1999. The decrease relates primarily to depreciation expense of $105.4 million, provisions for disposition or retirement of certain assets and foreign currency translation adjustments, primarily related to the devaluation of the Brazilian real, partially offset by capital expenditures of $134.2 million. Capital expenditures in 1999 represented primarily the costs of upgrading and installing information systems equipment, the capacity expansion or upgrade of manufacturing and distribution centers, and costs related to new paint stores. Capital expenditures during 1999 in the Paint Stores Segment were primarily attributable to new stores and store relocations along with normal replacement and upgrading of store equipment. Capital expenditures in the Consumer Segment during 1999 were primarily related to capacity expansions and efficiency improvements in production facilities, technical center expansion, and hardware associated with the implementation of a supply chain management system to increase responsiveness to customer demand. Capital expenditures during 1999 in the Automotive Finishes and International Coatings Segments primarily related to capacity expansions and equipment upgrades in two production facilities. The Automotive Finishes Segment also had capital expenditures related to a new state-of-the-art color lab. In 2000, the Company expects that its most significant capital expenditures will relate to the construction or acquisition of a new technical lab facility which was originally planned for 1999, various capacity and productivity improvement projects at manufacturing facilities, continued new store openings, and new or upgraded information systems equipment. The Company does not anticipate the need for any specific long-term external financing to support these capital programs.

Long-term debt decreased $105.9 million during the year to $624.4 million at December 31, 1999, resulting primarily from principal payments and current maturities as previously discussed. The Company expects to remain in a borrowing position throughout 2000.

The increase in the Company's long-term postretirement benefit liability occurred due to the excess of the net postretirement benefit expense over the costs for benefit claims incurred. The current portion of the accrued postretirement liability, amounting to $11.6 million at December 31, 1999, is included in Other accruals. The assumed discount rate used to calculate the actuarial present value of the postretirement benefit obligations was increased from 6.75 percent to 7.25 percent at December 31, 1999 due to increased rates of high-quality long-term investments. The effect of this change on the net postretirement benefit expense for 2000 will be minimal as the cumulative unrecognized net loss is below the threshold for required amortization. See Note 6, on pages 30 to 32 of this report, for further information on the Company's postretirement benefit obligations.

Other long-term liabilities include accruals for environmental-related liabilities and other non-current items. The increase of $30.2 million in other long-term liabilities during 1999 primarily related to additional tax liabilities resulting from timing items partially offset by a decrease in the accrual for environmental-related liabilities. See Note 9, on page 33 of this report, for additional information concerning the Company's Other long-term liabilities.

The Company and certain other companies are defendants in a number of lawsuits, including two purported class actions and an

action brought by the State of Rhode Island, arising from the manufacture and sale of lead pigments and lead paints. The plaintiffs are seeking recovery based upon various legal theories, including negligence, strict liability, breach of warranty, negligent misrepresentations and omissions, fraudulent misrepresentations and omissions, concert of action, civil conspiracy, violations of unfair trade practices and consumer protection laws, enterprise liability, market share liability, nuisance, unjust enrichment and other theories. The lawsuits seek various damages and relief, including personal injury and property damage, costs involving the detection and abatement of lead paint from buildings, costs associated with a public education campaign, medical monitoring costs and others. The Company believes that such lawsuits are without merit and is vigorously defending them. It is also possible that additional lawsuits may be filed against the Company based upon similar or different legal theories and seeking similar or different types of damages and relief.

Litigation is inherently subject to many uncertainties. Adverse rulings or determinations of liability, as well as changes in laws, could affect the lead pigment and lead paint lawsuits against the Company and encourage an increase in the number and nature of future claims and proceedings. Due to the uncertainties involved, management is unable to predict the outcome of such lawsuits or the number or nature of possible future claims and proceedings. In addition, management cannot determine the scope or amount of the potential costs and liabilities related to such lawsuits, claims or proceedings. However, based upon the outcome of previous similar lawsuits, management does not currently believe that the costs or potential liability ultimately determined to be attributable to the Company arising out of such lawsuits will have a material adverse effect on the Company's results of operations, liquidity or financial condition.

The operations of the Company, like those of other companies in our industry, are subject to various federal, state and local environmental laws and regulations. These laws and regulations not only govern our current operations and products, but also impose potential liability on the Company for past operations which were conducted utilizing practices and procedures that were considered acceptable under the laws and regulations existing at that time. The Company expects environmental laws and regulations to impose increasingly stringent requirements upon the Company and our industry in the future. The Company believes it conducts its operations in compliance with applicable environmental laws and regulations and has implemented various programs designed to protect the environment and promote continued compliance.

Capital expenditures and other expenses related to ongoing environmental compliance measures are included in the normal operating expenses of conducting business. The Company's capital expenditures and other expenses related to ongoing environmental compliance measures were not material to the Company's financial condition, results of operations or liquidity during 1999, and the Company does not expect such capital expenditures and other expenses to be material to the Company's financial condition, results of operations or liquidity in the future.

The Company is involved with environmental compliance, investigation and remediation activities at some of its current and former sites (including former sites which were previously owned and/or operated by businesses acquired by the Company). The Company, together with other parties, has also been designated a potentially responsible party under federal and state environmental protection laws for the investigation and remediation of environmental contamination and hazardous waste at a number of third-party sites, primarily Superfund sites. The Company may be similarly designated with respect to additional third-party sites in the future.

The Company accrues for environmental-related activities relating to its past operations and third-party sites, including Superfund sites, for which costs or minimum costs can be reasonably estimated. These estimated costs are determined based on currently available facts regarding each site. The Company continuously assesses its potential liability for investigation and remediation-related activities and adjusts its environmental-related accruals as information becomes available upon which more accurate costs can be reasonably estimated and as additional accounting guidelines are issued which require changing the estimated costs or the procedure utilized in estimating such costs. Actual costs incurred may vary from these estimates due to the inherent uncertainties involved including, among others, the number and financial condition of parties involved with respect to any given site, the volumetric contribution which may be attributed to the Company relative to that attributed to other parties, the nature and magnitude of the wastes involved, the various technologies that can be used for remediation and the determination of acceptable remediation with respect to a particular site.

Pursuant to a Consent Decree entered into with the United States of America, on behalf of the Environmental Protection Agency, filed in the United States District Court for the Northern District of Illinois, the Company has agreed, in part, to (i) conduct an investigation at its southeast Chicago, Illinois facility to determine the nature, extent and potential impact, if any, of environmental contamination at the facility and (ii) implement remedial action measures, if required, to address any environmental contamination identified pursuant to the investigation. The Company is currently conducting its investigation of the site.

The Company entered into a settlement agreement with PMC, Inc. settling a lawsuit brought by PMC regarding the Company's former manufacturing facility in Chicago, Illinois which was sold to PMC in 1985. Pursuant to the terms of the settlement agreement, the Company agreed, in part, to investigate and remediate, as necessary, certain soil and/or groundwater contamination caused by historical disposal, discharges, releases or events occurring at the facility. In February, 1999, the People of the State of Illinois filed an amended complaint in a state court action against PMC joining the Company and alleging, in part, that the Company has caused certain soil and underground contamination at the facility and seeking, in part, that the Company investigate and remediate, as necessary, any such soil and groundwater contamination. The Company has entered into discussions with the State of Illinois to address these allegations.

With respect to the Company's southeast Chicago, Illinois facility and the PMC facility, the Company has evaluated its potential liability and, based upon its preliminary evaluation, has accrued appropriate amounts. However, due to the uncertainties surrounding these facilities, the Company's ultimate liability may result in costs that are significantly higher than currently accrued. In such event, the recording of the liability may result in a material impact on net income for the annual or interim period during which the additional costs are accrued.

The Company does not believe that any potential liability ultimately attributed to the Company for its environmental-related matters will have a material adverse effect on the Company's financial condition, liquidity, cash flow or, except as set forth in the preceding paragraph, net income. See Note 9, on page 33 of this report, for discussion of the environmental-related accruals included in the Company's consolidated balance sheets.

Shareholders' equity decreased $17.4 million during 1999. The decrease was due primarily to the purchase of 5,925,000 shares of Company stock for treasury at a cost of $145.8 million. The Company acquires its own stock for general corporate purposes and, depending on its future cash position and market conditions, it may acquire additional shares in the future. On February 2, 2000,

the Board of Directors authorized the Company to purchase, in the aggregate, 20,000,000 shares of common stock and rescinded the prior share purchase authorization. Also contributing to the decrease in Shareholders' equity are other comprehensive losses related to foreign currency translations of $100.7 million and cash dividends paid of $81.0 million. These decreases were partially offset by current year net income of $303.9 million.

Comprehensive income is comprised of net income and the components of other comprehensive income or loss, which for the Company include foreign currency translation and minimum pension liability adjustments. The 1999 increase of $100.7 million in Cumulative other comprehensive loss occurred primarily due to the devaluation of the Brazilian real. In January 1999, the Brazilian Central Bank eliminated its governmental policy of supporting and tightly managing the trading band of the real and allowed it to trade freely in the open market against other currencies. Shortly after this announcement, the Brazilian real weakened significantly in trading with the U.S. dollar and other foreign currencies and only partially recovered by the end of 1999. As a result of the floating exchange rate of the Brazilian real, the Company may experience increased losses in other comprehensive losses from foreign currency translation of its Brazilian operations in addition to the weakening of any other foreign currencies in countries where we have operations. Based upon the estimated economic outlook and relative stability of currencies in countries where we have operations, the Company does not expect any devaluation or other currency translation losses to have a material adverse effect on operating results, financial condition or cash flows for the Company as a whole. See Note 16, on page 37 of this report.

The Company is exposed to market risk through various financial instruments, including fixed rate debt instruments. The Company does not believe that any potential loss related to these financial instruments will have a material adverse effect on the Company's financial condition or results of operations.

Beginning in the fourth quarter of 1997, the Company commenced multi-year information technology projects to enhance portions of the Company's computer systems. The projects will provide efficiencies and further integration of operations primarily within the Consumer Segment. The Company expects that full implementation of the projects will involve significant capital expenditures over the next several years. Costs and expenses related to these projects, including amortization costs, charged to operations in 1999 were not material. Costs and expenses to be charged to operations in the future are not expected to have a material adverse effect on the Company's annual results of operations. Expenditures associated with these projects slightly impacted cash flows from operations in 1998 and 1999.

At a meeting held on February 2, 2000, the Board of Directors increased the quarterly dividend to $.135 per share. This represents the twenty-first consecutive increase and a compounded annual rate of increase of 25.4 percent since the dividend was reinstated in the fourth quarter of 1979. The 1999 annual dividend of $.48 per share marked the twentieth consecutive year that the dividend approximated our payout ratio target of 30.0 percent of the prior year's earnings.

Year 2000 Readiness

The Company completed its company-wide project to prepare its business for the change in date from the year 1999 to 2000. The Company has not experienced any business interruptions related to the Year 2000 issue. In addition, the Company is not aware of any significant Year 2000 business interruptions experienced by any of its key customers, suppliers, service providers or financial institutions. The total cost of the project was approximately $28.1 million. This cost included costs of internal employees and third-party consultants involved in the project and the costs of software

and hardware. All costs and expenses incurred to address the Year 2000 issue were charged against income on a current basis. These costs and expenses did not have a material adverse effect on the Company's operating results, financial condition or cash flows.

Results of Operations - 1999 vs 1998

Consolidated net sales increased 1.4 percent to $5.00 billion in 1999, primarily due to increased sales in the Paint Stores Segment which were partially offset by decreased sales in each of the other reportable segments.

Net external sales in the Paint Stores Segment during 1999 increased 6.3 percent primarily due to higher volume sales of paint products, combined with sales gains in each of the remaining major product lines (wallcoverings, floorcoverings, spray equipment and associated products). Comparable-store sales increased 4.0 percent in 1999. The Company launched its web site, "www.sherwin-williams.com" in 1999. The web site currently provides Paint Stores Segment do-it-yourself customers, painting contractors, and others with product information and store locations along with do-it-yourself instruction. The Company expects the web site's increasing customer exposure to accelerate the Paint Stores Segment's sales growth. This Segment plans to increase the number of paint store openings and begin conducting business transactions on the Internet in 2000. Increasing customer exposure through the web site and the number of store locations through which to purchase Sherwin-Williams® paint is expected to help continue the Paint Stores Segment's sales growth.

External sales in the Consumer Segment decreased 4.5 percent during 1999 primarily due to the bankruptcy and subsequent liquidation of a large retail customer, the anticipated sales losses due to the closing of a Cleaning Solutions plant in the fourth quarter of 1998, and slow do-it-yourself coatings sales at certain customers. The Company expects that sales from new product introductions, expansion of its presence at certain retailers, and new customer accounts will result in sales growth for this Segment in 2000.

External sales in the Automotive Finishes Segment declined 0.6 percent. The sales decrease in this Segment was primarily due to the effects of foreign currency translation losses and, to a lesser extent, a soft domestic automotive refinish market. The Company expects that sales from new product and color introductions and an increase in the number of automotive branches will result in a sales increase for this Segment in 2000.

External sales in the International Coatings Segment declined 14.0 percent. Sales declines in the International Coatings Segment resulted primarily from the first quarter 1999 devaluation of the Brazilian real and continuing poor market conditions in South America. Gallons sold and sales in local currencies were up in most market areas. The Company expects to realize sales improvements in the International Coatings Segment in 2000 as economic conditions improve in the South American countries in which we operate.

Consolidated gross profit as a percent of sales increased to 44.9 percent from 43.2 percent in 1998. The Paint Stores Segment's 1999 gross profit margin was slightly higher than last year primarily due to a favorable product sales mix. Gross profit margin in the Consumer Segment was higher than last year as increased factory efficiencies and cost reductions associated with closing four manufacturing plants early in 1999 took effect. Gross profit margin in the Automotive Finishes Segment increased slightly due to product sales mix. Gross profit margin in the International Coatings Segment increased primarily due to increased factory efficiencies and cost reduction efforts.

Consolidated selling, general and administrative (SG&A) expenses as a percent of sales increased to 33.4 percent from 32.4 percent in 1998 resulting primarily from increased expenses related to new store openings, bad debts, certain employee benefits, and information systems, partially offset by decreased SG&A expenses in the Consumer

Segment primarily resulting from the consolidation of sales and marketing functions of four separate operating divisions into one. The Paint Stores Segment's SG&A ratio was slightly unfavorable compared to last year primarily due to increased expenses related to new store openings. A slightly unfavorable SG&A ratio in the Consumer Segment for 1999 as compared to last year was primarily a result of decreased sales and increased bad debt expense, partially offset by the consolidation of administrative functions. Automotive Finishes Segment's SG&A ratio was slightly unfavorable compared to last year primarily due to increases in bad debt expense and reduced sales volume. International Coatings Segment's SG&A ratio was unfavorable compared to last year primarily due to reduced sales.

Consolidated operating profits increased 11.4 percent in 1999. Operating profits of the Paint Stores Segment increased 8.6 percent, primarily due to increased sales volume and gross profit margins. The Consumer Segment's operating profits were 23.7 percent higher than last year primarily due to decreased SG&A expenses and increased gross profit margins, partially offset by lower sales volume. Operating profits of the Automotive Finishes Segment increased 2.0 percent primarily due to increased gross profit margins, partially offset by slightly lower sales and increased SG&A expenses. Operating profits of the International Coatings Segment increased 40.3 percent primarily due to decreased foreign currency transaction losses associated with lower U.S. dollar denominated debt and improved gross profit margins, partially offset by decreased sales and increased SG&A expenses. There are certain risks in transacting business internationally, such as changes in applicable laws and regulatory requirements, political instability, general economic and labor conditions, fluctuations in currency exchange rates and expatriation restrictions, which could adversely affect the financial condition or results of operation of the Company's consolidated foreign subsidiaries. Corporate expenses increased in 1999 primarily due to the increase in certain unallocated employee benefit and information systems expenses, partially offset by decreased interest expense. Additionally, the 1998 Corporate expenses included a net gain related to the sale of the Company's joint venture interest in American Standox, Inc. Refer to pages 6 through 13 of this report for additional reportable segment information.

Interest expense decreased in 1999 primarily due to lower average outstanding debt balances. As a result, interest coverage increased to 9.0 times from 7.1 times in 1998. Fixed charge coverage, which is calculated using interest and rent expense, increased to 3.7 times from 3.3 times in 1998.

Interest and net investment income decreased in 1999 primarily due lower average yields, partially offset by slightly higher average cash and short-term investment balances. See Note 4, on page 30 of this report, for further detail on Other expense - net. As shown in Note 13, on page 36 of this report, the effective income tax rate in 1999 remained unchanged from 1998 at 38 percent.

Net income increased 11.4 percent in 1999 to $303.9 million from $272.9 million in 1998. Net income per share - diluted increased 14.6 percent to $1.80 from $1.57. See Note 15, on page 37 of this report for detailed computations.

Results of Operations - 1998 vs 1997

Consolidated net sales increased 1.1 percent over 1997 to $4.93 billion in 1998, primarily due to increased Paint Stores Segment sales, partially offset by decreased sales in the Consumer, Automotive Finishes and International Coatings Segments.

The Paint Stores Segment's sales during 1998 increased 7.0 percent primarily due to increased paint gallons sold to both retail and wholesale customers, combined with sales gains in each of the remaining major product lines. Comparable-store sales were up 4.9 percent in 1998.

External sales in the Consumer Segment decreased 9.0 percent during 1998 primarily due to weak do-it-yourself coatings sales and the continuing effects of the 1997 loss of certain coatings, aerosol and detergent business. Reduced gallons sold to national accounts and home center customers, due to the weak do-it-yourself sales, accounted for a significant portion of the sales decline in this Segment. Reduced sales to some customers in the cleaning solutions business affected Consumer Segment sales of related products. External sales in the Automotive Finishes and International Coatings Segments declined 0.5 and 0.6 percent, respectively. Sales declines in the Automotive Finishes Segment were the result of strong competitive pressures. Weak sales in the International Coatings Segment resulted from poor market conditions in South America.

Consolidated gross profit as a percent of sales increased to 43.2 percent in 1998 from 43.0 percent in 1997. The Paint Stores Segment's 1998 gross profit margin was higher than 1997 primarily due to a favorable product mix. Gross profit margin in the Consumer Segment was lower than 1997 due to lower fixed and overhead cost absorption resulting from decreased sales volume and provisions for plant closings, as described in Note 5 on page 30 of this report, partially offset by the favorable effects of replacing lower margin business with more profitable sales. Gross profit margin in the Automotive Finishes Segment increased due to product sales mix. Gross profit margin in the International Coatings Segment was essentially flat versus 1997.

Consolidated SG&A expenses as a percent of sales increased to 32.4 percent in 1998 from 32.2 percent in 1997 primarily as a result of increased expenses related to Year 2000 compliance efforts. SG&A expenses as a percent of sales for the Paint Stores and Automotive Finishes Segments were slightly unfavorable versus last year primarily due to Year 2000 compliance efforts. A slightly favorable SG&A ratio in the Consumer and International Coatings Segments for 1998 compared to 1997 was primarily a result of reduced promotional expenses.

Consolidated operating profits increased 3.0 percent in 1998. Operating profits of the Paint Stores Segment increased 10.2 percent, primarily due to increased sales volume and gross profit, partially offset by higher SG&A expenses. The Consumer Segment's operating profits were 24.9 percent lower in 1998 versus 1997 primarily due to decreased sales volume and gross profit margins, partially offset by lower SG&A expenses. Operating profits of the Automotive Finishes Segment increased 1.5 percent primarily due to increased gross profit margins, partially offset by slightly lower sales and increased SG&A expenses. Operating profits of the International Coatings Segment decreased 32.0 percent primarily due to increased foreign currency transaction losses, decreased sales and increased SG&A expenses. Corporate and other expenses decreased in 1998 compared to 1997 primarily due to decreased interest expense and net losses relating to translation of certain foreign investments which are not directly associated with any individual operating segment and the leasing of office space which was vacant in 1997.

Interest expense decreased in 1998 primarily due to lower average outstanding debt balances. As a result, interest coverage increased to 7.1 times from 6.3 times in 1997. Fixed charge coverage, which is calculated using interest and rent expense, increased to 3.3 times from 3.2 times in 1997.

Interest and net investment income decreased in 1998 from 1997 primarily due to lower average cash and short-term investment balances and lower average yields. See Note 4, on page 30 of this report, for further detail on Other expense - net. As shown in Note 13, on page 36 of this report, the effective income tax rate in 1998 decreased to 38 percent, from 39 percent in 1997, due to the effects of changes in tax credits from investment vehicles and other - net items.

Net income increased 4.7 percent in 1998 to $272.9 million from $260.6 million in 1997. Net income per share - diluted increased 4.7 percent to $1.57 from $1.50. See Note 15, on page 37 of this report for detailed computations.

Report of Management and Cautionary Statement Regarding Forward-Looking Information

Report of Management

Shareholders
The Sherwin-Williams Company

We have prepared the accompanying consolidated financial statements and related information included herein for the years ended December 31, 1999, 1998 and 1997. The primary responsibility for the integrity of the financial information rests with management. This information is prepared in accordance with accounting principles generally accepted in the United States, based upon our best estimates and judgments and giving due consideration to materiality.

The Company maintains accounting and control systems which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and which produce records adequate for preparation of financial information. There are limits inherent in all systems of internal control based on the recognition that the cost of such systems should not exceed the benefits to be derived. We believe our systems provide this appropriate balance.

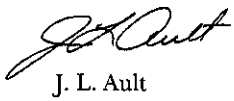
The Board of Directors pursues its responsibility for these financial statements through the Audit Committee, composed exclusively of outside directors. The Committee meets periodically with management, internal auditors and our independent auditors to discuss the adequacy of financial controls, the quality of financial reporting and the nature, extent and results of the audit effort. Both the internal auditors and independent auditors have private and confidential access to the Audit Committee at all times.



C.M. Connor
Vice Chairman and
Chief Executive Officer



L. J. Pitorak
Senior Vice President -
Finance, Treasurer and
Chief Financial Officer



J. L. Ault
Vice President -
Corporate Controller

Cautionary Statement Regarding Forward-Looking Information

Certain statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Letter to Shareholders", "Reportable Segment Information" and elsewhere in this report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based upon management's expectations and beliefs concerning future events and discuss, among other things, anticipated future performance and revenues, expected growth and future business plans. Words and phrases such as "expects", "anticipates", "believes", "will likely result", "will continue", "plans to", and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company, that could cause actual results to differ materially from such statements. These uncertainties and other factors include such things as: general business conditions, strengths of retail economies and the growth in the coatings industry; competitive factors, including pricing pressures and product innovation and quality; raw material availability and pricing; changes in the Company's relationships with customers and suppliers; the ability of the Company to successfully integrate recent and future acquisitions into its existing operations; changes in general domestic economic conditions such as inflation rates, interest rates and tax rates; risk and uncertainties associated with the Company's expansion into foreign markets, including inflation rates, recessions, foreign currency exchange rates, foreign investment and repatriation restrictions and other external economic and political factors; increasingly stringent domestic and foreign governmental regulations including those affecting the environment; inherent uncertainties involved in assessing the Company's potential liability for environmental remediation-related activities; the nature, cost, quantity and outcome of pending and future litigation and other claims, including the lead pigment and lead paint lawsuits; and unusual weather conditions.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

Report of Independent Auditors

Shareholders and Board of Directors
The Sherwin-Williams Company
Cleveland, Ohio

We have audited the accompanying consolidated balance sheets of The Sherwin-Williams Company and subsidiaries as of December 31, 1999, 1998 and 1997, and the related statements of consolidated income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Sherwin-Williams Company and subsidiaries at December 31, 1999, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Cleveland, Ohio
January 25, 2000

Statements of Consolidated Income

(Thousands of Dollars Except Per Share Data)

	Year ended December 31,		
	1999	1998	1997
Net sales	$ 5,003,837	$ 4,934,430	$ 4,881,103
Cost of goods sold	2,755,323	2,804,459	2,784,392
Gross profit	2,248,514	2,129,971	2,096,711
Percent to net sales	*44.9 %*	*43.2 %*	*43.0 %*
Selling, general and administrative expenses	1,673,449	1,598,333	1,573,510
Percent to net sales	*33.4 %*	*32.4 %*	*32.2 %*
Operating income	575,065	531,638	523,201
Percent to net sales	*11.5 %*	*10.8 %*	*10.7 %*
Interest expense	61,168	71,971	80,837
Interest and net investment income	(5,761)	(6,482)	(8,278)
Other expense - net	29,540	26,046	23,365
Income before income taxes	490,118	440,103	427,277
Income taxes	186,258	167,239	166,663
Net income	$ 303,860	$ 272,864	$ 260,614
Net income per share:			
Basic	$ 1.81	$ 1.58	$ 1.51
Diluted	$ 1.80	$ 1.57	$ 1.50

See notes to consolidated financial statements.

Consolidated Balance Sheets

(Thousands of Dollars)

	December 31,		
	1999	1998	1997
Assets			
Current assets:			
Cash and cash equivalents	$ 18,623	$ 19,133	$ 3,530
Accounts receivable, less allowance	606,046	604,516	546,314
Inventories:			
Finished goods	591,912	568,328	587,680
Work in process and raw materials	111,476	114,195	133,988
	703,388	682,523	721,668
Deferred income taxes	128,177	117,720	124,669
Other current assets	141,143	123,398	136,072
Total current assets	1,597,377	1,547,290	1,532,253
Goodwill	1,039,555	1,123,128	1,161,129
Intangible assets	274,924	291,715	310,221
Deferred pension assets	334,094	304,006	276,086
Other assets	94,464	80,466	63,854
Property, plant and equipment:			
Land	62,517	67,567	64,367
Buildings	431,802	422,902	383,485
Machinery and equipment	913,346	906,501	841,343
Construction in progress	40,262	43,274	68,649
	1,447,927	1,440,244	1,357,844
Less allowances for depreciation	736,251	721,387	665,586
	711,676	718,857	692,258
Total Assets	$ 4,052,090	$ 4,065,462	$ 4,035,801
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings			$ 106,913
Accounts payable	$ 458,919	$ 408,144	424,184
Compensation and taxes withheld	140,934	125,698	118,709
Current portion of long-term debt	122,270	118,178	53,926
Other accruals	382,343	383,149	367,392
Accrued taxes	85,396	76,804	44,539
Total current liabilities	1,189,862	1,111,973	1,115,663
Long-term debt	624,365	730,283	843,919
Postretirement benefits other than pensions	206,591	204,763	199,839
Other long-term liabilities	332,740	302,503	284,200
Shareholders' equity:			
Common stock - $1.00 par value: 165,663,601, 171,033,231, and 172,907,418 shares outstanding at December 31, 1999, 1998 and 1997, respectively	206,309	205,701	204,538
Other capital	150,887	143,686	119,695
Retained earnings	2,020,851	1,797,945	1,602,882
Treasury stock, at cost	(533,891)	(386,465)	(301,418)
Cumulative other comprehensive loss	(145,624)	(44,927)	(33,517)
Total shareholders' equity	1,698,532	1,715,940	1,592,180
Total Liabilities and Shareholders' Equity	$ 4,052,090	$ 4,065,462	$ 4,035,801

See notes to consolidated financial statements.

Statements of Consolidated Cash Flows

(Thousands of Dollars)

	Year Ended December 31,		
	1999	1998	1997
Operating Activities			
Net income	$ 303,860	$ 272,864	$ 260,614
Adjustments to reconcile net income to net operating cash:			
Depreciation	105,350	97,821	90,202
Deferred income taxes	21,170	30,557	59,247
Provisions for disposition of operations	7,640	23,557	4,152
Provisions for environmental-related matters	16,334	4,295	7,607
Amortization of intangible assets	50,394	50,067	49,044
Defined benefit pension plans net credit	(28,083)	(30,851)	(20,173)
Net increase in postretirement liability	3,428	5,424	5,452
Foreign currency transaction losses	3,333	11,773	15,580
Other	13,594	554	397
Net change in working capital accounts:			
Increase in accounts receivable	(28,212)	(65,679)	(30,405)
(Increase) decrease in inventories	(24,420)	35,130	(34,745)
Increase (decrease) in accounts payable	60,487	(12,272)	11,611
Increase (decrease) in accrued taxes	6,019	32,449	(24,016)
Other	3,650	35,175	6,493
Proceeds of insurance settlement			53,900
Increase in long-term accrued taxes	15,715	8,211	12,174
Costs incurred for environmental-related matters	(15,808)	(14,275)	(18,052)
Costs incurred for disposition of operations	(15,529)	(5,322)	(12,422)
Other	(13,808)	(10,721)	(4,354)
Net operating cash	485,114	468,757	432,306
Investing Activities			
Capital expenditures	(134,171)	(146,129)	(163,955)
Acquisitions of businesses	(15,427)		(884,525)
Increase in other investments	(23,435)	(19,281)	(5,633)
Other	9,111	(6,478)	849
Net investing cash	(163,922)	(158,932)	(1,053,264)
Financing Activities			
Net decrease in short-term borrowings		(106,913)	(61,692)
Increase in long-term debt		4,559	750,653
Payments of long-term debt	(102,046)	(54,673)	(2,194)
Payments of cash dividends	(80,954)	(77,801)	(69,027)
Proceeds from stock options exercised	7,107	16,818	14,760
Treasury stock acquired	(147,426)	(85,047)	(5,464)
Other	4,411	8,835	(4,428)
Net financing cash	(318,908)	(294,222)	622,608
Effect of exchange rate changes on cash	(2,794)		
Net (decrease) increase in cash and cash equivalents	(510)	15,603	1,650
Cash and cash equivalents at beginning of year	19,133	3,530	1,880
Cash and cash equivalents at end of year	$ 18,623	$ 19,133	$ 3,530
Taxes paid on income	$ 153,890	$ 85,746	$ 115,801
Interest paid on debt	61,868	71,970	59,572

See notes to consolidated financial statements.

Statements of Consolidated Shareholders' Equity

(Thousands of Dollars Except Per Share Data)

	Common Stock	Other Capital	Retained Earnings	Treasury Stock	Cumulative Other Comprehensive Loss	Total
Balance at January 1, 1997	$ 101,650	$ 203,223	$ 1,411,295	$ (295,954)	$ (18,982)	$ 1,401,232
Comprehensive income:						
Net income			260,614			260,614
Other comprehensive loss					(14,535)	(14,535)
Comprehensive income						246,079
Two-for-one stock split	101,876	(101,876)				
Stock issued (tendered) for exercise of options	1,012	20,793		(5,464)		16,341
Restricted stock grants (net activity)		528				528
Stock acquired for trust		(2,973)				(2,973)
Cash dividends – $.40 per share			(69,027)			(69,027)
Balance at December 31, 1997	204,538	119,695	1,602,882	(301,418)	(33,517)	1,592,180
Comprehensive income:						
Net income			272,864			272,864
Other comprehensive loss					(11,410)	(11,410)
Comprehensive income						261,454
Treasury stock acquired				(83,791)		(83,791)
Stock issued (tendered) for exercise of options	1,201	23,103		(1,256)		23,048
Restricted stock grants (net activity)	(38)	2,128				2,090
Stock acquired for trust		(1,240)				(1,240)
Cash dividends – $.45 per share			(77,801)			(77,801)
Balance at December 31, 1998	**205,701**	**143,686**	**1,797,945**	**(386,465)**	**(44,927)**	**1,715,940**
Comprehensive income:						
Net income			303,860			303,860
Other comprehensive loss					(100,697)	(100,697)
Comprehensive income						203,163
Treasury stock acquired				(145,806)		(145,806)
Stock issued (tendered) for exercise of options	463	8,597		(252)		8,808
Stock tendered in connection with restricted stock grants				(1,368)		(1,368)
Restricted stock grants (net activity)	145	(69)				76
Stock acquired for trust		(1,327)				(1,327)
Cash dividends – $.48 per share			(80,954)			(80,954)
Balance at December 31, 1999	$ 206,309	$ 150,887	$ 2,020,851	$ (533,891)	$ (145,624)	$ 1,698,532

See notes to consolidated financial statements.

(Thousands of Dollars Unless Otherwise Indicated)

Note 1 — Significant Accounting Policies

Consolidation. The consolidated financial statements include all controlled subsidiaries. Inter-company accounts and transactions have been eliminated.

Reportable segments. Reportable segment information appears on pages 6 through 13 of this report.

Foreign currency translation. All consolidated non-highly inflationary foreign operations use the local currency of the country of operation as the functional currency and translate the local currency asset and liability accounts at year-end exchange rates while income and expense accounts are translated at average exchange rates. The resulting translation adjustments are included in Cumulative other comprehensive loss, a component of Shareholders' equity. All consolidated highly inflationary foreign operations use the Company's currency as the functional currency.

Cash flows. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nature of operations. The Company is engaged in the manufacture, distribution and sale of coatings and related products to professional, industrial, commercial and retail customers primarily in North and South America.

Use of estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Environmental matters. Capital expenditures for ongoing environmental compliance measures are recorded in the consolidated balance sheets, and related expenses are included in the normal operating expenses of conducting business. The Company is involved with environmental compliance and remediation activities at some of its current and former sites and at a number of third-party sites. The Company accrues for certain environmental remediation-related activities for which commitments or clean-up plans have been developed and for which costs can be reasonably estimated. All accrued amounts are recorded on an undiscounted basis. Accrued environmental remediation-related expenses include direct costs of remediation and indirect costs related to the remediation effort, such as compensation and benefits for employees directly involved in the remediation activities and fees paid to outside engineering, consulting and law firms. See Notes 4 and 9 for discussions of the environmental remediation-related expense and accruals included in the consolidated financial statements.

Stock-based compensation. The Company uses the intrinsic value method of accounting for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25. See Note 12 for pro forma disclosure of net income and earnings per share under the fair value method of accounting for stock-based compensation as prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation."

Property, plant and equipment. Property, plant and equipment is stated on the basis of cost. Depreciation is provided principally by the straight-line method. The major classes of assets and ranges of depreciation rates are as follows:

Buildings	2% - 6-2/3%
Machinery and equipment	4% - 20%
Furniture and fixtures	5% - 33-1/3%
Automobiles and trucks	10% - 33-1/3%

Investment in life insurance. The Company invests in broad-based corporate owned life insurance. The cash surrender values of the policies, net of policy loans, are included in Other assets. The net expense associated with such investment is included in Other expense - net. Such expense is immaterial to Income before income taxes.

Goodwill. Goodwill represents the cost in excess of fair value of net assets acquired in business combinations accounted for by the purchase method and is amortized on a straight-line basis over the expected period of benefit ranging from 10 to 40 years. The Company evaluates the recoverability of goodwill and related estimated remaining lives at each balance sheet date and would record an impairment or change in useful life whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed in accordance with SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of." Accumulated amortization of goodwill was $107,365, $78,983 and $48,596 at December 31, 1999, 1998 and 1997, respectively.

Intangibles. Intangible assets include non-compete covenants, operating rights, patents and trademarks. These assets are amortized on a straight-line basis over the expected period of benefit ranging from 1 to 40 years. Accumulated amortization of intangible assets was $119,125, $102,359 and $85,242 at December 31, 1999, 1998 and 1997, respectively. The Company reviews intangible assets and related estimated remaining lives at each balance sheet date and would record an impairment or change in useful life whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed in accordance with SFAS No. 121.

Technical expenditures. Total technical expenditures include research and development costs, quality control, product formulation expenditures and other similar items. Research and development costs included in technical expenditures were $27,200, $23,955 and $24,748 for 1999, 1998 and 1997, respectively.

Advertising expenses. The cost of advertising is expensed as incurred. The Company incurred $265,411, $282,817 and $295,942 in advertising costs during 1999, 1998 and 1997, respectively.

Advertising expenses. The cost of advertising is expensed as incurred. The Company incurred $265,411, $282,817 and $295,942 in advertising costs during 1999, 1998 and 1997, respectively.

Earnings per share. The Company adopted SFAS No. 128, "Earnings Per Share," during the quarter ended December 31, 1997. Accordingly, basic net income per share is computed based on the weighted-average number of shares outstanding during the year. Diluted net income per share is computed based on the weighted-average number of shares outstanding plus all potentially dilutive securities outstanding during the year. See Note 15 for computation.

Letters of credit. The Company occasionally enters into standby letter of credit agreements to guarantee various operating activities. These agreements, which expire in 2000, provide credit availability to the various beneficiaries if certain contractual events occur. Amounts outstanding under these agreements totaled $14,177, $15,042 and $18,844 at December 31, 1999, 1998 and 1997, respectively.

Fair value of financial instruments. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate fair value.

Short-term investments: The carrying amounts reported in the consolidated balance sheets for marketable debt and equity securities are based on quoted market prices and approximate fair value.

Investments in securities: The Company maintains certain long-term investments, classified as available for sale securities, in a fund to provide for payment of health care benefits of certain qualified employees. The estimated fair values of these securities, included in Other assets, of $21,093, $25,523 and $28,751 at December 31, 1999, 1998 and 1997, respectively, are based on quoted market prices.

Long-term debt (including current portion): The fair values of the Company's publicly traded debentures, shown below, are based on quoted market prices. The fair values of the Company's non-traded debt, also shown below, are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

	December 31,					
	1999		1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Publicly traded debt	$726,017	$698,031	$764,806	$825,989	$764,725	$826,400
Non-traded debt	20,536	18,969	83,559	80,929	133,012	122,354

Interest rate swaps: The Company occasionally enters into interest rate swaps primarily to hedge against interest rate risks. These agreements generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. Counterparties to these agreements are major financial institutions. Management believes the risk of incurring losses related to credit risk is remote.

The fair values for the Company's interest rate swap agreements are based on pricing models or formulas using current assumptions for comparable instruments. The interest rate swap agreements, shown below, did not have carrying values for either period presented. There were no interest rate swaps outstanding at December 31, 1999.

	December 31,	
	1998	1997
Fair value	$ 17	$ 443
Notional amount	50,000	100,000
Number of agreements outstanding	1	2

Non-traded investments: It was not practicable to estimate the fair value of the Company's investment in certain non-traded investments because of the lack of quoted market prices and the inability to estimate fair values without incurring excessive costs. The carrying amounts, included in Other assets, of $15,860, $20,034 and $17,587 at December 31, 1999, 1998 and 1997, respectively, represent the Company's best estimate of current economic values of these investments.

Reclassification. Certain amounts in the 1998 and 1997 financial statements have been reclassified to conform with the 1999 presentation.

Note 2 — Acquisition and Merger

Effective January 7, 1997, the Company, through a wholly-owned subsidiary, acquired all shares outstanding of Thompson Minwax Holding Corp. (Thompson Minwax). The total amount of funds required to acquire the shares and pay off certain indebtedness of Thompson Minwax was approximately $830,000. The excess purchase price over the fair value of the net assets acquired is being amortized over 40 years using the straight-line method. For financial statement purposes, the acquisition was accounted for under the purchase method of accounting. Accordingly, the results of operations of Thompson Minwax since the date of acquisition are included in the Company's statements of consolidated income.

In addition, during the three-year period ended December 31, 1999, the Company purchased various automotive and retail paint distributors, coatings manufacturers, and aerosol and liquid filling businesses.

Note 3 — Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally on the last-in, first-out (LIFO) method which provides a better matching of current costs and revenues in periods of inflation. The following presents the effect on inventories, net income and net income per basic share had the Company used the first-in, first-out (FIFO) and

(Thousands of Dollars Unless Otherwise Indicated)

average cost methods of inventory valuation adjusted for income taxes at the statutory rate and assuming no other adjustments. This information is presented to enable the reader to make comparisons with companies using the FIFO method of inventory valuation.

	1999	1998	1997
Percentage of total inventories on LIFO	90 %	91 %	93 %
Excess of FIFO and average cost over LIFO	$ 97,953	$ 96,235	$104,637
Increase (decrease) in net income due to LIFO	(894)	4,685	(3,604)
Increase (decrease) in net income per basic share due to LIFO	(.01)	.03	(.02)

Note 4 — Other Expense - Net

A summary of significant items included in Other expense - net is as follows:

	1999	1998	1997
Dividend and royalty income	$ (4,692)	$ (3,069)	$ (3,361)
Net expense of financing and investing activities	7,084	2,542	3,688
Provisions for environmental matters - net (see Note 9)	15,402	695	107
Provisions for disposition and termination of operations (see Note 5)	3,830	12,290	4,152
Foreign currency transaction losses	3,333	11,773	15,580
Miscellaneous	4,583	1,815	3,199
	$ 29,540	$ 26,046	$ 23,365

The net expense of financing and investing activities represents the net realized gains from disposing of fixed assets, the net gain or loss associated with the investment of certain long-term asset funds, the net pre-tax expense associated with the Company's investment in broad-based corporate owned life insurance and, in 1998, the net gain related to the sale of the Company's joint venture interest in American Standox, Inc.

The provisions for environmental matters represent the charge to income necessary to record the most current estimates of potential costs of environmental remediation at current, former and third-party sites. The provisions for 1998 and 1997 were partially offset by settlements with certain insurance carriers totaling $3,600 and $7,500, respectively.

The provisions for disposition and termination of operations reduce property, plant and equipment at closed facilities to estimated net realizable value and adjust previous provisions to current estimates as closure or disposition occurs. The increase in 1998 is primarily due to provisions for closing four manufacturing facilities as more fully described in Note 5.

Note 5 — Disposition and Termination of Operations

The Company is continually re-evaluating its operating facilities with regard to long-term strategic goals. Upon cessation of operations at facilities that are not expected to contribute sufficiently to the Company's future plans, a provision is made to reduce property, plant and equipment to its estimated net realizable value. The expense is included in Other expense - net. Similarly, provisions are made, and included in Cost of goods sold, to provide for all qualified exit costs such as lease cancellation penalties, post-closure rent expenses, incremental post-closure expenses and the estimated costs of employee terminations.

The provisions made during 1999 reduced certain assets to their net realizable value and accrued qualified exit costs for two idle manufacturing facilities and a leased warehouse. The provisions made during 1998 reduced certain assets to their net realizable value and accrued qualified exit costs related to four redundant manufacturing facilities. There were no new provisions made in 1997. Adjustments are made to prior accruals as information becomes available upon which more accurate costs can be reasonably estimated.

The remaining accrual at December 31, 1999 primarily consisted of reductions in property, plant and equipment to estimated net realizable values, post-closure demolition expenses, and continued lease payments or cancellation penalties relating to facilities whose operations ceased prior to 1997. The Company is involved in ongoing environmental-related activities at certain owned facilities that have been closed and cannot reasonably estimate when such matters will be concluded to allow for disposition. As sale of the facilities occurs, following the completion of the environmental-related activities, or at time of demolition the realized loss from carrying value to net realizable value will be charged to the accrual. Most demolition expenses and lease cancellation penalties are expected to be incurred during 2000.

A summary of the financial data related to the closing or sale of the facilities is as follows:

	1999	1998	1997
Beginning accruals — January 1	$ 56,097	$ 47,111	$ 60,544
Provisions included in Cost of goods sold	3,810	11,267	
Provisions included in Other expense - net	278	14,094	
Prior accrual adjustments included in Other expense - net	3,552	(1,804)	4,152
Total charges in Other expense – net	3,830	12,290	4,152
Actual expenditures charged to accrual	(15,529)	(5,322)	(12,422)
Carrying value reductions charged to accrual	(13,325)	(9,249)	(5,163)
Ending accruals — December 31	$ 34,883	$ 56,097	$ 47,111
Net after-tax charges to current operations	$ 4,966	$ 15,312	$ 2,699
Net after-tax charges per basic share	$ .03	$ .09	$ .02

Note 6 — Pension and Other Benefits

The Company provides pension benefits to substantially all employees through noncontributory defined benefit or defined contribution plans. In addition, certain health care and life insurance benefits are provided by company-sponsored plans for certain active and retired employees. Effective December 31, 1998, the Company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The disclosures required by SFAS No. 132 supersede previous disclosure requirements without affecting measurement or recognition criteria. Accordingly, all disclosures for prior periods shown below have been restated to conform to the disclosure requirements of SFAS No. 132.

	Defined Benefit Pension Plans			Other Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
Benefit obligation:						
Balance at beginning of year	$169,099	$175,204	$158,876	$ 217,627	$ 206,007	$ 183,179
Service cost	3,237	2,564	2,570	4,215	3,877	3,720
Interest cost	11,516	11,942	11,859	14,467	13,909	13,708
Actuarial (gain) loss	(1,106)	1,702	402	966	3,184	15,366
Plan amendments		2,003	201			
Acquisitions			19,644			
Other - net	181					
Benefits paid	(12,295)	(24,316)	(18,348)	(11,589)	(9,350)	(9,966)
Balance at end of year	170,632	169,099	175,204	225,686	217,627	206,007
Plan assets:						
Balance at beginning of year	492,384	446,271	391,865			
Actual return on plan assets	44,859	71,188	60,143			
Acquisitions			10,574			
Other - net	(1,495)	(759)	2,037			
Benefits paid	(12,295)	(24,316)	(18,348)			
Balance at end of year	523,453	492,384	446,271			
Excess (deficient) plan assets:						
Balance at end of year	352,821	323,285	271,067	(225,686)	(217,627)	(206,007)
Unrecognized net asset	(1,279)	(2,792)	(4,304)			
Unrecognized actuarial (gain) loss	(20,262)	(20,348)	3,195	21,993	20,171	16,784
Unrecognized prior service cost (credit)	2,404	2,330	808	(14,498)	(17,307)	(20,116)
Net asset (liability) recognized in the consolidated balance sheets	$333,684	$302,475	$270,766	$(218,191)	$(214,763)	$(209,339)
Net asset (liability) recognized in the consolidated balance sheets consists of:						
Prepaid benefit cost	$334,094	$304,006	$276,086			
Accrued benefit liability			(1,136)	$(206,591)	$(204,763)	$(199,839)
Amount included in current liabilities	(410)	(1,531)	(4,612)	(11,600)	(10,000)	(9,500)
Cumulative other comprehensive loss - net of tax			428			
	$333,684	$302,475	$270,766	$(218,191)	$(214,763)	$(209,339)
Weighted-average assumptions as of December 31:						
Discount rate	7.25 %	6.75 %	7.00 %	7.25 %	6.75 %	7.00 %
Expected long-term rate of return on assets	8.50 %	8.50 %	8.50 %			
Rate of compensation increase	5.00 %	5.00 %	5.00 %			
Health care cost trend rate				6.40 %	6.70 %	7.20 %
Net periodic benefit (credit) cost:						
Service and interest cost	$ 14,753	$ 14,506	$ 14,429	$ 18,682	$ 17,786	$ 17,428
Net amortization and deferral	(699)	(2,524)	(1,008)	(2,768)	(2,809)	(2,689)
Expected return on assets	(42,137)	(37,531)	(33,594)			
Settlement gain		(5,302)				
Net periodic benefit (credit) cost	$(28,083)	$(30,851)	$(20,173)	$ 15,914	$ 14,977	$ 14,739

Plan assets include 1,938,800 shares of the Company's common stock at December 31, 1999. The ending market value and dividends received during the year for those shares was $40,715 and $931, respectively.

There were no pension plans with accumulated benefit obligations in excess of plan assets at December 31, 1999 or 1998. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets at December 31, 1997 were $15,612, $15,573 and $11,541, respectively.

The Company's annual contribution for its defined contribution pension plans, which is based on a level percentage of compensation for covered employees, was $31,512, $27,004 and $28,255 in 1999, 1998 and 1997, respectively.

(Thousands of Dollars Unless Otherwise Indicated)

The health care plans are contributory and contain cost-sharing features such as deductibles and coinsurance. There were 16,081, 15,894 and 16,049 active employees entitled to receive benefits under these plans as of December 31, 1999, 1998 and 1997, respectively. The cost of these benefits for active employees is recognized as claims are incurred and amounted to $52,640, $47,563 and $47,484 for 1999, 1998 and 1997, respectively. The Company has a fund, to which it no longer intends to contribute, that provides for payment of health care benefits of certain qualified employees. Distributions from the fund amounted to $6,421, $4,928 and $5,025 in 1999, 1998 and 1997, respectively.

Employees of the Company who were hired prior to January 1, 1993 and who are not members of a collective bargaining unit, and certain groups of employees added through acquisitions, are eligible for certain health care and life insurance benefits upon retirement from active service, subject to the terms, conditions and limitations of the applicable plans. There were 4,831, 4,800 and 4,229 retired employees entitled to receive benefits as of December 31, 1999, 1998 and 1997, respectively. The plans are unfunded.

The health care cost trend rate is assumed to decrease gradually to 5.5 percent for 2003 and thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects as of December 31, 1999:

	One-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 822	$ (781)
Effect on the postretirement benefit obligation	$ 11,380	$ (10,800)

Note 7 — Long-Term Debt

		Amount Outstanding		
	Due Date	1999	1998	1997
6.85% Notes	2007	$ 199,775	$ 199,742	$ 199,710
7.375% Debentures	2027	149,907	149,903	149,900
7.45% Debentures	2097	149,402	149,396	149,390
6.5% Notes	2002	99,978	99,966	99,955
6.25% Notes	2000		99,974	99,948
Floating Rate Notes				50,000
5.5% Notes	2027			49,922
9.875% Debentures	2007 to 2016	15,900	15,900	15,900
6% to 9% Promissory Notes	Through 2004	5,752	10,623	23,791
8% to 12% Promissory Notes partially secured by certain land and buildings and other	Through 2005	3,569	3,884	4,495
4.75% Promissory Note	2000		800	800
Other Obligations		82	95	108
		$ 624,365	$ 730,283	$ 843,919

Maturities of long-term debt are as follows for the next five years: $122,270 in 2000; $4,141 in 2001; $102,971 in 2002; $1,542 in 2003; and $405 in 2004.

Interest expense on long-term debt was $55,415, $59,137 and $52,351 for 1999, 1998 and 1997, respectively.

Effective January 3, 1997, the Company entered into revolving credit agreements aggregating a maximum borrowing of $1,450,000. Amendments in 1999, 1998 and 1997 reduced the aggregate maximum borrowing amount under these agreements to $760,000, $1,064,000 and $1,080,000, respectively. The agreements were further amended effective December 31, 1999 and January 3, 2000 to reflect the following: 1) a 364-day agreement aggregating $134,400 expiring on December 29, 2000; and 2) a five-year agreement aggregating $598,400, with $30,400 expiring January 3, 2003 and $568,000 expiring January 3, 2005. There were no borrowings outstanding under any revolving credit agreement during all years presented.

The Company uses the revolving credit agreements to satisfy its commercial paper program's dollar for dollar liquidity requirement. At December 31, 1997, borrowings outstanding under the commercial paper program totaled $106,748 and are included in Short-term borrowings on the balance sheet. The weighted-average interest rate related to these borrowings was 5.89% at December 31, 1997. There were no borrowings outstanding under this program at December 31, 1999 and 1998, respectively. Effective January 3, 2000, this program is limited to $732,800, which equals the new aggregate maximum borrowing capacity under the revolving credit agreements.

On February 10, 1997, the Company issued $400,000 of debt securities under its $450,000 shelf registration with the Securities and Exchange Commission consisting of $100,000 of 6.25% notes due February 1, 2000, $100,000 of 6.5% notes due February 1, 2002 and $200,000 of 6.85% notes due February 1, 2007. In addition, on February 10, 1997, the Company issued $150,000 of 7.375% debentures due February 1, 2027 and $150,000 of 7.45% debentures due February 1, 2097 in a private offering not registered under the Securities Act of 1933, as amended (Securities Act). In July 1997, the Company exchanged all of its 7.375% and 7.45% unregistered debentures outstanding for an equal principal amount of newly-issued debentures containing identical terms except that the newly-issued debentures were registered under the Securities Act. The net proceeds from these borrowings were used to refinance a portion of the Company's commercial paper debt.

On October 6, 1997, the Company issued the remaining $50,000 of debt securities under this shelf registration consisting of 5.5% notes, due October 15, 2027, with provisions that the holders, individually or in the aggregate, may exercise a put option which would require the Company to repay the

securities at an earlier date. This option was first available to the holders on October 15, 1999, and then annually on each October 15 thereafter. On October 15, 1999, individual debt security holders exercised put options requiring the Company to repay $38,945 of these debt securities. The remaining $11,055 of these debt securities is included in Current portion of long-term debt on the December 31, 1999 consolidated balance sheet. The net proceeds from the initial borrowing in 1997 were used to refinance short-term commercial paper debt.

On December 24, 1997, the Company filed a shelf registration with the Securities and Exchange Commission covering $150,000 of unsecured debt securities with maturities greater than nine months from the date of issue. The Company may issue these securities from time to time in one or more series and will offer the securities on terms determined at the time of sale. There were no borrowings outstanding under this registration at December 31, 1999, 1998 and 1997.

On August 18, 1998, the Company filed a universal shelf registration statement with the Securities and Exchange Commission to issue debt securities, common stock and warrants up to $1,500,000. The registration was effective September 8, 1998. There were no borrowings outstanding under this registration at December 31, 1999 and 1998.

Note 8 — Leases

The Company leases certain stores, warehouses, manufacturing facilities, office space and equipment. Renewal options are available on the majority of leases and, under certain conditions, options exist to purchase some properties. Rental expense for operating leases was $123,084, $117,762 and $113,339 for 1999, 1998 and 1997, respectively. Certain store leases require the payment of contingent rentals based on sales in excess of specified minimums. Contingent rentals included in rent expense were $11,530, $10,329 and $10,396 in 1999, 1998 and 1997, respectively. Rental income, as lessor, from real estate leasing activities and sublease rental income for all years presented was not significant.

Following is a schedule, by year and in the aggregate, of future minimum lease payments under noncancellable operating leases having initial or remaining terms in excess of one year at December 31, 1999:

2000	$ 91,672
2001	77,066
2002	60,427
2003	42,824
2004	28,196
Later years	83,388
Total minimum lease payments	$ 383,573

Note 9 — Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	1999	1998	1997
Environmental-related	$124,096	$127,613	$143,276
Other	208,644	174,890	140,924
	$332,740	$302,503	$284,200

The accrual for environmental-related long-term liabilities represents the Company's provisions for estimated costs associated with extended environmental remediation-related activities at some of its current and former sites. Also, the Company, together with other parties, has been designated a potentially responsible party under federal and state environmental protection laws for the remediation of hazardous waste at a number of third-party sites, primarily Superfund sites. In general, these laws provide that potentially responsible parties may be held jointly and severally liable for investigation and remediation costs regardless of fault. The Company provides for, and includes in long-term liabilities, its estimated potential long-term liability for investigation and remediation costs with respect to such third-party sites.

The Company initially provides for the estimated cost of environmental-related activities relating to its current, former and third-party sites when costs can be reasonably estimated. These estimates are determined based on currently available facts regarding each site. If the best estimate of costs can only be identified as a range and no specific amount within that range can be determined more likely than any other amount within the range, the minimum of the range is accrued. Actual costs incurred may vary from these estimates due to the inherent uncertainties involved. The Company believes that any additional liability in excess of amounts provided which may result from the resolution of such matters will not have a material adverse effect on the financial condition, liquidity or cash flow of the Company.

In addition to the environmental-related long-term liabilities shown above, current environmental-related liabilities are included in Other accruals on the consolidated balance sheets.

Note 10 — Stock Purchase Plan

As of December 31, 1999, 13,908 employees participated through regular payroll deductions in the Company's Employee Stock Purchase and Savings Plan. The Company's contribution charged to operations was $36,535, $32,679 and $33,582 for 1999, 1998 and 1997, respectively. Additionally, the Company made contributions on behalf of participating employees, which represent salary reductions for income tax purposes, of $22,581, $20,250 and $18,905 in 1999, 1998 and 1997, respectively.

At December 31, 1999, there were 24,884,733 shares of the Company's stock being held by this plan, representing 15.0

(Thousands of Dollars Unless Otherwise Indicated)

percent of the total number of voting shares outstanding. Shares of company stock credited to each member's account under the plan are voted by the trustee under instructions from each individual plan member. Shares for which no instructions are received, along with any unallocated shares held in the plan, are voted by the trustee in the same proportion as those for which instructions are received.

Note 11 — Capital Stock

	Shares in Treasury	Shares Outstanding
Balance at January 1, 1997	31,469,516	171,831,178
Shares tendered as payment for options exercised	160,739	(160,739)
Shares issued for exercise of stock options		1,127,779
Net shares issued under restricted stock grants		109,200
Balance at December 31, 1997	31,630,255	172,907,418
Shares tendered as payment for options exercised	37,663	(37,663)
Shares issued for exercise of stock options		1,201,476
Shares cancelled under previous restricted stock grants		(38,000)
Treasury stock acquired	3,000,000	(3,000,000)
Balance at December 31, 1998	34,667,918	171,033,231
Shares tendered as payment for options exercised	**8,392**	**(8,392)**
Shares issued for exercise of stock options		**462,598**
Shares tendered in connection with restricted stock grants	**44,236**	**(44,236)**
Net shares issued under restricted stock grants		**145,400**
Treasury stock acquired	**5,925,000**	**(5,925,000)**
Balance at December 31, 1999	**40,645,546**	**165,663,601**

An aggregate of 19,722,529, 20,389,127 and 21,594,603 shares of stock at December 31, 1999, 1998 and 1997, respectively, were reserved for future grants of restricted stock and the exercise and future grants of stock options. Shares outstanding include 215,150, 159,800 and 115,000 shares of stock held in a revocable trust at December 31, 1999, 1998 and 1997, respectively. At December 31, 1999, there were 300,000,000 shares of common stock and 30,000,000 shares of serial preferred stock authorized for issuance (3,000,000 shares of the authorized serial preferred stock have been designated as cumulative redeemable serial preferred stock which may be issued pursuant to the Company's shareholders' rights plan if the Company becomes the target of coercive and unfair takeover tactics).

Note 12 — Stock Plan

The Company's 1994 Stock Plan permits the granting of restricted stock, stock appreciation rights and stock options to eligible employees. The 1994 Stock Plan succeeded the 1984 Stock Plan which expired on February 15, 1994. Although no further grants may be made under the 1984 Stock Plan, all rights granted under such plan remain. The Company's 1997 Stock Plan for Nonemployee Directors provides for the granting of restricted stock and stock options to members of the Board of Directors who are not employees of the Company. There were 400,000 shares authorized as available for grant under the 1997 Stock Plan. Grants made pursuant to the 1997 Stock Plan are authorized by the Board of Directors.

Restricted stock grants, which generally require four years of continuous employment from the date of grant before vesting and receiving the shares without restriction, have been awarded to certain officers and key employees under the 1994 Stock Plan. The number of shares to be received without restriction is based on the Company's performance relative to a peer group of companies. Shares of restricted stock that vested and were delivered to officers and employees amounted to 120,400 and 123,200 during 1999 and 1997, respectively. No shares of restricted stock vested during 1998. At December 31, 1999, there were 348,000 shares of restricted stock outstanding. Unamortized deferred compensation expense with respect to the restricted stock grants amounted to $4,249, $2,781 and $5,401 at December 31, 1999, 1998 and 1997, respectively, and is being amortized over the four-year vesting period. Deferred compensation expense aggregated $77, $2,090 and $528 in 1999, 1998 and 1997, respectively. No stock appreciation rights have been granted.

A summary of restricted stock granted during 1999, 1998 and 1997 is as follows:

	1999	1998	1997
Shares granted	204,000	4,000	232,500
Weighted-average fair value of restricted shares granted during year	$ 23.77	$ 33.06	$ 27.91

Non-qualified and incentive stock options have been granted to certain officers and key employees under the plans at prices not less than fair market value of the shares, as defined by the plans, at the date of grant. The options generally become exercisable to the extent of one-third of the optioned shares for each full year following the date of grant and generally expire ten years after the date of grant. The number of options and any period of service required before the options may be exercised are determined by the Board of Directors at the time of grant. No options may be exercised more than ten years from the date of the grant.

The Company has elected to follow Accounting Principles Board Opinion (APBO) No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires use of highly subjective assumptions in option valuation

models. Under APBO No. 25, because the exercise price of the Company's employee stock options is not less than fair market price of the shares at the date of grant, no compensation expense is recognized in the financial statements. Pro forma information regarding net income and earnings per share, determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123, is required by that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for all options granted:

	1999	1998	1997
Risk-free interest rate	5.34 %	5.14 %	6.10 %
Expected life of option	3 years	3 years	3 years
Expected dividend yield of stock	2.00 %	2.00 %	2.00 %
Expected volatility of stock	0.265	0.194	0.164

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, it is management's opinion that the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The amounts below represent the pro forma information calculated through use of the Black-Scholes model. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

	1999	1998	1997
Pro forma net income	$297,107	$269,838	$257,757
Pro forma net income per share:			
Basic	$ 1.77	$ 1.57	$ 1.50
Diluted	$ 1.76	$ 1.56	$ 1.49

A summary of the Company's stock option activity, and related information for the years ended December 31, 1999, 1998 and 1997 is shown in the following table:

	1999		1998		1997	
	Optioned Shares	Weighted-Average Exercise Price	Optioned Shares	Weighted-Average Exercise Price	Optioned Shares	Weighted-Average Exercise Price
Outstanding beginning of year	6,259,702	$ 22.89	5,810,471	$ 18.47	5,434,596	$ 14.91
Granted	5,292,350	22.33	1,867,500	29.10	1,746,500	27.93
Exercised	(462,598)	15.36	(1,201,476)	14.00	(1,127,779)	12.88
Canceled	(364,801)	27.69	(216,793)	26.68	(242,846)	22.68
Outstanding end of year	10,724,653	$ 22.78	6,259,702	$ 22.89	5,810,471	$ 18.47
Exercisable at end of year	3,971,139	$ 21.09	3,019,873	$ 17.77	2,924,515	$ 13.96
Weighted-average fair value of options granted during year	$ 4.67		$ 5.12		$ 4.53	
Reserved for future grants	8,997,876		14,129,425		15,784,132	

Exercise prices for optioned shares outstanding as of December 31, 1999 ranged from $8.13 to $35.34. A summary of these options by range of exercise prices is as follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Optioned Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Optioned Shares	Weighted-Average Exercise Price
< $12.00	504,997	$ 9.42	0.98	504,997	$ 9.42
$12.00 - $19.99	921,697	15.90	4.27	921,697	15.90
$20.00 - $26.00	6,300,212	22.00	8.68	1,103,412	21.03
> $26.00	2,997,747	28.77	7.91	1,441,033	28.53
	10,724,653	$ 22.78	7.90	3,971,139	$ 21.09

(Thousands of Dollars Unless Otherwise Indicated)

Note 13 — Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using the enacted tax rates and laws that are currently in effect. Significant components of the Company's deferred tax assets and liabilities as of December 31, 1999, 1998 and 1997 are as follows:

	1999	1998	1997
Deferred tax assets:			
Dispositions, environmental and other similar items	$ 56,123	$ 61,857	$ 61,537
Other items (each less than 5% of total assets)	94,196	88,432	99,120
Total deferred tax assets	$150,319	$150,289	$160,657
Deferred tax liabilities:			
Depreciation	$ 66,374	$ 51,997	$ 38,605
Deferred employee benefit items	42,785	35,163	26,128
Total deferred tax liabilities	$109,159	$ 87,160	$ 64,733

Significant components of the provisions for income taxes are as follows:

	1999	1998	1997
Current:			
Federal	$128,185	$106,538	$ 87,626
Foreign	11,787	6,982	3,472
State and Local	25,116	23,162	16,318
Total Current	165,088	136,682	107,416
Deferred:			
Federal	14,388	20,946	46,890
Foreign	3,851	5,587	2,375
State and Local	2,931	4,024	9,982
Total Deferred	21,170	30,557	59,247
Total income tax expense	$186,258	$167,239	$166,663

Significant components of income before income taxes as used for income tax purposes, are as follows:

	1999	1998	1997
Domestic	$411,626	$382,469	$382,325
Foreign	78,492	57,634	44,952
	$490,118	$440,103	$427,277

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

	1999	1998	1997
Statutory tax rate	35.0 %	35.0 %	35.0 %
Effect of:			
State and local taxes	3.7	4.0	4.0
Investment vehicles	(1.5)	(2.7)	(3.3)
Other - net	0.8	1.7	3.3
Effective tax rate	38.0 %	38.0 %	39.0 %

As of December 31, 1999, estimated taxes payable have been provided on substantially all unremitted retained earnings of the Company's foreign consolidated subsidiaries.

Netted against the Company's other deferred tax assets are valuation reserves of $16,211, $16,703 and $19,836 at December 31, 1999, 1998 and 1997, respectively, resulting from the uncertainty as to the realization of the tax benefits from certain foreign net operating losses and certain other foreign assets.

Note 14 — Summary of Quarterly Results of Operations (Unaudited)

1999					
Quarter	Net Sales	Gross Profit	Net Income	Net Income per Share - Basic	Net Income per Share - Diluted
1st	$1,127,867	$ 477,086	$ 28,797	$ .17	$ .17
2nd	1,384,070	610,390	107,594	.64	.63
3rd	1,345,483	609,834	111,482	.67	.66
4th	1,146,416	551,204	55,987	.34	.34

Net income during the fourth quarter decreased by $1,751 ($.01 per share) due to certain year-end adjustments. Cost of goods sold decreased by $23,006 ($14,953 after-tax, $.09 per share) as a result of physical inventory adjustments of $32,659 ($21,228 after-tax, $.12 per share). These adjustments were partially offset by other year-end adjustments of $5,843 ($3,798 after-tax, $.02 per share) and by provisions for the closing costs associated with certain operations of $3,810 ($2,477 after-tax, $.01 per share). Administrative expenses decreased $703 ($457 after-tax, no per share effect) due to other year-end adjustments. Other expense - net increased $26,403 ($17,162 after-tax, $.10 per share) due to the net provisions for environmental-related matters at current, former and third-party sites of $16,860 ($10,959 after-tax, $.07 per share), the provision of $3,830 ($2,490 after-tax, $.01 per share) for the adjustment to net realizable value of certain net fixed assets related to site closings, and due to other year-end adjustments of $5,713 ($3,713 after-tax, $.02 per share).

1998					
Quarter	Net Sales	Gross Profit	Net Income	Net Income per Share - Basic	Net Income per Share - Diluted
1st	$1,104,147	$ 454,939	$ 25,198	$ .15	$ .14
2nd	1,377,785	599,465	99,450	.58	.57
3rd	1,341,431	587,902	100,748	.59	.58
4th	1,111,067	487,665	47,468	.28	.28

Net income during the fourth quarter was increased by $883 (no per share effect) due to certain year-end adjustments. Cost of goods sold decreased by $13,962 ($9,075 after-tax, $.05 per share) as a result of physical inventory adjustments of $17,411 ($11,317 after-tax, $.06 per share) and other year-end adjustments of $7,818 ($5,082 after-tax, $.03 per share). These

adjustments were partially offset by provisions for the closing costs associated with certain operations of $11,267 ($7,324 after-tax, $.04 per share). Administrative expenses increased $295 ($192 after-tax, no per share effect) due to other year-end adjustments. Other expense - net increased $12,785 ($8,310 after-tax, $.05 per share) due to the provision of $12,290 ($7,988 after-tax, $.05 per share) for the adjustment to net realizable value of certain net fixed assets and due to the net provisions for environmental-related matters at current, former and third-party sites of $495 ($322 after-tax, no per share effect).

During the fourth quarter of 1999, the Company adopted revised business segment reporting guidelines which changed the number and composition of its Reportable Segments and changed the value for goods that are transferred between segments. See Reportable Segment Information on pages 6 through 13 of this report for a description of the segments. The following table provides restated amounts of Reportable Segment Information previously reported in the Company's 1999 Quarterly Reports filed with the Securities and Exchange Commission on Forms 10-Q.

	1999		1998	
	Net External Sales	Segment Operating Profit	Net External Sales	Segment Operating Profit
Three months ended March 31:				
Paint Stores	$ 634,473	$ 32,887	$ 589,561	$ 28,605
Consumer	302,689	35,431	306,391	19,336
Automotive Finishes	115,597	14,182	121,443	15,052
International Coatings	73,036	3,392	84,898	5,579
Administrative	2,072	(39,446)	1,854	(27,930)
Consolidated totals	$1,127,867	$ 46,446	$1,104,147	$ 40,642
Three months ended June 30:				
Paint Stores	$ 812,927	$ 106,084	$ 769,050	$ 101,971
Consumer	376,796	73,053	398,902	70,505
Automotive Finishes	122,074	17,307	122,283	17,507
International Coatings	70,193	8,731	85,535	4,799
Administrative	2,081	(31,635)	2,015	(34,379)
Consolidated totals	$1,384,071	$ 173,540	$1,377,785	$ 160,403
Three months ended September 30:				
Paint Stores	$ 842,760	$ 129,838	$ 798,710	$ 121,872
Consumer	307,314	52,128	332,833	50,206
Automotive Finishes	119,356	18,323	120,325	18,490
International Coatings	73,871	9,344	87,301	5,727
Administrative	2,182	(29,823)	2,262	(33,797)
Consolidated totals	$1,345,483	$ 179,810	$1,341,431	$ 162,498
Three months ended December 31:				
Paint Stores	$ 711,193	$ 107,965	$ 665,042	$ 94,556
Consumer	237,095	(5,691)	243,967	(14,856)
Automotive Finishes	113,984	16,727	109,801	14,208
International Coatings	82,099	12,442	90,018	8,060
Administrative	2,045	(41,121)	2,239	(25,408)
Consolidated totals	$1,146,416	$ 90,322	$1,111,067	$ 76,560

Note 15 — Net Income Per Share

	1999	1998	1997
Basic			
Average shares outstanding	167,924,660	172,162,472	172,107,459
Net income	$ 303,860	$ 272,864	$ 260,614
Net income per share	$ 1.81	$ 1.58	$ 1.51
Diluted			
Average shares outstanding	167,924,660	172,162,472	172,107,459
Non-vested restricted stock grants	263,567	235,317	312,988
Stock options — treasury stock method	838,069	1,137,890	1,611,895
Average shares assuming dilution	169,026,296	173,535,679	174,032,342
Net income	$ 303,860	$ 272,864	$ 260,614
Net income per share	$ 1.80	$ 1.57	$ 1.50

Net income per share has been computed in accordance with SFAS No. 128.

Note 16 — Comprehensive Income

As of January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." The adoption of this statement had no impact on the Company's Net income or Shareholders' equity. SFAS No. 130 requires other comprehensive income to include foreign currency translation adjustments and minimum pension liability adjustments, which prior to adoption were reported separately in Shareholders' equity. The December 31, 1997 financial statements have been reclassified to conform to the requirements of SFAS No. 130.

Cumulative other comprehensive loss consists of the following components:

	Foreign Currency Translation Adjustments	Minimum Pension Liability Adjustments	Cumulative Other Comprehensive Loss
Balance at January 1, 1997	$ (18,982)		$ (18,982)
Other comprehensive loss	(14,107)	$ (428)	(14,535)
Balance at December 31, 1997	(33,089)	(428)	(33,517)
Other comprehensive loss	(11,838)	428	(11,410)
Balance at December 31, 1998	(44,927)	$ 0	(44,927)
Other comprehensive loss	(100,697)		(100,697)
Balance at December 31, 1999	$ (145,624)		$ (145,624)

Directors, Officers, Managers

Board of Directors

James C. Boland, 60*
President and Chief Executive Officer
CAVS/Gund Arena Company

John G. Breen, 65
Chairman
The Sherwin-Williams Company

Duane E. Collins, 63
Chairman, President and Chief Executive Officer
Parker-Hannifin Corporation

Christopher M. Connor, 43
Vice Chairman and Chief Executive Officer
The Sherwin-Williams Company

Daniel E. Evans, 63
Chairman, Chief Executive Officer and Secretary
Bob Evans Farms, Inc.

Robert W. Mahoney, 63
Chairman
Diebold, Incorporated

William G. Mitchell, 69*
Retired, former Vice Chairman
Centel Corporation

A. Malachi Mixon, III, 59
Chairman and Chief Executive Officer
Invacare Corporation

Curtis E. Moll, 60*
Chairman and Chief Executive Officer
MTD Products, Inc.

Helen O. Petrauskas, 55*
Vice President - Environmental and Safety Engineering
Ford Motor Company

Joseph M. Scaminace, 46
President and Chief Operating Officer
The Sherwin-Williams Company

Richard K. Smucker, 51*
President
The J. M. Smucker Company

Corporate Officers

John G. Breen, 65**
Chairman

Christopher M. Connor, 43**
Vice Chairman and Chief Executive Officer

Joseph M. Scaminace, 46**
President and Chief Operating Officer

Larry J. Pitorak, 53**
Senior Vice President - Finance, Treasurer and Chief Financial Officer

John L. Ault, 54**
Vice President - Corporate Controller

Cynthia D. Brogan, 48
Vice President and Assistant Treasurer

Mark J. Dvoroznak, 41
Vice President - Corporate Audit and Loss Prevention

Thomas E. Hopkins, 42**
Vice President - Human Resources

Conway G. Ivy, 58**
Vice President - Corporate Planning and Development

James J. Sgambellone, 42
Vice President - Taxes and Assistant Secretary

Louis E. Stellato, 49**
Vice President, General Counsel and Secretary

Richard M. Weaver, 45
Vice President - Administration

Operating Managers

Thomas R. Brummett, 54
President & General Manager
Eastern Division
Paint Stores Group

Robert J. Davisson, 39
President & General Manager
Southeastern Division
Paint Stores Group

Donald R. Fields, 64
President
International Division

Michael A. Galasso, 52**
President & General Manager
Automotive Division

Blair P. LaCour, 53
President & General Manager
Mid Western Division
Paint Stores Group

John G. Morikis, 36**
President
Paint Stores Group

Steven J. Oberfeld, 47
President & General Manager
South Western Division
Paint Stores Group

Thomas W. Seitz, 51**
President
Consumer Group

* Audit Committee Member
** Executive Officer as defined by the Securities Exchange Act of 1934

Shareholder Information

Annual Meeting

The annual meeting of shareholders will be held at 10:00 a.m., April 26, 2000 in the Landmark Conference Center, 927 Midland Building, 101 Prospect Avenue, N.W., Cleveland, Ohio.

Investor Relations

Conway G. Ivy
The Sherwin-Williams Company
101 Prospect Avenue, N.W.
Cleveland, Ohio 44115-1075
Internet: www.sherwin.com

Form 10-K

The Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available without charge. To obtain a copy, contact the Investor Relations Office.

Dividend Reinvestment Program

A dividend reinvestment program is available to shareholders of common stock. For information, contact our transfer agent, The Bank of New York.

Headquarters

The Sherwin-Williams Company
101 Prospect Avenue, N.W.
Cleveland, Ohio 44115-1075
(216) 566-2000

Independent Auditors

Ernst & Young LLP
Cleveland, Ohio

Stock Trading

Sherwin-Williams Common Stock - Symbol, SHW - is traded on the New York Stock Exchange.

Transfer Agent & Registrar

The Bank of New York
Shareholder Relations Department-11E
P.O. Box 11258
Church Street Station
New York, NY 10286
1-800-432-0140
E-mail address:
Shareowner-svcs@Email.bony.com

Common Stock Trading Statistics

	1999	1998	1997	1996	1995
High	$ 32.875	$ 37.875	$ 33.375	$ 28.875	$ 20.750
Low	18.750	19.438	24.125	19.500	16.000
Close December 31	21.000	29.375	27.750	28.000	20.375
Shareholders of record	11,475	11,929	11,964	11,933	12,078
Shares traded (thousands)	161,118	128,942	98,855	72,638	85,144
% of average shares outstanding	96 %	75 %	51 %	42 %	50 %

Quarterly Stock Prices and Dividends

1999			
Quarter	High	Low	Dividend
1st	$ 30.688	$ 23.063	$ .12
2nd	32.875	27.000	.12
3rd	30.000	19.438	.12
4th	23.125	18.750	.12

1998			
Quarter	High	Low	Dividend
1st	$ 35.625	$ 25.750	$ .1125
2nd	37.875	30.063	.1125
3rd	35.000	19.438	.1125
4th	29.813	20.563	.1125

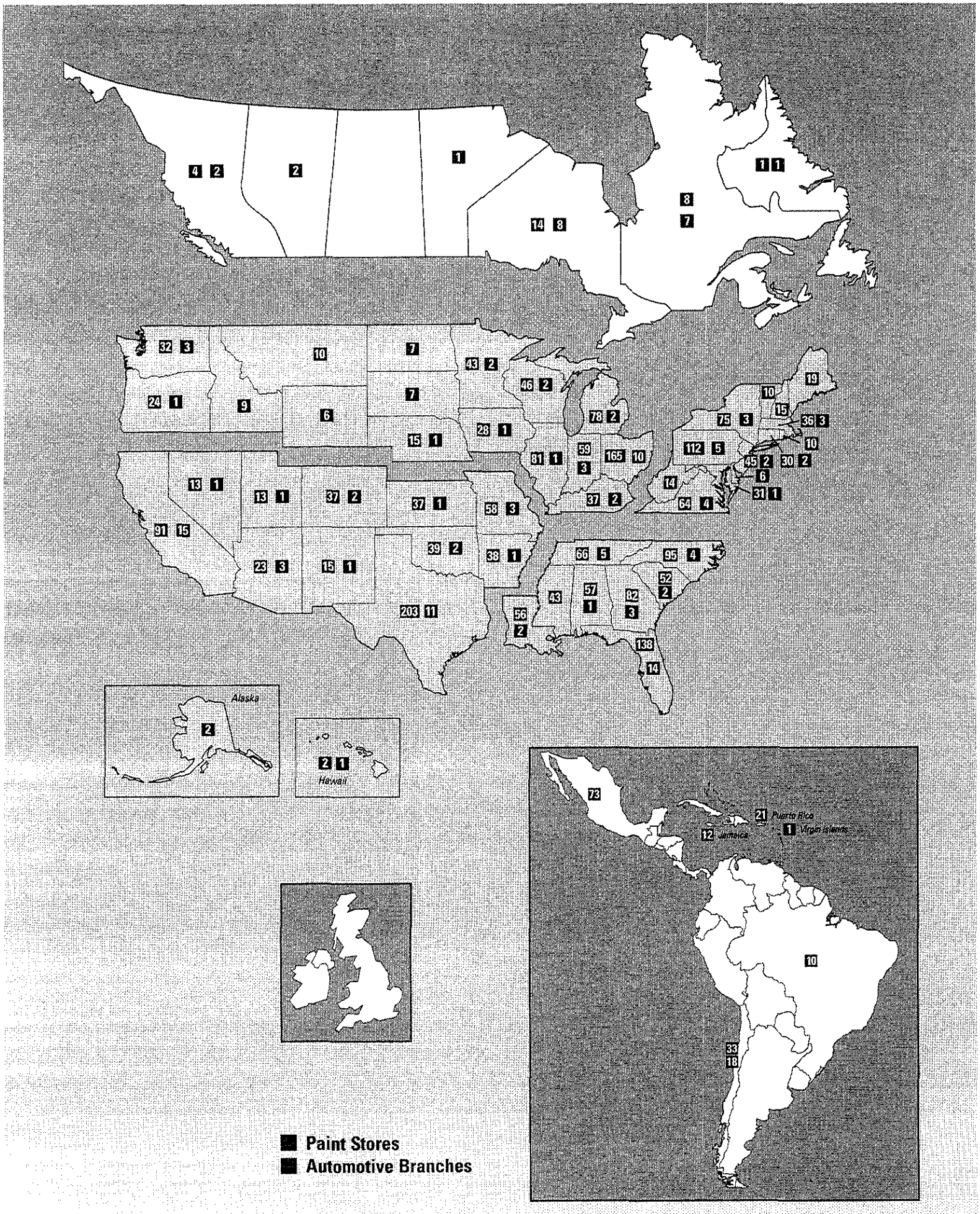
Subsidiaries

Domestic Subsidiaries

Contract Transportation Systems Co.
DIMC, Inc.
Dupli-Color Products Company
Sherwin-Williams Automotive Finishes Corp.
SW Racing Corp.
SWIMC, Inc.
The Sherwin-Williams Acceptance Corporation
Thompson Minwax International Corp.

Foreign Subsidiaries

Compañia Sherwin-Williams, S.A. de C.V.
Distribuidores Pinturas del Mundo S.R.L.
Kriesol, S.A.
Marson Chilena, S.A.
Productos Quimicos y Pinturas, S.A. de C.V.
Proquipsa, S.A. de C.V.
Quetzal Pinturas, S.A. de C.V.
Ronseal (Ireland) Limited
Ronseal Limited
Sherwin-Williams Argentina I.y C.S.A.
Sherwin-Williams do Brasil Industria e Comercio Ltda.
Sherwin-Williams Canada Inc.
Sherwin-Williams (Caribbean) N.V.
Sherwin-Williams Cayman Islands Limited
Sherwin-Williams Chile S.A.
Sherwin-Williams Foreign Sales Corporation Limited
Sherwin-Williams Japan Co., Ltd.
Sherwin-Williams (West Indies) Limited
SW Paints Ltda.
The Sherwin-Williams Company Resources Limited


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64 4
37 2
31 15
23 3
15 1
39 2
38 1
66 5
95 4
52
2
43
57
1
82
3
203 11
56
2
138
14
Alaska
2
2 1
Hawaii
73
21 Puerto Rico
1 Virgin Islands
12 Jamaica
10
33
18
Paint Stores
Automotive Branches

The Sherwin-Williams Company

101 Prospect Avenue, N.W., Cleveland, Ohio 44115-1075

(216) 566-2000



Committed to being America's Paint Company