SHERWIN WILLIAMS

Report to Shareholders • 1974

0007-SWP-035125

N21767

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Annual Meeting

The annual meeting of Shareholders will be held at 10:00 A.M., December 18, 1974, at the Sheraton-Cleveland Hotel, Public Square, Cleveland, Ohio.

On The Cover:

A new corporate symbol for your company. Why and how it will be used is outlined beginning on page 14.

Transfer Agents

The Cleveland Trust Company
Cleveland, Ohio
The Chase Manhattan Bank, N.A.
New York, New York

Registrars

The Cleveland Trust Company
Cleveland, Ohio
The Chase Manhattan Bank, N.A.
New York, New York

Trustees

5.45% Debentures Due 1992
The Cleveland Trust Company
Cleveland, Ohio
6.25% Convertible Subordinated Debentures Due 1995
Central National Bank of Cleveland
Cleveland, Ohio

SHERWIN WILLIAMS

Fi... ...ghlights

	Thousands of Dollars	
	August 31	
	1974	1973
Net sal...	$802,266	$704,729
Income before income taxes	55,578	43,889
Income taxes	26,299	19,387
Net income	29,279	24,502
Cash dividends declared:		
Preferred	1,102	1,102
Common	10,746	10,736
Per common share.		
Net income	5.24	4.36
Dividends paid	2.00	2.00
Working capital	227,626	216,849
Ratio of current assets to current liabilities	2.75 to 1	3.98 to 1
Capital expenditures	20.553	16.042
Provision for depreciation	13.555	12.869

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SHERWIN WILLIAMS

Letter To Shareholders

The pace of change in The Sherwin-Williams Company continued to accelerate during fiscal 1974. Perhaps the most visible evidence appears on the cover of this Annual Report that displays for the first time our new corporate trademark. After seventy years of universal worldwide recognition, we decided to retire our famous "Cover The Earth" trademark. We felt that it no longer was descriptive of the total present and future growth directions of the Company. A summary of the research and planning behind this decision begins on page 14 of this report.

Fiscal 1974 was an exciting, challenging and sometimes frustrating year. At times economic, political, and supply situations seemed to be changing by the hour on both the domestic and international scenes. For the first eight months we were under economic controls. This artificial disruption of normal markets was further exaggerated by shortages of vital raw materials and rapidly rising costs brought on by the worldwide petroleum price increases.

It is evidence of the strength of our organization and the dedication of all of our employees that, in spite of these conditions, we posted a record sales year of $802,266,000, or 13.8% over last year. Accompanying this was a record year of net income of $29,279,000, or a 19.5% increase over last year. This translated into earnings per common share, after preferred dividends, of $5.24, an increase of 20.2% over last year's $4.36 per common share. This was the third straight year of substantial sales and earnings growth as our forward planning picked up momentum. While the increase of profits from last year's 3.5% of sales to 3.6% is gratifying in a difficult period, it is still well below the margin necessary for long-term good health of the business.

Our total tax expense, exclusive of payroll taxes, also reached a new record of $34,951,000 or $7,245,000 over a year ago. This, of course, is in addition to taxes our shareholders will have to pay on their dividend income. Our employees, as was true of most of our country's population, suffered severely in purchasing power from the ravages of inflation during the year. But the continued success of the Company meant that we were able to pay in total employee wages, salaries, and benefits $243,015,000, an increase of $17,461,000 over the year before.

With confidence that our earnings growth is moving upward, the Board of Directors voted a 10% increase in the quarterly common stock dividend at our meeting on October 24, 1974.

Our capital expenditures during the year rose to $20,553,000, or 28.1% over last year. These expenditures will grow rapidly over the next few years as we continue to expand and modernize our branch stores and build new factories to increase our capacity and efficiency to serve an ever-growing number of customers for all of our products. On a 70-acre site in Richmond, Kentucky, we are starting construction of a large plant to produce coatings for repainting automobiles. A new emulsion coatings plant is now in the engineering design phase. In chemicals, we are doubling our capacity for production of para-cresol and saccharin as demand continues to outstrip supply. Substantial amounts of money are being spent in many locations to upgrade environmental protection and increase efficiencies.

As part of our strategic forward planning we announced the sale of our Ashtabula titanium dioxide operations in October 1974 for approximately $30,000,000. This action will not materially affect our future operating earnings but will result in a substantial non-recurring credit to earnings in fiscal 1975. Further, it has freed up capital for use in pursuing our other planned marketing and manufacturing objectives.

Because of erratic supply and rapidly escalating prices, our inventories were out of balance and higher in dollars and units at year end than would normally be justified by our sales level. This in turn contributed to our increased interest expense of $1,660,000 over last year. There are now indications of a more normal supply condition developing and we expect that this situation will improve in the first half of fiscal 1975, barring another worldwide petroleum crisis.

This year's results were led by the continued successful turn-around in our chemical operations. The Chemicals Group before-tax operating profits this year were $8,396,000, which was an increase of $8,485,000 over last year's loss of $89,000. Our strategy is to continue to emphasize specialty chemical products and systems where we have particular technological strengths, as opposed to high fixed capital commodity-type chemicals.

Our Auxiliaries Group also had a very good year, with pretax operating profits of $16,526,000, a gain of 51.5% over last year, and a $17,002,000 sales gain to $87,697,000. The Containers Division did particularly well with an operating profit gain of 82.2% on a sales gain of $9,017,000. Seventy-one percent of their sales are now made outside the Sherwin-Williams organization. The reorganized Applicator Division also turned in a strong improvement with a 38.4% operating profit gain on a $1,159,000 sales gain. Following the trend of the capital goods industry, our Osborn Manufacturing subsidiary posted a 16.9% gain in operating profit on a $4,746,000 sales gain. At the end of the year, Osborn also had the highest backlog of orders in the history of the Company. Hadley Adhesives had a small loss for the year as we continued to spend heavily for reorganization and marketing expansion. However, projections indicate that for next year they will be solidly in the black.

The large Coatings Group continued to move ahead in spite of erratic raw material shortages and rapidly increasing costs not fully covered by price increases under economic controls. In spite of these difficulties, sales increased 10.2% to $562,943,000. Operating profit before tax increased by $1,544,000. This represents continued progress, particularly in the face of substantially increased raw material costs and increased expenditures for branch store expansions, advertising, and merchandising. During the last quarter of the year we were able to establish price adjustments more in line with our cost increases. This bodes well for the new year as we continue to put more resources behind our marketing program in the Coatings Group. Particularly gratifying was the 12.6% sales increase in our branch stores and the exciting new store concepts detailed in the coatings section of this report.

Sprayon Products had a most difficult year. In spite of record backlogs all year long, the critical shortage of propellants seriously interfered with production schedules and customer shipments. This, together with the inability to raise prices as fast as material costs were increasing, led to a sales increase of $1,520,000, or 8.2%, but a decrease in pretax operating profits of $940,000. Backlogs are still at a record high and material shortages and pricing difficulties are abating. We look forward to a return to their past record of continuing sales and profit increases in fiscal 1975.

International Operations results were very satisfying despite continued high expenditures for plant expansion and strengthening our organization capabilities. Sales reached a new high of $18,291,000 and before-tax operating profits were $2,345,000, an increase of 29.2%. We opened a new paint manufacturing plant in Jamaica in the spring. We also announced a joint venture in Indonesia with a new plant now under construction in Djakarta. We continued our branch store expansions in Brazil, Mexico, and Europe. In May we also opened our first Modecor store in Hertogenbosch, Holland, bringing the total home decorating concept to Europe.

The majority-owned Sherwin-Williams Company of Canada, Ltd., continued its progress with sales of $50,714,000, representing an 18.9% gain. The parent company's share of profits was $1,597,000, a 231.3% gain over last year. However, $152,000 of this was due to a favorable currency exchange rate and $156,000 to a gain on the sale of a small parcel of land. We expect to continue our marketing drive and branch store program to substantially improve this operation in the coming years.

At our organization meeting in December of 1973, Mr. E. C. Baldwin requested retirement as Chairman of the Board of Directors. However, we are fortunate that Mr. Baldwin agreed to remain as a director and Chairman

of the Executive and Finance Committees of the Board. At our annual shareholders meeting in December, Mr. R. F. Curley, Group Vice President — Coatings, was elected a director, replacing Mr. R. F. Hennig, Vice-President — Purchasing, who retired in August of 1974.

We were saddened by the sudden death in January of Mr. W. B. Boyer, our good friend and fellow director since 1967. He served the Company well as a member of the Executive, Finance, and Audit Committees and his helpful counsel will be missed.

We were fortunate that Mr. W. J. De Lancey, President and Chief Executive Officer of the Republic Steel Corporation, agreed to accept an appointment as a director, filling the vacancy on the Board.

The new fiscal year of 1974-75 promises to be just as difficult and unpredictable as the one just past. The general economic picture is very cloudy. Home construction is still sluggish. Capital remains tight and expensive. Supplies of petroleum based raw materials are approaching a more normal situation but could be changed by the major oil producing nations. An ongoing energy conservation program has already achieved a 15% savings. Inflation is still strongly with us. But our changes and new strategies in Chemicals and Auxiliaries are beginning to show in increased profits in these areas. As we expand our branch store concept and add new product lines, we expect to capture a bigger share of the paint and allied home decorating markets. With our resources, people, and objectives we are confident of our ability to meet the challenges and continue our forward momentum.

For the continued support of our customers, we are most grateful and pledge to do our best to serve them.

Cleveland, Ohio
October 25, 1974

President

SHERWIN WILLIAMS

Financial Review

The following table presents sales and pretax operating income for each of the operating groups for the fiscal years 1974 and 1973, and the changes that occurred in 1974 as compared to 1973. Corporate expenses including interest and certain general administrative expenses plus developmental expenses associated with major new programs the Company is undertaking are shown separately. The total of the income figures after deducting the corporate expenses agrees with the income before income taxes reported in the Statements of Consolidated Income.

	1974				(Thousands of Dollars) 1973				Change	
	Sales	Percent of Total	Income Before Taxes	Percent of Total	Sales	Percent of Total	Income Before Taxes	Percent of Total	Sales	Income Before Taxes
Coatings	$562,943	70.2%	$39,638	56.9%	$511,048	72.5%	$38,094	71.5%	$51,895	$ 1,544
Auxiliaries	87,697	10.9%	16,526	23.7%	70,695	10.0%	10,907	20.5%	17,002	5,619
Chemicals	62,673	7.8%	8,396	12.1%	47,901	6.8%	-89	-.1%	14,772	8,485
Sherwin-Williams Canada	50,714	6.3%	1,597	2.3%	42,647	6.1%	482	.9%	8,067	1,115
Sprayon	19,948	2.5%	1,097	1.6%	18,428	2.6%	2,037	3.8%	1,520	-940
International	18,291	2.3%	2,345	3.4%	14,010	2.0%	1,815	3.4%	4,281	530
Group totals	$802,266	100.0%	69,599	100.0%	$704,729	100.0%	53,246	100.0%	$97,537	16,353
Corporate expenses unallocated			-14,021				-9,357			-4,664
Income before income taxes			$55,578				$43,889			$11,689

Sales

Consolidated net sales in fiscal year 1974 amounted to $802,266,000 compared to $704,729,000 in 1973. This is a record high and represents a 13.8% increase over the prior year.

Income

Consolidated net income totalled $29,279,000 or $5.24 per common share after providing for preferred dividends. This also sets a new record. These results compare to fiscal 1973 net income of $24,502,000 or $4.36 per common share after providing for preferred dividends.

Currency Conversion

The changing value of various currencies vis-a-vis the dollar creates some adjustments to the final profits as a consequence of converting local currencies to dollar values. In total, the net effect on 1974 after-tax income was an addition of approximately 1¢ per common share compared to an addition of approximately 2¢ per common share in 1973. The change in the currency conversion rate and the conversion itself had a modestly distorting effect in reporting the sales and income of The Sherwin-Williams Company of Canada, Limited. In fiscal 1973, the parent company's share of the Canadian company's pretax income of $482,000 as reported in the table, had been reduced by approximately $173,000 due to an unfavorable exchange rate. In fiscal 1974, the parent company's share of pretax income of $1,597,000 as reported in the table, included approximately $152,000 due to a favorable currency exchange rate.

Taxes

The provision for U. S. and foreign income taxes for fiscal year 1974 amounts to $26,299,000. Taxes other than Federal and foreign income taxes continued to rise. In total, these other taxes amounted to $20,829,000, up from $19,034,000 in 1973.

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Dividends

Total dividends of $11,848,000 were declared in fiscal 1974. Dividends on common stock amounted to $10,746,000 and dividends on preferred stock amounted to $1,102,000. Common stock cash dividends for fiscal 1974 were at the annual rate of $2.00 per common share. Meeting on October 24, 1974, the Board of Directors voted a 10% increase in the common stock cash dividend payable November 18, 1974 to holders of record on November 4, 1974. The Company has paid dividends in every year since 1885.

Capital Expenditures

Expenditures during fiscal year 1974 for property, plant and equipment amounted to $20,553,000, compared with $16,042,000 in fiscal 1973. The budget for the 1975 fiscal year provides for an increase in expenditures to a level of just over $47,000,000. A major portion of the increase represents proposed expenditures for new and enlarged manufacturing facilities and further expansion and modernization of our branch store system. Depreciation in fiscal 1974 was $13,555,000 compared to $12,869,000 in fiscal 1973.

General Financial Condition

Working capital at August 31, 1974 amounted to $227,626,000, up from $216,849,000 in 1973. The ratio of current assets to current liabilities was 2.75 to 1. The current ratio is down from last year due to the higher level of inventories and receivables, and the short term borrowings required to support them.

Accounts receivable increased more than normal primarily as a result of higher sales levels and heavy sales volume during the last few weeks of the fiscal year in certain segments of our business. Also, there was indication of some minor slowdown in payments by customers during the late months of the year. Credit losses continued to be well within a normal and acceptable range.

Due to rapidly rising raw material prices and other costs associated with manufacturing (including disruptions and some temporary stockpiling caused by shortages), inventories increased by an amount of $56,500,000 over last year. While some important raw materials remain in short supply, the situation, in general, is improving.

During the 1974 fiscal year, $1,955,000 principal amount of the Company's 5.45% Debentures Due 1992 were repurchased by the Company, bringing total repurchases to $10,185,000 principal amount. In April 1974, $2,000,000 in principal amount of these bonds were used to meet the second annual sinking fund payment. At August 31, 1974, $6,185,000 principal amount of bonds were held in the Treasury. It is the present intention of the Company to use such bonds to meet future sinking fund requirements.

In October 1974, the Ashtabula titanium dioxide operations were sold for approximately $30,000,000. The capital thus generated becomes available for use in other areas of our business.

Revolving Credit Agreement

On September 3, 1974, the Company entered into a $75,000,000, seven-year credit agreement with a group of nine banks. The agreement establishes a three-year standby credit, permitting the Company to borrow and repay as requirements dictate during the period ending October 3, 1977. On that date, the Company will have the option to convert all or any part of the outstanding borrowings to a four-year term loan. This agreement supplements other normal bank credit lines available to the Company.

Pension Plans

Substantially all employees of the Company and its domestic subsidiaries participate in non-contributory pension plans. The Company's pension expense for fiscal 1974 was $9,063,000, compared to $6,937,000 in 1973.

Employees Stock Purchase and Savings Plan

Slightly more than 7,100 salaried employees currently are participating, through regular payroll deductions, in the Stock Purchase and Savings Plan which was started April 1, 1969. Under the Plan, the employees have the option of directing that their contributions be invested in amounts ranging from 50% in the Common Stock of the Company and 50% in Federal government securities, up to 100% in the Company's Common Stock. The Company, in turn, contributed to the fund an amount equal to 25% of the employees' contributions and all such contributions were invested in the Company's Common Stock.

At August 31, 1974, 451,682 shares of Common Stock, representing approximately 8.4% of the total number of shares outstanding, were held in this employee fund.

Statements of Consolidated Income

	Thousands of Dollars	
	Year Ended August 31	
	1974	1973
Net sales	$802,266	$704,729
Other income—net	1,993	2,109
	804,259	706,838
Costs and expenses:		
Cost of products sold	513,713	451,275
Selling, general and administrative expenses	226,884	205,250
Interest	8,084	6,424
	748,681	662,949
Income Before Income Taxes	55,578	43,889
Income taxes:		
Payable currently	22,361	16,126
Deferred	3,938	3,261
	26,299	19,387
Net Income	$ 29,279	$ 24,502
Net income per share of Common Stock:		
Primary	$ 5.24	$ 4.36
Fully diluted	$ 4.59	$ 3.87

See notes to consolidated financial statements.

Accountants' Report

Board of Directors
The Sherwin-Williams Company
Cleveland, Ohio

We have examined the consolidated financial statements of The Sherwin-Williams Company and subsidiaries for the years ended August 31, 1974 and 1973. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income, shareholders' equity, and changes in financial position present fairly the consolidated financial position of The Sherwin-Williams Company and subsidiaries at August 31, 1974 and 1973, and the consolidated results of their operations, changes in shareholders' equity, and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Cleveland, Ohio
October 16, 1974

Ernst & Ernst

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THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Statements of Changes in Consolidated Financial Position

	Thousands of Dollars Year Ended August 31	
	1974	1973
Source of Funds		
From operations:		
Net income	$ 29,279	$ 24,502
Add back charges to operations not requiring funds:		
Provision for depreciation	13,555	12,869
Increase in noncurrent deferred income taxes	2,724	2,335
Funds Provided From Operations	45,558	39,706
Proceeds from sale of stock under stock option plan	-0-	1,218
	$ 45,558	$ 40,924
Application of Funds		
Cash dividends	$ 11,848	$ 11,838
Additions to property, plant and equipment, net of normal retirements	19,242	15,669
Purchase of 5.45% debentures	1,955	4,465
Increase in working capital	10,777	8,593
Other—net	1,736	359
	$ 45,558	$ 40,924
Changes in Working Capital—Increase (Decrease)		
Cash and short-term investments	$ (11,707)	$ (2,342)
Trade accounts receivable	21,890	11,071
Inventories	56,525	5,907
Short-term borrowings	(29,742)	(3,162)
Trade accounts payable	(10,949)	(2,059)
Compensation and amounts withheld	(2,665)	(1,799)
Pension, interest and other accruals	(10,486)	5,027
Income taxes	(2,591)	(3,654)
Other—net	502	(396)
Increase In Working Capital	$ 10,777	$ 8,593

See notes to consolidated financial statements.

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

Statements of Consolidated Shareholders' Equity

	Thousands of Dollars				
	Serial Preferred Stock	Common Stock	Other Capital	Retained Earnings	Common Stock in Treasury
Balance at September 1, 1972	$ 9,154	$ 33,540	$ 3,506	$ 203,712	$ (690)
Common Stock issued:					
28,276 shares upon exercise of stock options; and, 93 and 992 shares upon conversion of 54 and 620 shares of Series A and Series B preferred stock, respectively	(24)	184	1,058	—	—
Subsidiary's repurchase of its preferred shares	—	—	39	(34)	—
Net income	—	—	—	24,502	—
Cash dividends declared:					
Series A preferred stock—$4.00 per share	—	—	—	(291)	—
Series B preferred stock—$4.40 per share	—	—	—	(811)	—
Common—$2.00 per share	—	—	—	(10,736)	—
Balance at August 31, 1973	9,130	33,724	4,603	216,342	(690)
Subsidiary's repurchase of its preferred shares	—	—	91	(82)	—
Net income	—	—	—	29,279	—
Cash dividends declared:					
Series A preferred stock—$4.00 per share	—	—	—	(291)	—
Series B preferred stock—$4.40 per share	—	—	—	(811)	—
Common—$2.00 per share	—	—	—	(10,746)	—
Balance at August 31, 1974	$ 9,130	$ 33,724	$ 4,694	$ 233,691	$ (690)

See notes to consolidated financial statements.

SHERWIN WILLIAMS

Consolidated Balance Sheets

	Thousands of Dollars August 31 1974	1973
Assets		
Current Assets		
Cash	$ 4,065	$ 12,671
Short-term investments	1,000	4,101
Trade accounts receivable, less allowances ($2,007 in 1974; $1,637 in 1973)	121,298	99,408
Inventories:		
Finished products	138,638	113,811
Work in process and raw materials	84,709	53,011
	223,347	166,822
Prepaid expenses	7,699	6,695
Total Current Assets	357,409	289,697
Other Assets		
Receivables, advances and other assets	6,096	4,737
Cost in excess of net assets of businesses acquired	2,324	2,324
	8,420	7,061
Property, Plant and Equipment		
Land	6,025	6,004
Buildings	83,707	80,631
Machinery and equipment	185,530	173,312
	275,262	259,947
Less allowances for depreciation	125,528	115,900
	149,734	144,047
	$515,563	$440,805
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings	$ 36,346	$ 6,604
Trade accounts payable	36,728	25,779
Compensation and amounts withheld	21,650	18,985
Pension, interest and other accruals	21,297	10,811
Taxes, other than income taxes	5,861	5,359
Income taxes	7,901	5,310
Total Current Liabilities	129,783	72,848
Long-Term Debt		
5.45% Debentures (exclusive of $6,185 in treasury in 1974; $6,230 in 1973)	39,815	41,770
6.25% Convertible subordinated debentures	40,000	40,000
	79,815	81,770
Deferred Income Taxes	13,827	11,103
Reserves—for pensions and other items	5,902	6,376
Minority Interest in Subsidiaries	5,687	5,599
Shareholders' Equity		
Capital stock:		
Serial Preferred—without par value	9,130	9,130
Common—$6.25 par value	33,724	33,724
Other capital	4,694	4,603
Retained earnings	233,691	216,342
	281,239	263,799
Less cost of Common Stock in treasury	690	690
	280,549	263,109
	$515,563	$440,805

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

Years Ended August 31, 1974 and 1973

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Company has recognized the deferred income tax liabilities and benefits resulting from timing differences between financial and tax accounting, relating principally to depreciation and reserves. It is the Company's intention to reinvest undistributed earnings of foreign subsidiaries; accordingly, no deferred income taxes have been provided thereon. At August 31, 1974, such undistributed earnings amounted to approximately $16,264,000.

Investment tax credits (accounted for by the flow-through method) aggregated $982,000 in 1974 and $869,000 in 1973.

Property, plant and equipment is stated on the basis of cost. Provisions for depreciation are based on annual rates calculated to amortize the cost of depreciable assets over their estimated economic lives, computed principally by the straight-line method.

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

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

Cost in excess of net assets of businesses acquired is not being amortized because in the opinion of management there has been no decrease in value.

Research and development costs are charged to operations as incurred.

NOTE B—LONG-TERM DEBT

The 5.45% Debentures Due 1992 and the 6.25% Convertible Subordinated Debentures Due 1995 are redeemable in whole or in part at the option of the Company at the rates of 103.25% and 105.00%, respectively, and at declining rates to 100% in 1987 and 1990, respectively. The related indentures require annual sinking fund payments of $2,000,000 for each of the issues. The 1974 requirement of $2,000,000 on the 5.45% Debentures was satisfied from debentures held in treasury, and the Company intends to make the 1975 payment in the same manner. Annual sinking fund payments will commence in 1981 for the 6.25% Debentures. These Debentures are convertible into Common Stock at $46 a share subject to adjustment in certain events.

NOTE C—CAPITAL STOCK

Authorized and issued shares of the various classes of stock at August 31, 1974 and 1973:

	Authorized Shares	Issued Shares 1974	Issued Shares 1973
Serial Preferred Stock:	1,500,000		
$4.00 Cumulative Convertible Preferred Stock, Series A		72,697	72,697
$4.40 Cumulative Convertible Preferred Stock, Series B		184,293	184,293
Common Stock (including 22,500 shares held in treasury in 1974 and 1973).	15,000,000	5,395,780	5,395,780

The shares of Series A and Series B preferred stock are convertible at base conversion prices of $57.93 and $62.50 per share of Common Stock, respectively, based on a value of $100 per share of preferred stock for this purpose. The holders of the preferred stock are entitled to one vote for each share.

The Company may redeem the Series A preferred stock until March 1975 at $103.00 per share and declining annually to $100 per share in 1980 and thereafter, and the Series B preferred stock at $104.40 until December 1974 and at declining amounts to $100 in 1981 and thereafter. The aggregate preference of the Serial Preferred Stock in involuntary liquidation for 1974 and 1973 is $25,699,000.

At August 31, 1974 and 1973, an aggregate of 1,569,728 shares and 1,576,971 shares, respectively, were reserved for conversion of Serial Preferred Stock, Convertible Subordinated Debentures and exercise of stock options.

NOTE D—NET INCOME PER COMMON SHARE

Primary net income per common share has been computed based on the average number of shares outstanding during the year after deducting from net income the dividend requirements of the Serial Preferred Stock.

Fully diluted net income per common share assumes the conversion of Series A and B preferred stock and 6.25% Convertible Subordinated Debentures (after adding to net income interest on the debentures net of income taxes) and exercise of dilutive outstanding stock options.

SHERWIN WILLIAMS

NOTE E—RETIREMENT PLANS

Substantially all employees of the Company and its domestic and Canadian subsidiaries who meet certain requirements as to age and length of service, participate in non-contributory pension plans. The Company's policy is to accrue pension fund contributions, representing normal cost and amortization of unfunded prior service cost over 30 years. Pension expense was $9,063,000 in 1974 and $6,937,000 in 1973. The increase in pension expense resulted principally from increased benefits. For three of the plans in 1974, the actuarially computed value of vested benefits at the most recent actuarial determination date exceeded the assets of the pension fund and the related balance sheet accrual by approximately $8,500,000. For the other plans, vested benefits are fully funded.

NOTE F—LEASES *(Thousands of Dollars)*

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

	1974	1973
Financing leases:		
Minimum rentals	$ 5,350	$ 3,369
Contingent rentals	500	259
	5,850	3,628
Operating leases:		
Minimum rentals	19,138	17,117
Contingent rentals	7,124	2,297
	26,262	19,414
Total rental expense	$32,112	$23,042

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

The future minimum rental commitments as of August 31, 1974 for all noncancelable leases are as follows:

	Total	Financing Leases	Operating Leases
1975	$ 20,126	$ 4,645	$ 15,481
1976	14,570	2,794	11,776
1977	10,444	1,549	8,895
1978	7,432	849	6,583
1979	4,567	566	4,001
1980-1984	9,864	2,178	7,686
1985-1989	1,929	1,634	295
1990-1994	1,133	1,228	(95)
Thereafter	1,087	1,113	(26)

The majority of the leases have renewal options beyond the current lease expiration dates.

The present value of noncapitalized financing leases is not material. Likewise, the impact on net income if such leases had been capitalized would not be material.

NOTE G—STOCK OPTIONS

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

No options were granted in 1974 or 1973. Stock option transactions for the two years ended August 31, are as follows:

	1974		1973	
	Shares	Aggregate Price	Shares	Aggregate Price
Options outstanding—beginning of year	183,176	$7,304,729	223,632	$9,044,455
Exercised	-0-	-0-	(28,276)	(1,217,784)
Cancelled	(31,910)	(1,480,988)	(12,180)	(521,942)
Options outstanding—end of year	151,266	$5,823,741	183,176	$7,304,729

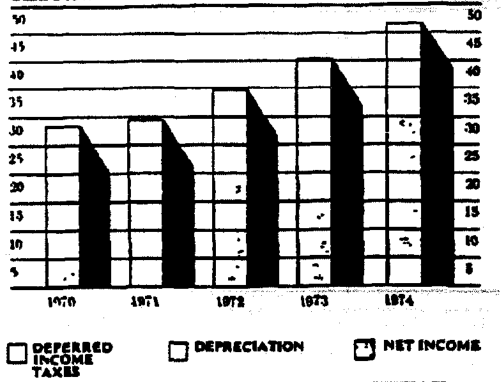
Options for 88,186 shares (83,426 in 1973) were exercisable, and 128,538 shares (96,628 in 1973) were reserved for future grants.

NOTE H—SUBSEQUENT EVENTS

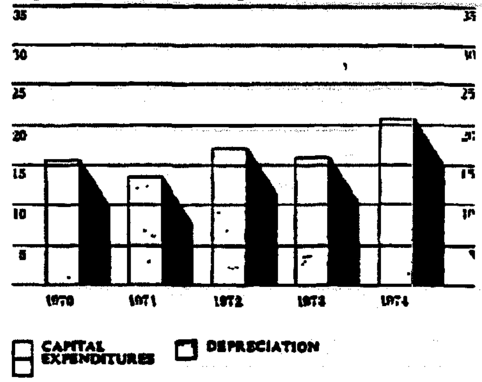
On September 3, 1974, the Company entered into a $75,000,000, seven-year credit agreement with a group of nine banks. The agreement establishes a three-year standby credit, permitting the Company to borrow and repay as its requirements dictate during the period ending October 3, 1977. On that date, the Company will have the option to convert all or any part of the outstanding borrowings to a four-year term loan.

On October 11, 1974, the Company sold at a substantial gain its titanium dioxide pigment operations located at Ashtabula, Ohio.

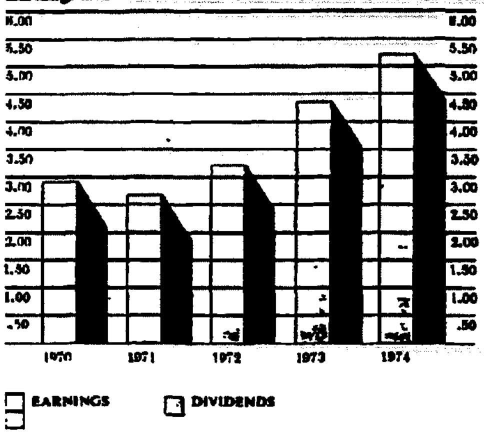
Cash Flow IN MILLIONS



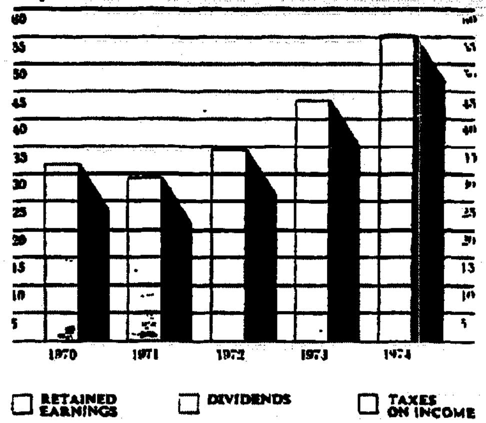
Capital Expenditures and Depreciation IN MILLIONS



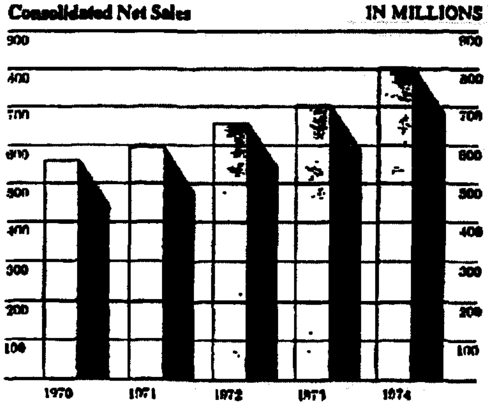
Earnings and Dividends Per Common Share IN DOLLARS



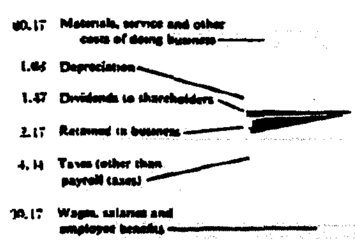
Disposition of Pre-tax Income IN MILLIONS



Consolidated Net Sales IN MILLIONS



Distribution of Total Revenue
YEAR ENDED AUGUST 31, 1974



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Five-Year Comparison

	Thousands of Dollars				
	Year Ended August 31				
	1974	1973	1972	1971	1970
Net sales	$802,266	$704,729	$658,285	$590,969	$559,924
Income before income taxes and extraordinary items	55,578	43,889	38,745	29,404	29,541
Income taxes	26,299	19,387	18,248	14,063	14,689
Income before extraordinary items	29,279	24,502	20,497	15,341	14,852
Extraordinary (charge) credit	-0-	-0-	(2,260)	-0-	1,745
Net income	29,279	24,502	18,237	15,341	16,597
Earnings per share of Common Stock:					
Income before extraordinary items	5.24	4.36	3.63	2.68	2.58
Net income	5.24	4.36	3.21	2.68	2.91
Earnings as percent of sales	3.65%	3.48%	2.77%	2.60%	2.96%
Return on invested capital—Common Stock (A)	11.87%	10.47%	7.94%	6.72%	7.46%
Cash dividends declared:					
Preferred	$ 1,102	$ 1,102	$ 1,107	$ 1,110	$ 1,110
Common	10,746	10,736	10,659	10,631	10,657
Cash dividends per share of Common Stock	2.00	2.00	2.00	2.00	2.00
Number of shareholders:					
Preferred	1,024	1,018	1,030	1,027	1,078
Common (B)	10,423	9,852	9,353	9,903	8,996
Preferred and common shareholders' equity	$280,549	$263,109	$249,222	$241,680	$237,721
Common shareholders' equity	254,850	237,410	223,456	215,788	211,828
Per share	47.43	44.23	41.94	40.60	39.75
Capital expenditures	20,553	16,042	17,354	13,278	15,900
Provision for depreciation	13,555	12,869	12,519	12,333	11,061
Working capital	227,626	216,849	208,256	201,523	197,318
Ratio of current assets to current liabilities	2.75 to 1	3.98 to 1	4.05 to 1	4.35 to 1	4.22 to 1
Total assets	$515,563	$440,805	$424,631	$411,164	$408,152
Number of employees	22,080	21,646	21,908	21,480	22,017

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

(B) In addition to the registered shareholders, there were beneficial shareholders participating in the Company's Stock Purchase and Savings Plan for salaried employees (7,106 in 1974; 6,793 in 1973; 6,732 in 1972; 6,802 in 1971; and 7,068 in 1970).

SHERWIN WILLIAMS®

New Face for the Future

For the second time in its 108-year history, your company has adopted a new corporate symbol. As was the case when the familiar "cover-the-earth" trademark replaced the original chameleon mounted on an artist's palette early in this century, the change has been dictated by the new directions in which the company is moving.

We are no longer only a producer and marketer of coatings. We are also significantly involved in such varied fields as chemicals, aerosol packaging, adhesives, metal containers, coatings application tools, graphic arts services, power driven brushes and grinding wheels and foundry equipment and supplies. And our horizons are expanding further as we move aggressively into decorating materials and services, creative packaging and highly specialized chemicals.

Such diversity clearly calls for a new identification symbol that more accurately reflects the new dynamics of your company. We believe the straight-forward statement of the company name as a symbol accomplishes this aim.

Intensive, in-depth research among people with whom we do business and with whom we expect to do business led to this conclusion. Since the symbol is not oriented to a specific product, it lends itself to the broad application required by our thrust into multiple fields of activity. At the same time, the new symbol provides immediate corporate identification for all the many facets of the business.

Research also revealed that the new symbol lends further credibility to your company's emerging posture as more than a paint company — and a company that is modern, colorful, diversified and whose reputation for quality products and services is strengthened by a strong commitment to innovation.

Left: Our new corporate symbol is strikingly displayed in this free standing pylon sign. The sign's interior lighting emphasizes the brilliant rainbow color band which will identify a Coatings Group operation.

Below: This typical retail store displays the new look at Sherwin-Williams. Each element was carefully designed to make our stores attractive, highly visible and easily identifiable to consumers.

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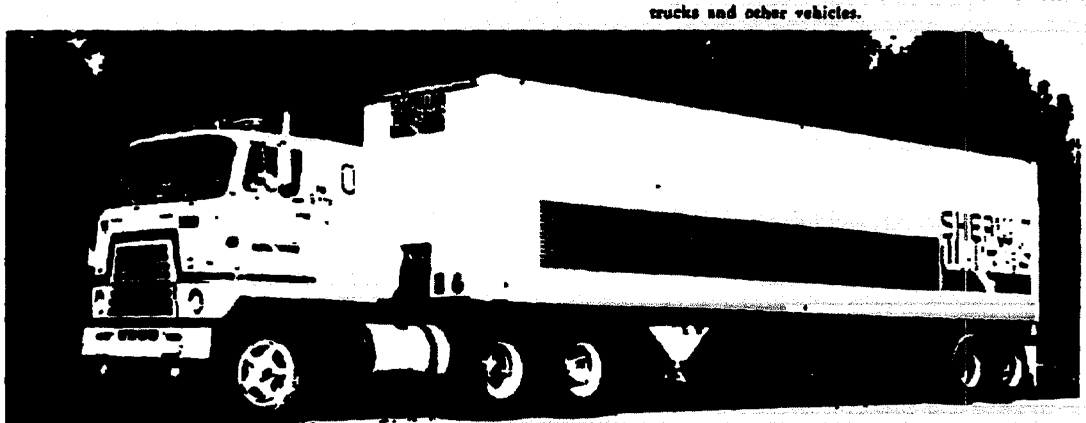
All our plant and office identification will have the uniformly modern look typified by this sign on our Graphic Arts Services Division.

From an investment standpoint, the new symbol preserves and increases the equity built up over many years in the name Sherwin-Williams itself. Sustained effort through more than a century has earned ready recognition of our name as synonomous with financial acumen and reliability. The added emphasis given the corporate name as our corporate symbol enhances the equity that name has come to represent.

The new symbol will identify Sherwin-Williams in all areas and in all fields in which we operate. However, for very practical reasons, the change in identification will not become immediately evident everywhere at once. It is planned that the total change will require a considerable period of time so it may be accomplished in an orderly, effective and fiscally-responsible manner.

That change is already underway. Pictured on this and preceding pages are some of the company facilities on which the new identification will soon be seen — telling the public who we are in a way that is readily understandable and truly reflective of our attitude toward serving our customers.

The new corporate identification will soon be seen from coast to coast on the Sherwin-Williams fleet of trucks and other vehicles.



The Year in Review

Operations in fiscal 1974 continued to reflect the commitment to planned change which has shaped all our activity over a considerable period. The objective has been to develop new, more efficient ways to achieve goals so the market-place might be served more effectively.

One instance of this determination was the creation of a new marketing position, senior vice president — marketing, with responsibility for corporate-wide marketing guidance. This move casts our approach to marketing into a broader mold designed to streamline and unify total marketing effort.

Further evidence of change is found in the business-area reports that follow. The Coatings, Auxiliaries and Chemicals Groups, The Sherwin-Williams Co. of Canada, Ltd., Sprayon Products, Inc. and International Operations have all made solid progress toward the common goal of providing customers the products and services they want, when and where they want them. Production facilities have supported these moves with effective effort that brought new production records in a number of product categories despite pervasive raw materials shortages.

The aim of all innovation continues to be the improvement of service to customers. This challenges researchers to find new materials and processes; marketers to anticipate customer requirements and have products available to meet them; and production people to develop new and improved techniques that result in greater efficiency.

Constant movement toward the goal of customer satisfaction serves all participants in this enterprise — shareholders, employees and customers — well. And insures that the company will continue to be able to fulfill its role as a responsible corporate citizen.

In many Sherwin-Williams retail stores full-time consultants now aid customers with their decorating problems, large and small. These consultants, who have adopted the promotional name "Shirley Williams", devote a large share of their time to meeting with the customer in the home. Here, the homemaker and Shirley Williams can select from samples of paint, wall and floor coverings and accessories under the lighting and in the setting where the products will ultimately be used.

The Coatings Group

Demand for the products and services of the Coatings Group this year was at an all-time high. Sales were up 10.2%, while pretax operating profit rose 4.1%.

A recurring area of concern continued to be the availability of raw materials. As various shortages developed, we were forced to break production runs and adjust manufacturing schedules in the interest of turning out as much product as possible: unfortunately, this was often done at the expense of the most efficient production practices. In spite of these problems, unit production increased 2.7%, led by a 15.9% increase in emulsion coatings.

It has become clear that we must increase our productive capacity. Accordingly, our long-range plan calls for construction of three new coatings plants. We have begun construction of the first plant in Richmond, Kentucky; plans for the others are in preliminary stages.

The company-owned and -operated branch store is the key element in the Sherwin-Williams marketing concept. We continue to direct a major effort to upgrading and expanding our branch stores. During the year, 32 new units were opened; 24 were closed; and 80 relocated, resulting in a total of 1,786 in operation at year end. In addition, 242 stores were either remodeled or expanded.

As a result of these efforts, we again increased total store square footage. More importantly, we are making more efficient use of space through better merchandising practices and our improved distribution system which has reduced the need for warehousing space in the branches.

In March of this year, the company introduced a new approach to strengthening our retail marketing position. Initially, 96 stores in seven markets across the country are participating. Each of these stores is undertaking a total retail merchandising effort which includes expanded and consistent advertising, broadened product lines, total in-house decorating service plus special promotions and in-depth personnel training.

During the last six months of the fiscal year the participating branch stores accomplished a gain in retail sales substantially above that for all stores. An additional 80 branches will participate in 1975 to permit further development in this early stage of this continuing program.

The longer-range consumer product interests of the company led us within the last year to undertake an in-depth analysis of what is happening within the home decorating market both here and abroad and how we can best relate to present and future market trends.

Our studies included research with actual customers, panel discussions, analysis of store design and research on new products expected to be marketed in the future. As a result of these efforts, we have developed a new concept in retail marketing which will be introduced in early 1975 in the form of a revolutionary new prototype store: Sherwin-Williams *Decorating World*. This first store, to be located in Charlotte, North Carolina, will be about six times larger than our typical retail store and will be designed to appeal to the desires of today's consumer who demands a single source for all decorating needs and related services.

The products to be carried at *Decorating World* will be vastly broadened to include such diverse lines as electrical hardware, arts and crafts, decorative gifts, kitchen and bath accessories, and ready-to-finish furniture. The store design will be as different as the products carried, utilizing a module concept with display areas for each product line, selection and conference areas, "how-to-do-it" information centers and a child care center.

We believe Sherwin-Williams *Decorating World* affords us an exceptional opportunity for further expansion of our services to consumers.

In terms of real growth, the doubling of sales of professional coatings over the past six years stands out as a major achievement. During the past year we benefited from the diverse mix of customers and industries who purchased professional coatings at our commercial branch stores. Our increasingly effective architectural consultant program has put us in close contact with the important architectural firms in the

In-store consultation with the customer is still an important part of the total Sherwin-Williams retail marketing philosophy. When Shirley Williams is not consulting in the customer's home, she will be found in the store assisting visitors, answering decorating questions and aiding in material selection.

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country Professionals in these firms are well aware of our abilities to assist in such phases of decorating as coatings, floor coverings and wallcoverings.

The color styling of large corporate offices, manufacturing plants, schools, universities and hospitals was also an important factor in our growth this year. Sales to the small and medium size painting contractor also increased. As new housing starts declined, there has been more than offsetting increase in the exterior and interior remodeling and home maintenance business, where the painting contractors play such an important role.

The industrial maintenance market continued to grow. Of considerable importance to this growth is the heavy emphasis being placed on enhancing the industrial environment and the continued stress on plant safety.

Sales of finishes for industrial products (also frequently referred to as chemical coatings) continued upward this year. The powder coatings plant in Pontiac, Illinois, which originally came on stream in fiscal 1973 completed an expansion program which increased its capacity by one-third. The country's continuing emphasis on air pollution and energy conservation programs makes these products particularly attractive.

These same considerations suggest that the brightest future for coil coatings lies with high solids and water-based systems product lines and with electro-deposition materials. In addition to providing, in many cases, a more uniform finish, these products help alleviate pollution problems in customer plants.

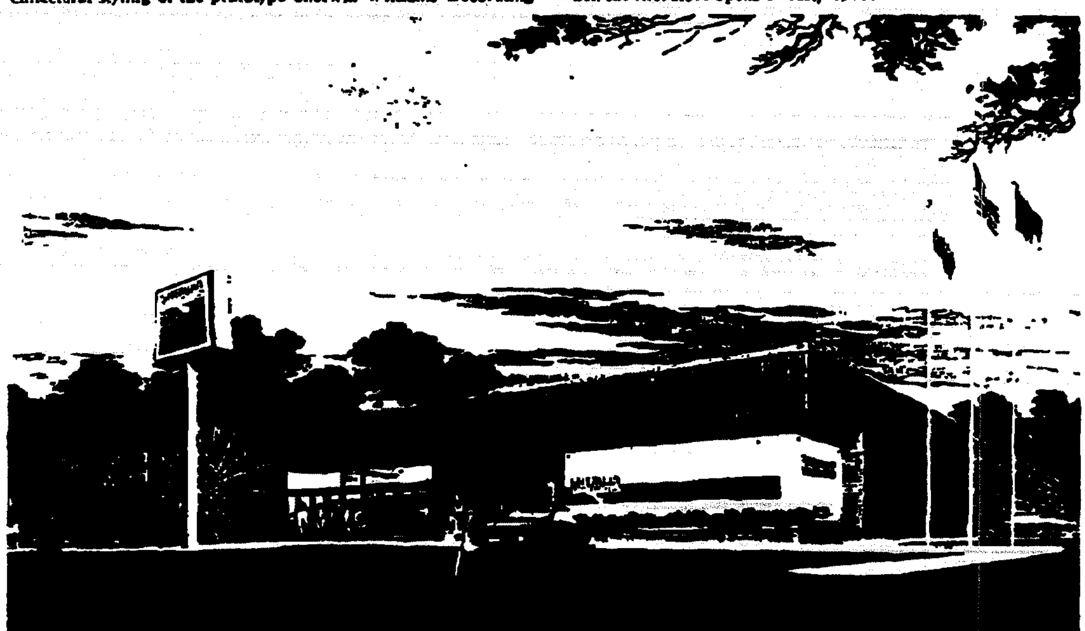
New selective marketing techniques in the coil coatings field have resulted in improved customer service. The recently implemented concept of product manager responsibility in this area convincingly demonstrated its effectiveness during fiscal 1974.

A high point of interest in chemical coatings was the development of our "Monochromatic System" for color matching many types of finishes either at our commercial branches or in our customers' plants. This ability to blend quickly small quantities to the user's specifications is an obvious customer benefit. It also helps decrease the number of small, special blending orders at our plants.

Two chemical coatings products of interest to the automotive original equipment manufacturers are new water systems for underhood parts and Polane® systems for application on plastics and other nonferrous materials.

Our automotive refinishes go to market under the Sherwin-Williams, Martin-Senour, Acme and Rogers names. During the past year three new automotive refinishes centers were opened, bringing to 56 the number of centers now in operation. Sales at these centers continue to increase through improved merchandising efforts and through additions to the product lines handled.

Bold new concepts call for unique visual treatments. The fresh architectural styling of the prototype Sherwin-Williams Decorating World symbolizes the marketing approaches we will introduce when the first store opens in early 1975.



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Capital investment during the year amounted to approximately $10,805,000, compared to expenditures of $6,762,000 in 1973. During the current fiscal year we expect capital expenditures to increase to $26,000,000, as we begin construction of one new coatings plant and expand our consumer product business with the enlargement and addition of retail branches.

During the past year mutually satisfactory labor relations were maintained at all of the group's 13 plants. Negotiations will be conducted at 4 plants in fiscal 1975.

The emphasis of the Coatings Group research and development operation has this year been primarily on one aim: searching for substitute raw materials and new formulation methods to continue to satisfy the market-place in a time of widespread critical shortages of many of our basic raw materials.

Advertising and merchandising efforts this year were highlighted by the expanding of the decorator consultant staff. Over 600 of our retail stores now have a full-time consultant who is promoted under the "Shirley Williams" name. To tie in with this theme, our advertising is more heavily oriented towards "helping people solve problems." The consultant staff is expected to increase by 460 in fiscal 1975.

The Auxiliaries Group

Sales of the Auxiliaries Group were at a record high this year, up 24.0% over the previous year, and pretax operating profit improved 51.5% as pricing eased in the second half of fiscal 1974. Every division and subsidiary within the group contributed positively.

Metal container sales were up 22.5% over fiscal 1973 as a result of not only greater sales from established accounts, but also the securing of profitable new business. Primary growth products were aerosol and paint cans. This trend is expected to continue, affected only by our ability to secure sufficient supplies of steel to keep our production lines running efficiently.

Approximately 71% of the metal container division's shipments were to outside customers with the balance going to the Coatings Group.

During 1974 we began a planned program of replacing container press equipment. This will be carried through over the next two years. In the year ahead, a new quart container line will be in operation at Hubbard, Ohio. At our Elgin plant we have installed high energy ultra-violet cure equipment on one of our metal decorating lines. This will be a major help in meeting our anti-pollution objectives in 1975.

Award-winning design of new student housing at Brandeis University is the work of Jung/Brannen Associates, Inc., Boston architectural firm. Sherwin-Williams coatings give the town house type buildings their warm color glow.

Photo by Ralph Norman of Brandeis University

Sherwin Williams

Sales of the Osborn Manufacturing Co. both here and in Europe were up 21.4% over the previous year and represent 30.7% of total group sales. All product lines showed improvement, however, foundry equipment was particularly strong. Late in the fiscal year, a major modernization program began at Osborn's Cleveland plant where approximately 10% more production space will be added.

The Rose-Osborn joint venture announced last year has made excellent progress in producing formed steel parts to be used in place of castings. A major European vehicle manufacturer has approved prototype parts, and two other European customers have expressed continuing interest. Production runs will begin in the near future.

During the year we set up a new applicator division consisting of the Rubberset Co. division, the Rubberset Co. (Canada) Ltd. and Deshler Products to make a more effective and concentrated effort to grow profitably. This new division accounted for 10.4% of total group sales. As in most operations, raw material shortages were the applicator division's biggest problem.

The Rubberset Co. (Canada) is presently introducing its "Numetric" line of paint brushes which will be sized in millimeters rather than inches. We are setting a trend for the industry and expect to test market the line in the United States next year.

Do-it-yourselfers discover the worry-free answer to projects such as paneling a recreation room when they use Tiger-Grip® construction adhesive. This easy-to-use product is one of a line of adhesives and sealants for home and industry manufactured by Hadley Adhesives.

Additional new equipment, including several high-speed presses, was installed at the Graphic Arts Services Division. Highlighting the year was the installation of a unique new Color-Flo machine designed to produce color sample cards more quickly and efficiently than has been possible in the past. This machine, the first of its kind anywhere, will enable us to make our own color sample cards more economically and increase our opportunities for external sales.

Capital expenditures by the group amounted to $3,206,000 in fiscal 1974. These are scheduled to increase to $6,100,000 next year, with a major portion being used to cover container division and Osborn Manufacturing Co. expansion as well as to meet occupational safety and environmental protection requirements.

Hadley Adhesives, acquired late in fiscal 1973, continues to be operated as a new venture. However, sales and earnings are included in the financial review of the Auxiliaries Group. The venture experienced a small loss during the year due to increased costs that could not be completely offset by price adjustments plus costs associated with restructuring the business to mesh with our long-range strategies.

The restructuring of the business coupled with a realignment of the adhesive/sealant product mix and expansion of marketing facilities are expected to bring more favorable results in fiscal 1975.

The Chemicals Group

This has been a record year for the Chemicals Group with sales climbing 30.8% to an all-time high and pretax operating profit rising to $8,396,000 compared to an $89,000 loss in fiscal 1973. This dramatically improved performance would have been even better if several critical raw material and energy shortages had not held output below physical capacity.

The domestic demand for para-cresol, a key ingredient in the production of widely used anti-oxidants, continues to exceed supply. The substantial increases in production of this critical product at our Chicago plant, achieved by improved production methods and technical refinements, are still insufficient for the demand. Therefore our previously announced plan to enter manufacture of anti-oxidants has been deferred in favor of adding still more para-cresol capacity. A multi-million dollar addition, scheduled for completion in the second quarter of calendar 1976, will provide additional output in stages and adequate supplies for the foreseeable future. These facilities could, if necessary, also be used for the production of related products.

Demand for our saccharin has increased many fold in recent years. Our Cincinnati plant has a major program underway to provide ample saccharin capacity by early 1976. In conjunction with this, we are also expanding isatoic anhydride and methyl anthranilate capacity to satisfy their diverse and growing markets.

Two product systems announced by the Textile Chemical Division continue to gain acceptance. Our Kem-Lok™ products are widely used in decorating fire retardant children's sleepwear. Our unique water-based systems for printing non-porous surfaces is showing promising results. With full commercialization, we will supply manufacturers of wall and floor coverings, as well as other processors of plastic films.

Our Fine Chemicals facility continues to support our diversification program and supplies 30 organic chemicals to the Flavor and Fragrance Division, plastics, photo copy, photographic and agricultural chemical industries. Most of these products are now derived from our main stream organic products.

The Flavor and Fragrance Division is exploring a number of opportunities in aroma chemicals, foods and confections and has its expanded staff concentrating on these fields.

Capital expenditures for the coming year will be approximately $5,900,000, up from $4,066,000 this year. The major portion of the investment will be at Cincinnati and Chicago where manufacturing expansions and cost reduction programs are underway. All plants have important programs to reduce effluents and to improve in-plant working conditions. The rapidly changing availability and costs of fuels have resulted in programs at all plants to reduce usage and to provide alternative schemes to sustain operation.

Sherdye®, one of the many Sherwin-Williams fabric printing materials marketed by our textile chemicals division, is widely used in the textile industry. Brightly colored dresses made from Sherdye® imprinted fabric are sold in specialty shops and department stores across the country.

Sherwin-Williams Canada

Sales of the Canadian subsidiary rose 18.9% and income from operations climbed 75.7% in fiscal 1974. In addition to an increase in paint sales, products such as wall-coverings and other related decorating and maintenance products made a substantial contribution to the sales gain.

All sales divisions of the company contributed to improved sales with the exception of The Winnipeg Paint & Glass Company which experienced a slight reduction in sales in the contracting end of this business. The E. Harris Company division which supplies Graphic Arts materials and sign finishes scored further gains in sales and the outlook for fiscal 1975 is highly promising.

During the year three new branch stores were opened, five were closed, and three relocated. Major renovations were carried out in six branches. Branches in operation now total 129, of which four are of the new commercial branch type, specifically designed for the professional and industrial accounts.

During fiscal 1975 the program of expanding branch operations will be continued and plans have been developed to open four new branches, close two and relocate nine branches. Twelve will be renovated and efforts to bring a wider range of decorating products to the consumer will be expanded. Long range plans have been developed for the general expansion and improvement of branch stores to bring about further sales growth.

Soft drink manufacturers are major users of the artificial sweeteners manufactured by our Chemicals Group. During the past year our flavor and fragrance division has also begun supplying these same customers with flavorings for many of their most popular brands of beverages.

In the new field of powder coatings a steady growth in sales was experienced. As the advantages of powder coatings became more widely known, growth in this area can be expected to advance at a more rapid pace. Research activity is continuing to develop new products and processes in this field.

Technical development activity centered largely on reformulation to overcome raw material shortages and to bring coatings products into compliance with the Hazardous Products Act. Progress was also made in research activity related to metric conversion to which the Canadian Government is fully committed.

Unit production was only slightly higher compared to last year as plans to reduce inventory volume in the face of markedly higher unit costs continued. A sizeable shipment of latex coatings was made to Indonesia to supply the initial needs of the parent company's new joint venture there.

Capital investment amounted to $682,000 during the year. The largest item was branch store development. Increased expenditures are planned for fiscal 1975.

The general economic outlook in Canada for fiscal 1975 is for slower growth accompanied by high rates of inflation. In spite of this, company plans have been developed calling for real growth in sales and earnings.

Sprayon Products

Although sales of Sprayon Products, Inc. increased 8.2% to $19,948,000 in fiscal 1974, pretax operating profit of $1,097,000 was 46.1% lower than a year ago. The decline was caused largely by two factors: the subsidiary's inability to raise prices to offset completely spiralling raw materials costs and the production inefficiencies resulting from raw material shortages. The latter also contributed to a very large backlog of orders.

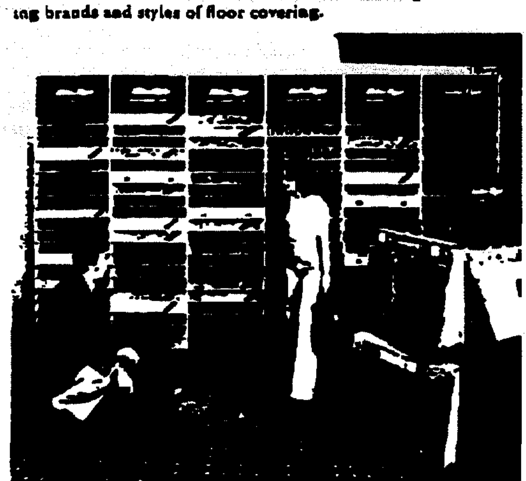
In the custom packaging area, the quantities of garden specialties—spot weed killers and other garden chemicals—on which packaging was begun in fiscal 1973 exceeded forecasts by a wide margin. Other new products being custom packaged included a tire puncture sealer and inflator which is finding ready acceptance among automobile owners and service station operators.

Emphasis in the industrial supply field again centered on aerosol-packaged products for the electrical and electronics business. Demand for materials for such applications is increasing at a rapid rate, making it difficult to maintain sufficient inventory to insure prompt service to customers. Accordingly, plans are now being made to remodel existing non-automatic packaging lines to increase production.

In February, 1974, in anticipation of a Consumer Products Safety Commission order banning the use of vinyl chloride as a propellant in aerosol packages, Sprayon discontinued its already minor use of this material. Shortly after the close of fiscal 1974 the order was issued and included a provision that vinyl chloride charged aerosol packages in the hands of consumers, retailers and distributors must be repurchased by the manufacturer upon request. Sprayon believes that the costs of such repurchase will have only a minor influence on fiscal 1975 results.

In a continuing effort to reduce costs throughout the operation, an in-house computer installation has been completed. This has streamlined the handling of production

In the past year Sherwin-Williams of Canada has placed special emphasis on expanding merchandising lines in stores such as this where customers can now choose from a wide range of the leading brands and styles of floor covering.



Modecor stores opening or about to open in Europe have been designed to satisfy sophisticated continental tastes with a full line of decorating products presented in a inviting setting that encourages leisurely shopping.

orders, inventory control and billing. In a parallel move, the efficiency of the tractor-trailer fleet has been increased to improve delivery service.

Capital investment of $117,000 during the year compared to $754,000 last year. However, it is expected to increase to $500,000 in fiscal 1975 to cover the steps being taken to increase production capacity.

International Operations

Results of International Operations continued to improve over the past year. Pretax operating profit was up 29.2% to $2,345,000, with most subsidiaries, joint ventures and licensees contributing to the gain.

We are introducing (as we have in the United States) the concepts of larger retail stores. In The Netherlands we have opened our first *Modecor* store which caters in a most sophisticated way to the overall decorating needs of the retail and do-it-yourself customer. Two more such stores are planned for The Netherlands. The possibilities for similar outlets in other countries are being explored.

The performance of Compania Sherwin-Williams, S.A. de C.V. in Mexico has been outstanding. Ten stores were opened during 1974, including expanded decorating stores. We plan to continue our re-investment in this growing market by opening additional stores.

Our subsidiary in Brazil, Sherwin-Williams do Brasil S/A Tintas e Vernizes, demonstrated an excellent turn-around performance under a new management team this past year, in spite of the inflationary pressures which have affected most aspects of our operations. Plans for a new coatings plant in Brazil are under consideration.

In June of this year we announced the establishment of a new joint venture in Indonesia: P. T. Unimas Chemicals and Coatings, Ltd. Sherwin-Williams and Great Harvest Co. of Hong Kong each hold 45% interest with the balance held by Indonesian businessmen. Site preparation for a coatings plant near Djakarta has begun with completion scheduled in 1975.

Our subsidiary, Sherwin-Williams (West Indies) Ltd., opened its new paint plant near Kingston in March 1974. In addition to the new plant—which makes Sherwin-Williams the only United States coatings manufacturer with a direct investment in Jamaica—Sherwin-Williams also has two retail decorating stores and one automotive refinishes center in Jamaica plus a branch store in Trinidad.

No new licensees were added during the past year. Nearly all present licensees reported very good results with especially fine performance coming from those engaged in coil coatings. 1974 saw a stepped-up program of technical assistance going to the licensees. The companies in Venezuela, Peru and El Salvador had particularly good years as did Sherwin-Williams Phillippines Inc. which opened a new coatings plant near Manila.

The company appointed a special representative in the Pacific Region during the year to coordinate and advance Sherwin-Williams interests in Japan and the fast emerging industrial area of Southeast Asia.

Problems of inflation, exchange rates and raw material availability were faced by every one of our operations around the world, and under the stress of these conditions advance planning is difficult. We continue to build and strengthen our international staff, particularly marketing staff in Europe and financial staff in Latin America and the Carribbean area. Emphasis is also being given to all aspects of technical services.

Our first Modecor store in the Netherlands is the prototype for the larger retail store we are developing on the continent. In the near future more of these outlets will be serving the wide-ranging decorating needs of the European consumer.

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Directors

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

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

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

Richard G. Bull
Senior Vice President—Marketing

Ronald F. Curley
Group Vice President—Coatings

William J. DeLancey
President and Chief Executive Officer
Republic Steel Corporation

William C. Fine
Executive Vice President

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

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

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

William Moonan
Group Vice President—Auxiliaries

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

George F. Schlaudecker
Group Vice President—Chemicals

Walter O. Spencer
President and Chief Executive Officer

John D. Wright
Director and Retired Chairman
TRW Inc.

Arthur W. Steudel
Honorary Director

Officers

Walter O. Spencer
President and Chief Executive Officer

William C. Fine
Executive Vice President

Richard G. Bull
Senior Vice President—Marketing

Virgil A. Hollis
Senior Vice President—Administration

Ronald F. Curley
Group Vice President—Coatings

William Moonan
Group Vice President—Auxiliaries

George F. Schlaudecker
Group Vice President—Chemicals

James F. Cole
Vice President and Treasurer

Richard R. Crow
Vice President—Personnel

Billy H. Davis
Vice President Marketing—Coatings Group

Harvey L. Piepho
Vice President—Purchasing

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

Robert A. Tschannen
Vice President Operations—Coatings Group

Michael D. Welsh
Vice President—International Operations

Robert Cain
Assistant Vice President—Personnel

Alan D. Childs
Assistant Vice President and General Counsel

John R. Skinner
Assistant Vice President

William P. Inman
Secretary

Bernard Zeller
Assistant Treasurer and Assistant Secretary

Martin J. Donelan
Assistant Treasurer

Frank C. Kollath
Assistant Treasurer

Subsidiaries

Domestic

Hadley Adhesives Inc.
The Osborn Manufacturing Company
The Osborn Manufacturing International Company
The Sherwin-Williams Company of Europe, Inc.
Sherwin-Williams International Company
Sprayon Products, Inc.

Foreign

Compañia Sherwin-Williams, S.A. de C.V., Mexico City, D.F., Mexico
Ralston B.V., Zeist, Netherlands
Rubberset Company (Canada) Limited, Gravenhurst, Ontario, Canada
Schmitz und Ludwig GmbH, Frankenberg, Germany
Sherwin-Williams Belgium S.A., Brussels, Belgium
Sherwin-Williams (Caribbean) N.V., Curacao, Netherlands Antilles
The Sherwin-Williams Company of Canada, Limited, Montreal, Canada
The Sherwin-Williams Co. of Puerto Rico, Inc., San Juan, Puerto Rico
The Sherwin-Williams Company Resources Limited, Kingston, Jamaica
*Sherwin-Williams do Brasil, S.A. Tintas e Vernizes, São Paulo, Brazil
Sherwin-Williams (West Indies) Limited, Kingston, Jamaica
Société Anonyme des Machines Osborn, Paris, France

*Unconsolidated

Other Affiliates

(50% or less owned)

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

Licensees

Aktiebolaget SYD-Ferniss (Sweden)
Astral Sté de Peintures, Vernis et Encres d'Imprimerie (France)
C. A. Quimica Integrada (Venezuela)
C. A. Venezolana de Pigmentos (Venezuela)
China Paint Mfg. Co. (1946) Ltd. (Hong Kong)
Donald Macpherson Group, Ltd. (England)
Fábrica Nacional de Pinturas "Espintbol" S.A. (Bolivia)
Fábrica Nacional de Pinturas Sherwin-Williams de Colombia S.A. (Colombia)
Industrias Químicas Procolor S.A. (Spain)
Nippon Paint Company, Ltd. (Japan)
Oxy Foundry Equipment Division (England)
Peintures Idéales S.A. (Haiti)
Pinchin Johnson & Co. (N.Z.) Ltd. (New Zealand)
Pinturas Andina S.A. (Chile)
Sherwin-Williams Argentina Industrial y Comercial S.A. (Argentina)
Sherwin-Williams del Ecuador Fábrica Nacional de Pinturas S.A. (Ecuador)
Sherwin-Williams Peruana S.A. (Peru)
Sherwin-Williams Philippines, Inc. (Philippines)
Sherwin-Williams de Centro América, S.A. (El Salvador)
Sherwin-Williams de Costa Rica, S.A. (Costa Rica)
Sherwin-Williams Venezolana C.A. (Venezuela)
Shinto Paint Co., Ltd. (Japan)
Taiyo Chuki Company, Ltd. (Japan)
Taubmans Industries Limited (Australia)

Plants

Domestic Plants

Anaheim, California
Ashtabula, Ohio
Bedford Heights, Ohio
Chicago, Illinois
Cincinnati, Ohio
Cleveland, Ohio
Coffeyville, Kansas
Crisfield, Maryland
Danbury, Connecticut
Dayton, Ohio
Deshler, Ohio
Detroit, Michigan
Elgin, Illinois
Fulton, Kentucky
Garland, Texas
Gibbsboro, New Jersey
Greensboro, North Carolina
Henderson, Kentucky
Hubbard, Ohio
Los Angeles, California
Morrow, Georgia
Newark, New Jersey
Oakland, California
Pontiac, Illinois
San Leandro, California

Foreign Plants

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

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