FINAL TRANSCRIPT

Thomson StreetEvents℠

LZ - Lubrizol Analyst Meeting

Event Date/Time: Oct. 05. 2010 / 12:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Mark Sutherland
Lubrizol Corp. - Director - IR

James Hambrick
Lubrizol Corp. - Chairman, President, CEO

Charles Cooley
Lubrizol Corp. - SVP, CFO

Eric Schnur
Lubrizol Corp. - CVP, President - Lubrizol Advanced Materials

Daniel Sheets
Lubrizol Corp. - CVP, President - Lubrizol Additives

Gregory Taylor
Lubrizol Corp. - VP - Corporate Planning, Development & Communications

CONFERENCE CALL PARTICIPANTS

David Begleiter
Deutsche Bank - Analyst

John Roberts
Buckingham Research Group - Analyst

Saul Ludwig
Northcoast Research - Analyst

Dmitry Silversteyn
Longbow Research - Analyst

Robert Felice
J. Goldman & Co. - Analyst

PRESENTATION

Mark Sutherland - *Lubrizol Corp. - Director - IR*

Good morning, everyone, and welcome to Lubrizol's Analyst Day. It's a pleasure for us to be here in New York City. And as one of the analysts following us noted, this is really our first analyst day that we've held in New York. It's -- I also want to extend a welcome to those joining us on the webcast. And again, we thank you for your interest and your participation at the event today.

I'd like to take a little -- couple of minutes and introduce the Lubrizol team. Joining us today are James Hambrick, our Chairman, President and CEO, Charlie Cooley, Senior Vice President and CFO, Eric Schnur, President of advanced materials, and Dan Sheets, President of Lubrizol additives.

And also joining for the panel discussion will be Greg Taylor, our Vice President of planning and development, and in addition to myself, I have my IR colleague Jen Tucci, who many of you met when you were checking in.

I hope that when you checked in you picked up the presentation materials. There's a book of all of their slides. There is a news release that was issued this morning, announcing our goals and targets for 2013 earnings, as well as an article that appeared in a recent issue of Chem Week magazine about the Lubrizol Corporation and much of our growth agenda.

Before starting I also have to -- I have the obligation of reminding you about our forward-looking statements and non-GAAP measures. And importantly, please, there is information on risks and uncertainties related to our forward-looking statements that appears in our periodic filings with the SEC. So please go to our website or the SEC website for more information about those statements. Also, we will be referring to non-GAAP measures in our presentations. And there is a reconciliation to the most appropriate GAAP measure contained in the presentation itself.

Our schedule this morning is divided into three sections. Just after our opening comments we will be having James Hambrick speaking about the sustainable growth for Lubrizol, followed by Charlie Cooley. And at that point in time, when Charlie wraps up his presentation, we will be -- take questions from the floor for both gentlemen. We'll take a short break. Hopefully it'll be about a 15-minute break.

And then we will kick off again with Eric Schnur leading us through a discussion of advanced materials. At the end of Eric's presentation we'll also have time for questions from the floor. Another short break, and then Dan Sheets will lead us through the discussion on Lubrizol additives, at which -- and at the conclusion of Dan's presentation, again, Q&A from the floor. And then we'll bring all of the presenters up to the panel for open question and answer.

What you will hear this morning and what we hope to reinforce with you are the reasons for investing in Lubrizol. And we've divided into -- we've highlighted six key areas. And the first is really our commitment and our focus on building shareholder value through consistent, profitable growth. And we have the seven-year track record of unbroken growth. And we'll be describing that. That'll be part of Charlie's discussion.

Both of the segment presidents will be discussing our technology and market leadership, as well as our strong international presence that also gives reason for investment. Charlie will also be touching on the financial flexibility that allows us to fund our growth initiatives.

And from this also, I think over the entire presentation, I hope you get a feeling for the management strength and credibility about delivering on our commitments and, again, that strong track record that they have -- that we all have going for us. And lastly, it's not an item that we will be discussing explicitly, but we believe another reason for investment is the compelling valuation both on absolute and relative terms. So, with that, I will be turning the podium over to James Hambrick. James?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

(inaudible - microphone inaccessible)

Mark Sutherland - *Lubrizol Corp. - Director - IR*

I'm sorry?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Are my notes up there?

Mark Sutherland - *Lubrizol Corp. - Director - IR*

Yes, they are.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Okay. Good morning, everyone. Thank you very much for your time and attention this morning. My role is really just to get us started. I'm going to let Charlie, Eric and Dan take you into many of the details, so I'm just going to try to give an overview. I'd characterize it in the form of what is Lubrizol, who is Lubrizol, what do we do, how do we do it, just in a very high level general sense. And then the antithesis of that, what we aren't.

When I talk about the -- when I talk about Lubrizol, I almost always start by talking about the portfolio. I use a pie chart because it's pretty simple to see. Lubrizol additives on the left, makes up about 70% of the Corporation, historically our base business. Lubrizol advanced materials, on the right, about 30% of our overall 2009 revenues. Generally known by those who follow us as the build-out positions for the Corporation.

There are -- below these wedges that you see shown in this pie chart, there actually are many sub-segments, so it's actually a fairly complicated product line that we've simplified down in order to be able to just kind of give you an overview. So I'll just kind of tick off advanced materials. So there's a consumer specialties piece, you think of that as a personal care business, performance coatings and then engineered polymers.

Lubrizol additives we normally break into the engine additives, the lubricant additives that lubricate internal combustion engines. And then we further break driveline and industrial into two sub-segments, but we group them together for reporting purposes. Driveline meaning transmissions, gears and industrial, many types of varied industrial fluids.

As unrelated as they might seem, they are -- they are very related in a number of characteristics. And I'm going to get to that in the next slide. So I just want to leave you with a view that we're not a conglomerate. We don't believe in conglomerates. We believe in customer focus, the need to have a rational reason for product lines and technologies to serve customers. And so there is a rationale for this portfolio. We don't think conglomerate approaches of just adding pieces is either good for customers or for shareholders.

And the last comment that I'll make about the pie chart is, as I have said many times and repeat here this morning, for the advanced materials businesses we do purpose to grow each of those sub-segments to about US$1 billion or more in size over coming years.

In terms of commonality, two basic attributes. One, our technologies. So you can't see all the synergies in the pie chart. And frankly, you're not going to be able to see them in the words that are written here. But you can think about Lubrizol as really a surface chemistry company, surface films company, surfactant technology, film technology, polymer technology, dispersant technology, rheology technology.

A lot of big fancy words. What they really talk about is specialty chemicals embedded in films that are applied to surfaces, so whether it's specialty chemicals and aqueous media that coats skin or hair in the form of personal care, in organic films that coat metals or other industrial substrates in the form of lubricant additives or coating additives. And a tie-in in controlling the nature of those films through rheology control really is about our polymer chemistry. So there's a very strong technical nexus there.

More importantly, a very strong nexus at how we go to market. And our business is highly formulated, both at the molecular level and how our products are used in conjunction with our customers' products. So very highly formulated, very bespoke applications, very specific. And that leads to a second and critical element. We are not a specialty chemical company. We are a performance chemical company.

And that simply means that we spend an enormous amount of money not only innovating and developing our products, but developing tests so that we can demonstrate the performance of our products and our customers' products. And that performance attribute is what our customers use to differentiate the performance of their products. It also is quite fortuitous that it gives us an opportunity to show our differentiation in value.

There's another important attribute with respect to our portfolio and our approach to business. We focus on extremely difficult applications. So difficult that they're actually extremely expensive to participate in. And one of the natural consequences of that is there are few participants.

So we look for market spaces where we can differentiate ourselves against alternate technologies and competitors simply by the nature of the difficult applications that we choose. At the end of the day, it's a performance customer oriented business, no matter what it looks like from any other angle. That is the heart and soul of the enterprise.

Just a quick pass at end use markets. I'm not going to take you through the pie chart. You either have it in the form of the overheads or your presentation booklets. But I would like to break it really in two ways. One, the markets we serve tend to be industrial markets or they tend to be more consumer oriented markets. Industrial markets, as you know, tend to be lower growth. They also tend to be longer cycle and, to some extent, cycle resistant. More consumer oriented product lines have higher growth rates, but also are, by their nature, somewhat more cyclical.

I really like to split it a third way. And it does cut across both industrial and consumer applications. I like to cut it by discretionary and replenishment. About 60% of our product line is what I refer to as replenishment products. So whether you're talking about toothpaste, a medical IV tube, crankcase engine oil, these are products that are used, consumed and replaced on an as-need basis. And they tend to be very cycle nonresistant. So these things occur in upsides and downsides.

The other part of our portfolio, about 40%, again, is much higher growth, much more discretionary, but equally high margin. And that the growth rate is what is historically attractive to us.

I use this slide probably more internally than I do externally. It's a codification of what we do as an operating team. I use it regularly with our operating team. Very simple statement of our strategies for growth, broken down by organic growth through product innovation and geographic expansion, improved operating profitability through margin and mix management, operating cost management, operating efficiency improvement, and continue to strengthen the portfolio by reinvesting in our business, our organization, our technologies and our infrastructure, and through value-adding acquisitions.

Very, very simple. It doesn't change. It's there year in and year out. And I share it with you this morning really to make the following point. If it's simple and people can understand it and they can find themselves in it, then they have a much better chance of executing. And the key to our performance is really not our plans. It really is the execution. There's 7,000 people scattered across the globe that are working very hard for shareholders, and they know exactly what they need to do in order to be able to make those contributions. And it really comes back to this one page here. They know what their role is.

Whether it's the maintenance mechanic on the shop floor who's working on productivity or infrastructure, or whether it's the sales marketing executive who's working at the customer interface with respect to improving the overall quality of our business, the researcher who's innovating, the person who's an ex-pat living out on the far edges of the world and working on geographic expansion, the back office finance organization, the legal organization, everyone can find themselves in this strategy. And that has been the key to our success, in my opinion.

It's not easy for me to break this down and give you detailed examples of how we've been performing. You can see that in the overall performance of the corporation. But one thing is clear. If you're in this business, and like a lot of other businesses, our business is geographically moving. And so one of the keys that we need to continue to focus on is to migrate as the business itself migrates.

So I've chosen this slide just as an illustration of one element of that strategy of geographic expansion. So you see three bars here, 1999, 2009 and 2013. This is stated in terms of volume. I've normalized it to 1999 equals 100. And you can see 2009 at 140 and '13 at 180. So that gives you an appreciation of the overall volume growth over this time period.

But the real message is to look at the geographic distribution of our business. North America, in light blue, you can see it moving from 43% to 37% over this period. Despite the fact that it's growing in absolute terms, it's actually shrinking in terms of the overall portfolio of the geographic spread of our businesses.

You can see the same thing for Europe, in the dark blue. Latin America basically holding its own. It's actually growing over the period, but staying steady at 7%. But the real story is Asia-Pacific, Middle East, and you can see the kind of growth that we have had and project to have here in the planning period at about a 9% compound growth rate. An enormous amount of work has to be done inside an organization to move with that kind of a geographic spread.

That's an overview of the Corporation. Very simple description of our product lines. Fairly simple description of our strategies. Just a quick look at our geographic activities. Of course, you know about many of the other performance metrics of the Company. The last thing I want to do before I turn it over is talk a little bit about what Lubrizol isn't. So, pardon me if I paraphrase from this slide. It's not like me to actually read, but I have a -- I have some comments in between these. So here's who we aren't.

Additive margins are at record highs and they're not sustainable. And there are those who would say that even if they were sustainable, it really wouldn't make that much difference because new competitors will enter this market, due to these high profitability levels, with adverse effect. And then there are those who would say, but none of that really matters because the additives business is really a no-growth business. It's a stagnant business that is not growing.

There are also those who say, and to make matters worse, coatings is a poor business, provides no value. Frankly, there are even those who say that it is a distraction and, as a result, provides negative value. And lastly, there is a view that Lubrizol is not as disciplined as it should be vis-a-vis acquisitions. That's not true. Absolutely none of those are true. And I'll spend the next few minutes talking about, at least in my view, in management's view, in our board's view, why they are not true.

The first one, additive margins are at record highs and they aren't sustainable. Actually, I'm not going to read through this. Let me just simply say that the world has changed. There's technological change afoot with regard to fuel efficiency and emission reductions that will continue to drive for a long time into the future. The equipment design changes that require new lubricants of much higher performance levels.

In addition to that, so, the end application is changing. Customers have changed their business model. They're much more attuned to value-add as they try to meet those end market requirements. And the competitive base has consolidated down over a number of years. And we are all working very, very hard in order to add value for customers.

Here's another way to look at this. And those were words. These are some facts. This is data that's very helpful. This is a chart that shows 30 years worth of consolidated gross profit. That's in the bars. It's gross profit is simply defined as net revenues minus cost of goods sold. So it's an easy way to just look at the base capabilities of the enterprise at a very high level without all the downstream adjustments. And that's the bar chart. The line is essentially the margin percentage, because people spend a lot of time looking at margin percentages. So it's gross profit divided by net revenues converted into a percentage.

Let me -- let me talk about the bar chart first, and then I'll come back and talk about the margin line. So, there are probably -- at this level, at a high level, there are three takeaways you should draw from the bar chart. One is there's a couple of periods. The first 10 years you can kind of see a sideways motion. And then there's a second 10-year period, nominal 10-year period where the corporation was performing at a somewhat higher level, but was also continuing to go sideways.

And then over the last part, you can see a fairly dramatic change in our performance. There's some reasons for that. There's some reasons why it went sideways and there's some reasons why it's been growing. But the most important thing to look at with regard to sustainability, this is the topic that people talk an awful lot about. They're really talking about the percentage. So, look at the blue line and you'll see that -- and frankly, if I went back into the '70s, you would see more of the same.

You would see a normal operating gross profit margin in the mid 30 percentile range. You'll see a dip in the very early '80s, to the left-hand side of the chart. There was a pretty severe recession, with a lot of industry participants and overcapacity in that timeframe. And you do see a dip in margins. But if you'll notice, and you can see a little dip in gross profit as well. And then through the '90s you see those margins rise steadily. And by the time we get to the end of the '90s, the business is performing at a somewhat higher level and margins are back up into the 30s range.

Two special effects acted on the corporation's business during that period. The first one, illustrated by the first box, is really an additive industry consolidation, a lot of excess capacity, as well as a major international oil company consolidation. Both of those occurred not simultaneously, but they did have an overlap. And they occurred over a nominal eight, ten-year period of time. And they had the effect of depressing margins.

Now, if you look below at the gross profit bars, you'll actually see that we went sideways. So there was one heck of a lot of hard work going on inside the corporation that you couldn't see just to keep us going sideways. But it did have the effect of depressing margin percentages. And then the second effects in the 2000s, really starting in 2003, is a dramatic -- is a two-pronged effect. One is a dramatic run-up in the price of our feedstocks, as crude oil rose from 30 to 140 over a period of years. And we priced that through.

The second effect was a recognition that we were not earning the proper return on technical investments and the proper return on invested capital. And as we began to price those raw materials through to our end customers, we talked to them about our need to raise our margins back to reinvestment levels. And over the ensuing years, that's exactly what happened. So you see gross profits rising. What you also see is profit margins declining. So despite the fact that on absolute basis year after year we were posting higher overall earnings, our margin percentages were declining simply because of the inflationary effect at the revenue line.

An d then of course when crude dropped dramatically in late 2008, early 2009, you see the percentages jump up and we continue on with a track record of growing consolidated gross profit. I should mention there was an acquisition in 2004, mid 2004 that also contributed to some of that gross profit growth in the 2000s.

So, in our view, it's a long cycle business. It doesn't change very rapidly. When it's good, it's good. And when it's not, it's not and it stays that way for a while. I personally believe, based on more than three decades of observation, we have reached a new equilibrium. We have a very, very strong position. Our customers have strong positions. Our margins, their margins are sustainable. And this will continue for quite some time. I'm not suggesting to you that this is forever. Nothing's forever. But it is a long cycle business and it's not easily perturbed once it reaches a new state.

There are those who say that new competitors are bound to be interested in these margins. And that's a very rational -- it's a very rational, logical conclusion. But it lacks two really important points. It's not a very large industry. The lubricant additive industry globally is about US$10 billion in size. So, in the scheme of global economy, it's really nothing.

And so it would be attractive to whom? To two basic kinds of participants. Someone who was relatively small and interested in growing in high margin applications, potentially someone who was very large and looking for downstream applications. Frankly, for a large player to have a 35% share of the US$10 billion market is -- it may be attractive.

But the secondary effect is if you look at the barriers, the barriers to get into this business are extremely high. It's a global business, so you can't do it on a regional basis. You must do it everywhere. And you must have first-class products. There's no such thing as working your way up the ladder here. You really do need to come in -- if you're going to be a global player and really be a participant in this industry, you need to do it in a formidable way.

For the small player, it means extremely high expenses to invent your way in over a very long period of time. Frankly, not possible, in my view. Lubrizol couldn't get in this business if it wasn't already in it. For a large player, there's no use taking the time and the effort to invent your way into the business. It's much more efficient just to buy an existing position.

And so from our view, tested not only internal but -- internally by management, but externally through consultants to make sure that we're looking at this right, looking at the overall change forces of the industry, embedded at our board level for a third check of rationality, we feel very, very strongly that it is a stable competitive environment and serving a stable market.

I'm not going to take you through Porter's. You can read Porter's five forces model. You can go through and do an analysis. This just simply is an illustration of the kinds of analytics that we use, both quantitatively and qualitatively, to make the kinds of judgments that I just talked about, analyzing each and every aspect of this to come to the conclusion that I just gave you.

Additives is a no-growth market. I think probably we're the purveyor of that as much as anyone was. There was a time where, frankly, we couldn't -- sometimes when you're in the middle of the storm, you can't really tell exactly where you are. Are you -- how far out on the edge are you? How close to the center are you? You can't really tell. There was a time when we really could not tell what was really happening in our industry.

We could see a lot of change forces, but we couldn't quite understand how they were all coming together. And we began to tell people that -- and tell ourselves, frankly, that it looked like a 0% to 1% or 2% growth industry. Sometimes it went negative. Sometimes it went slightly positive. In reality, as we've -- as we've looked more carefully over the last few years, we've done what good engineers and scientists are supposed to do. Let's tell it -- look at the data and see what it tells us. And that's what it shows.

Those are year-over-year changes in volume. There's a lot of noise in there, a lot of special effects. We've gone back and teased this data apart to try to understand those up and down effects. When we look at it over time, however, you see it's a nominal 2% growth rate business, not a high growth business. Sometimes it grows a little more, sometimes it grows a little less. In the last few years it's been growing a little bit more. But over time, it's a 2% growth rate additives business.

And others have corroborated this. Others have looked at it at the lubricant end and not at the additive end, but at the lubricant end. And have come to the conclusion that over a long period of time, the lubricant industry actually grows at global population growth rates, slightly above 2%. So, it's not a no-growth business. It is, however, and shall ever remain a low growth business.

Coatings, poor business, big distraction. A day late and a dollar short in terms of us building out into coatings. We're all -- very, very interesting opportunity for us. So, here's a layman's way of thinking about it. The whole manmade world is a surface and every one of those surfaces has a coating on it of one kind of another. That's a big opportunity.

If you're a high tech niche player, I guarantee you there are coatings applications that are -- that are either unmet or poorly met. So if you are a performance company that is adept at surface technologies, there are opportunities there. The market is huge. I don't know how big it is. Take a guess, US$100 billion? I don't know how many players. More than 100.

But there are niche applications, very high value niche applications where a technically oriented company like Lubrizol can demonstrate value for customers and earn a good return on its technical expenses, as well as its capital expenses. We have been making progress. We did not necessarily invent our way into some of these technologies. Some of these technologies we bought our way into. And some of them we bought our way into knowing that they were turnarounds in progress, or at least in need.

And here is a view of the kinds of progress that I have been talking to people about over the last few years. So this is about four year's worth of data. These are LTM by quarter unit margins. So, for those of you who listen to us regularly, you know we really do focus heavily on unit margins, meaning unit selling prices minus unit raw material costs. And I've said to you that the unit margins of this business are extremely good. It lacks economy of scale, but we have a lot of innovation work going on. We have a lot of infrastructure work going on.

We are making progress. And this bar chart is a simple illustration of the kinds of improvements that we've made. Obviously, for competitive reasons, I have not given the absolute numbers, so I've indexed this. But let me take the opportunity to talk to you qualitatively about what's in this portfolio because it also speaks to the value of this coatings business in our portfolio.

So it's water-based technology as well as solvent-based technology. It has additives and it has resins. The resins are acrylic resins and they're urethane resins. And what's really important about that, I know that's just kind of Greek to a lot of you and fine, I don't expect you to really understand it and you don't need to. That's what the shareholders pay us to understand.

But the acrylic technology, particularly the water-based technology in that coatings business, frankly, is a technology feeder into our personal care business. It provides an awful lot of technology. It gets no credit for the margins that are earned there, but it is the basic technology that feeds portions of that product line.

Likewise, the urethane technology in our coatings business has an interfacial relationship with our thermoplastic polyurethanes business. That also can be a films business that needs to be applied to substrates. And that's exactly where our coatings technology focuses.

And lastly, there are polymer technologies, a lot of polymer technologies contained in that coatings business. A couple of them have been moved out of coatings and over into additives for rheology control. So, this really kind of goes back to the early part of my discussion. There is a technical nexus here. It's not a pure playing, simple should we be in this business or shouldn't we be in this business. You really need these chemical lines. And the real question is what do you do with those? What are the unmet needs? Where can we use our skills to earn money for the shareholders? Coatings technologies is really an important attribute.

Lastly, this is probably more about me than anything else. This is probably less about the corporation. I have spent many years in business development. I'm the kind of classical corporate outsider/insider. I view Lubrizol in a very critical fashion and I have for years. And I've known for a long time what we needed to do in terms of growing the enterprise. I knew we weren't going to invent our way there in many cases. This is a easier strictly make-by decisions. These are make-by decisions from a research, from a technology point of view. They're also make-by decisions from a market presence point of view.

Frequently, many people are better at optimizing something that exists than they are inventing it in the first place. Lubrizol falls into that category. I learned that a long time ago. Our strategy has been to acquire positions, buildable positions, starting small and building large over time.

Despite all the bluff and bluster in my tenure, we've done five acquisitions, one large one and four small ones. And we've worked on a lot more than that. The attributes of the space that we are interested in really confine us to either relatively small, sometimes so small it's hard to understand how they're going to make a difference, or too big.

But there's not a lot of in between ground. So when we're working on small things, we're working on small things. When we're working on large things, we're trying to understand how to do it, how to add value, what won't fit the portfolio, can we sell it off, et cetera. Complicated work, but we're true to our discipline.

First of all, there needs to be a reason. We need to be able to add value to that acquisition and it needs to be able to add value to us. I've said many, many times we're not into dilutive acquisitions. It's a fairly low hurdle. And as a result, it must be adhered to at all times. It's got to be accretive in year one.

And most importantly, because it speaks to where we came from, we just left an era where we were not earning proper returns on capital. Acquisitions must need to earn a proper risk adjusted return on our weighted average cost of capital. Frankly, we don't do near as many as I would like to. We're very disciplined, we'll continue to be very disciplined. We'll also continue to be pretty aggressive.

I'll leave you with this summary. We've got a good, strong track record that we're developing. 2010 will be another strong year for us. We've got a good, strong portfolio, getting stronger by the year. We've improved our financial position to the point that we have options that we never had before.

Very strong and committed management team, both in terms of our shareholders and in terms of the people who actually deliver the results for you, which, frankly, is not us. It's our employees, that's 7,000 people who are just working very, very hard across the globe each and every day. We're aligned. We know what we need to do and we're going to continue to do it.

Overall, our business is extremely well positioned to continue the growth trends that we've put in place over the last few years. And at this time I'd like to conclude my remarks. I'm going to turn it over to Charlie. I'm not going to take any questions right now. I'm going to turn it over to Charlie, Chief Financial Officer, Charlie Cooley. And then after Charlie finishes his comments, I think he and I'll take them in a combined fashion. So, Charlie, please.

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

Thanks, James. I'd like to extend to you my good morning to you. Welcome and thank you for coming. Appreciate that very much. Very briefly, here's my agenda. Want to talk a little bit about our track record, more from a financial perspective, building on what James has talked about. The meat of my remarks really have to do with the longer term outlook that we announced this morning.

I do want to touch on the uses of our excess cash because despite our efforts to deploy it prudently, we continue to have it. It's a nice problem to have. And then talk very quickly about our incentive metrics, just to demonstrate the fact that our management team, by virtue of our incentive compensation schemes, we believe are very much aligned with shareholder interests.

So, starting off, again building off of what James was talking about with respect to track record, and perhaps this is mainly for the benefit of those of you who are less familiar with Lubrizol over the years, as James showed you our strong operating performance is not a recent phenomenon.

So what you see here are our revenues and earnings performance since 2003. So, in this timeframe through 2008 we've grown revenues 20%, EPS 16%. And despite the decline in revenues in 2009 due to lower demand for our products, and I would note that the demand decline that we saw for our businesses in 2009 was really quite modest compared to what you've seen in other chemical sectors as well as more broadly what you've seen in the global economy.

But despite that slight dip in 2009, 2010 is very much on track to be our best year ever for revenues and earnings. The main drivers of this year's strong performance are -- is largely volumetric. We're seeing very solid volume growth across our product lines, but also our ability to at least sustain our margins in Lubrizol additives, as well as to continue to grow our margins in advanced materials.

Fortune magazine recently published their annual listing of the 500 largest US companies based on 2009 revenues. Within the chemical sector we're the smallest of the 15 listed companies, behind very notable names such as Dow, Praxair, Sherwin-Williams and Eastman. But we're among the top performers in this group.

We rank number one for earnings growth from 1999 to 2009, and we rank number three for total shareholder return over the same period. And then Forbes magazine recognized Lubrizol as what they call a global high performer, which means that we were a top five company in our sector based on five-year cumulative performance.

It's not typical for Lubrizol to show slides like this, but it's really not intended to be boastful. Rather, it's intended to make sure people, if they haven't followed the Company closely, appreciate the very strong performance that we've delivered over a number of years. So, as a result, we have significantly outperformed the market, as well as our chemical peers, in terms of total shareholder return.

And drilling down into TSR a little bit further, you can see it broken down into two central timeframes. And again, this is an extension of the history that James showed you just before. Since 2004 our annual total return to shareholders has averaged 26%, outperforming the S&P 500 in every year. And this compares to a 4% TSR for the 1998 to 2003 period, which was also a time that was marked by pretty dramatic swings above and below the performance of our peers, as well as the overall market.

And we attribute this change in our performance history to several things. First, the very significant improvements in the health of the entire lubricants value chain. And more specifically, the improvements in the health of the lubricant additive portion of that value chain. The transformational acquisition that we made in 2004 was a key driver of the steady and improved performance. And as I'll touch at the very end, we've done a lot internally to align management's interests with those of our shareholders.

So, in February of this year, we announced our earnings and margin goals for 2012. And we now anticipate hitting those goals as early as this year. So, today, we're announcing our new goals. We're pushing it out a year since we're now getting to the end of 2010, so we're putting out new goals for 2013.

And here are the consolidated targets through 2013. And you can those targets lined up with the February guidance that we gave through 2012. Even with our 2010 volumes now forecast to be approximately 7% higher than we originally projected, we now forecast to continue that 4% to 5% volume growth, notwithstanding the higher base that we've achieved in 2010.

And with these increased volumes, we're expecting improved operating leverage, and hence higher gross profit margins and EBIT margins going forward. And so the bottom line effect of all that is we're targeting a higher EPS growth rate than previous, now a 8% to 11% growth in EPS.

And now just drilling down a little bit for the two operating segments, starting with Lubrizol additives, our outlook for additives performance is more robust than it was from the perspective of February of this year. We target volumes to continue to grow at the 3% to 4% per year, but now off of the higher 2010 base.

Why 3% to 4%? James talked to you about the additive industry perhaps growing more like 1% to 2%. And as we've talked with investors pretty regularly in the past, we have demonstrated above average market growth in Lub additives. We are winning with the success of our customers. We also have higher growth niches within the Lubrizol additives segment that enable us to be pretty confident about this kind of growth rate for this segment.

Specifically, we're more bullish now about volumes, as well as product mix, in the engine additives. That's that large piece, that large wedge of the Lubrizol additives pie, in Asia and in Europe, as well as also being more optimistic than previously about our volumes in our driveline and industrial additives. So, the higher volumetric outlook, together with the mix improvement, is driving the higher gross margins as well as higher operating margins.

Like additives, we continue to forecast advanced materials volume growth, in their case to continue at 5% to 7%, notwithstanding they're better than forecast volume growth in 2010. We're also targeting better gross margins and operating margins. And for this segment, the reasons for this improved outlook are several.

First, I would highlight the fact that we're experiencing much better than expected recovery in our Estane TPU product line. And we now project a higher rate of growth in our higher margin aliphatic TPU products. And that goes into applications such as protective films for electronics.

Secondly, we now project a higher rate of growth in our performance coatings product line, especially in Asia-Pacific, as well as improved product mix in that product line. And then finally, I would note that we -- our outlook for our TempRite CPVC growth in India and in fire sprinkler applications is more optimistic than our prior guidance.

So, as these assumptions translate to an earnings goal of US$13.50 by 2013 and consolidated EBIT margins that are approaching 22%. In contrast, our more -- our most current guidance for 2010, which we communicated at our second quarter earnings teleconference back in July, is US$9.60 to US$10 per share. And we will communicate any changes to our 2010 guidance at our October 28th earnings teleconference.

So the components of our earnings growth through 2013 look like this. The operating segments contribute about two-thirds of the growth. And that corresponds to the lower end of the EPS trajectory that I showed you earlier. We also are assuming that the current share repurchase authorization of 7.2 million shares, which was the outstanding number as of June 30, will be completed in the next 18 months. And that'll contribute about US$1.25 of accretion.

Acquisitions, what impact will that have? Well, acquisitions that we will complete over this period would likely be on top of these earnings goals. As I'll note later, we have ample financing capacity and we don't rely on our cash position per se to finance acquisitions which actually is now a good segue to talking about our cash flow generation and our uses of excess cash.

2010 is well on its way to being a record year for adjusted EBITDA. Cash flow from operations is also projected to be very strong, though it's down from 2009, given a pretty dramatic swing in working capital. Like many companies, in 2009 we reduced our inventories quite significantly following the unexpected buildup in inventories at the end of 2008. And then on the other side of the ledger, this year our receivables are increasing commensurate with just the higher revenues. Our days outstanding has not changed, it's just we're building working capital as we continue to grow in 2010.

So, despite US$200 million of working capital build as well as US$125 million of share buyback in the first half, we ended the second quarter with about US$1 billion in cash. Additionally, we have two undrawn revolving credit facilities. Our US revolver we recently increased in size to US$500 million, and are among the very few industrial companies to have now a five-year revolving credit.

And we have two years remaining on our EUR150 million facility. We're operating very well within our -- the confines of our financial covenants. So the corporation has ample liquidity to meet any of our near term funding requirements.

So, with respect to the deployment of our excess cash, we targeted deployment that's well balanced between reinvesting in the business, as well as returning cash to our claimholders. What you see here is a very generic schematic that shows the range of potential uses of excess cash.

For us, we're focused on capital expenditures, acquisitions and share buyback as the main uses of our excess cash. And I'll now go into those three areas next. Here you see the last three years of capital expenditures split by category of spend. On the left, growth expenditures primarily consist of capacity additions to meet growing demand. So those are capital expenditure opportunities that we are delighted to have and look for.

There's a category of replacement or maintenance capital. The next one is environmental and regulatory compliance. And for the last several years we have been investing in information systems projects consisting mainly of rolling out SAP in the advanced materials segment.

You can see, like many other companies, we substantially pulled back on the reigns of capital spending in 2009, especially in advanced materials. But this year we've resumed spending in all categories and in both segments, especially capacity additions, as well as maintenance programs in both segments.

The most notable capital projects that we've been talking about are, one, a new greenfield additives plant in the south of China, which we anticipate to cost in excess of US$200 million. As well as a carbopol expansion. That's in our personal care product line and that's an expansion project here in the US.

This slide shows a longer term perspective of our capital spending, lined up against our annual depreciation. Prior to 2007 we consistently held our capital spending at or below the level of depreciation. Beginning in 2007, our capital programs had exceeded depreciation due mainly to the need for more production capacity. And a good example of that, going back to the kind of '07 timeframe, is the recently completed plant in Shanghai for coatings and personal care products.

We currently project 2011 capital to be in the area of US$300 million. We're refining that number right now since this is the time of year where we're putting together our detailed plans for the following year. We project in '11 and probably '12 and '13 to remain at what would be elevated levels of capital spending relative to what we saw in the past, due mainly to these capacity additions that I talked about, as well as stepped up maintenance and infrastructure projects across both segments and around the world.

Acquisitions are another potential use of our excess cash. James touched upon that. Just to say again, or to reiterate that we're seeking businesses that primarily fit within our existing portfolio of businesses, primarily advanced materials, as well as some of the industrial businesses that we have on the Lubrizol additives side.

We are seeking to add value through some form or a combination of synergies, whether they're -- whether it's a technology fit, a fit with channels, geographic expansion or opportunities to improve our operating efficiencies. So we're not looking for third leg per se.

Some acquisitions that we've made, the Noveon acquisition would be a good example, where, as part of buying businesses -- portfolio of businesses that fit well within our portfolio, there were some other very high quality businesses that came along we're delighted to have. But that's not the main driver of the acquisition strategy.

As James said, we're particularly interested in building out our advanced materials businesses because they could use more scale. It's not apparent when you look at our financials, but the unit -- the material margins, the unit margins that we see in advanced materials are quite comparable to the Lubrizol additives segment.

But if you go down to the EBIT or operating margin line, the profitability is lower. But if twice -- roughly twice the current size, namely if these businesses were more on the size of US$1 billion a piece, we'd be much better able to leverage our SG&A, technical and manufacturing expenses to improve operating margins.

And then finally, James touched on our criteria for acquisitions. We believe we've been quite rigorous and disciplined in our screening of acquisitions. Witness the fact that we have done just five over a number of years. We do seek risk adjusted returns well in excess of our cost of capital. And when you find opportunities like that, they're almost immediately accretive.

Moving to the other branch of uses of cash, we've historically been very thoughtful about returning cash to our shareholders. Following the financial crisis, we resumed our share buyback program this year, spending, as I noted earlier, US$125 million in the first half. In June, the authorization was increased to 7.2 million shares. As we announced in a press release this morning, in the third quarter we spent US$200 million on share repurchases, buying in 2.1 million shares.

And also as noted, we anticipate completing that authorization within about the next 18 months. And in April, our board increased our regular dividend 16%, bringing our annual dividend spend to about US$100 million. And we look forward to growing our dividend over time as our earnings grow.

On the debt side, we're very comfortable with our current gross debt levels, absent the need to finance some opportunity that might come our way in the future. So we don't see further debt reduction as a good use of our liquidity. We're very comfortable as a triple B plus credit. If we were to do a large acquisition, we would target being no less than a mid triple B out of the chute, with the goal of getting back up to triple B plus type metrics in reasonably short order.

Very quickly on our maturity schedule, our maturities, debt maturities are very nicely spread out over the next 4 to 24 years. Our debt is primarily fixed rate. We do have US$100 million of our 2014s that are swapped to floating. And we're -- we continue to monitor swap rates for opportunities to increase our floating rate exposure. We target to be 65/35 fixed/floating ideally. And then finally, none of our debt is pre-payable without an economic cost.

And then finally a comment on our incentive compensation scorecard, which we believe really causes us to force our attentions on -- keep our eyes on maximizing value for our shareholders. Our consolidated annual metrics include mainly hitting our annual EPS and return on invested capital targets. We also have various objectives varying over the years, all centered on focusing our efforts on profitable growth. For example, M&A, as well as other key corporate initiatives that may be important in a given year.

For better line of sight, we also have segment scorecards that kind of parallel the metrics that we use at the consolidated level. And at the segment level, our management teams are motivated by hitting annual segment operating income targets. We have a segment level ROI metric which we call return on gross investment, which is intended to be a cash-on-cash return on investment metric. And we have various growth targets which focus the segments on geographic expansion, as well as new product introductions.

Lubrizol also has a long term incentive program, which is based on achieving a rolling three-year cumulative EPS target. And each year's grant is based on a new three-year target that escalates off of the prior year's EPS. So, common to both the annual and long term incentive schemes is that outperformance in a given year sets the bar higher for the following year's one and three-year targets.

So, in closing, our track record over the last seven years speaks clearly to Lubrizol's ability to grow volumes and effectively manage margins, which gives us the confidence to raise the bar yet again this year. And I've lost track of time, Mark, so we can open up now to Q&A?

Mark Sutherland - *Lubrizol Corp. - Director - IR*

(inaudible - microphone inaccessible) questions, yes.

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

Okay.

QUESTIONS AND ANSWERS

Mark Sutherland - *Lubrizol Corp. - Director - IR*

Any questions from the audience here. Jen, there's one over at the back.

Unidentified Participant

Morning. Just a quick question with regards to debt. Your Lubrizol 19s, which you issued in 2009, are very high coupon in nature for a company of your ratings and size. Would there be any potential for you to seek to try to refinance that, even if there were some costs associated with it? Thank you.

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

That's a great question. Thank you for asking it. It's one that we've actually just recently taken a look at because there are other companies that have at a premium bought in a higher coupon debt, taking advantage of now lower refinancing rates. The difference between those companies and us is that those are companies that were -- primarily had near term maturities, near term meaning maybe just a year or so out.

So in their view, they viewed that as a refunding, a refinancing of an upcoming maturity. For us, our nearest maturity is still four years away. There is an economic cost to doing that. Our debt is not pre-payable without incurring a penalty, so we would be tendering at market. That's a zero NPV transaction. The refinancing is a zero NPV transaction. And all we end up doing is paying transaction costs to achieve it.

So, notwithstanding the optical or cosmetic benefits of taking those 8 and seven-eighths off the books and replacing them with something lower cost, as shareholders I would think you'd hope that we'd be making good economic decisions. And buying debt at market is not a good economic decision.

David Begleiter - *Deutsche Bank - Analyst*

For James. Dave Begleiter, Deutsche Bank. James, fast-forwarding to lube additives, is there a point at which your high margins hurt you in your ability to raise selling prices?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

David, thank you. It's not like me to dodge a question. I normally take them head-on. But I'm not going to take that one on. I want to let Dan Sheets talk to you in some detail about additives. And if you still have that question after his presentation, we'd be glad to take it on. I really think Dan's got a great story to talk about the value that is there today and there in the future. And so let's let him have an opportunity and then we'll take it on after that. Thank you very much.

John Roberts - *Buckingham Research Group - Analyst*

Thank you. John Roberts, Buckingham Research. You have this barbell strategy on acquisitions with both very large and a number of small things that you've done and looked at. How is the small acquisition market looking? Because, at least with the tax law changes potentially coming, there were a number of things put up for sale. I don't know if that window has passed and we ought to expect maybe a pause in the activity around small acquisitions.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

It's really quite a small finite universe. If you start with what really fits our portfolio, what really would be valuable, so first it needs to fit, then it needs to be valuable. Both ways, as I said. We need to be able to add value to it. I can't tell you the number of opportunities that I look at where I'm left asking myself the question, so what value are we going to add?

And then availability. The old saying is generally true. Most good businesses aren't for sale, or, if they are, not at a price that you can earn a proper return on. So, what I would say is we have a relatively broad portfolio of opportunities, but the number that actually kind of fall out of the bottom of the funnel is going to continue to be quite small.

Large acquisitions of the kind that many people refer to that we worked on earlier this year are -- they're so rare that maybe once or twice in a CEO's tenure do you get an opportunity even to work on something that fit in multiple places, despite the fact that it was too large. There's always a lot more opportunity on the smaller end, and I'm quite hopeful that we'll make some of that happen here in the relatively near future.

Saul Ludwig - *Northcoast Research - Analyst*

Charlie, in the guidance that you've provided of -- on the corporate expense side growing 3% a year, does that -- how have you factored in the component of incentive compensation, which can vary greatly with share price changes? And how should we think about that relative to the corporate expense outlook that you've provided?

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

Am I still on?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Yes.

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

I'll stand right here. We -- when we set our annual plans, Saul, we factor in as part of our earnings goals the expectation that we'll -- our incentive plans will pay out at target. Of course, if we perform better than target, incentive compensation would likely go up. But of course the net effect is that we're outperforming on a bottom line basis our earnings goals.

So, the corporate expenses could well grow greater than 3% if we outperform our targets going forward. But as a corporation, across all of our expense categories, we are targeting operating expenses, as best we can, to grow at less -- at least -- at most the rate of inflation and, where we can, less than the rate of inflation.

Saul Ludwig - *Northcoast Research - Analyst*

But you assume that the stock price -- as the stock price goes up, your incentive comp expense increases. And that's built in --

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

That's correct. So, when we set our three-year EPS goals for our long term incentive, we are incorporating the expectation that the stock price will grow, and so the stock price related compensation expenses are baked into those earnings goals.

Saul Ludwig - *Northcoast Research - Analyst*

Thank you.

Unidentified Audience Member

Your EPS (inaudible - multiple speakers)

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Yes. Excuse me

Mark Sutherland - *Lubrizol Corp. - Director - IR*

Just one moment (inaudible - multiple speakers)

Unidentified Audience Member

Your EPS goal of US$13.50, what economic forecast for the world is that based on over that period of time?

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

The expectation is that our -- there'll be continued modest recovery in the global economy. One of the things that causes Lubrizol to perhaps sound more confident in putting out three-year earnings goals than you might see in other sectors goes back to the description of the end use markets that James showed in his slides, where 60% of the markets we've served are service fill, maintenance driven, tend to be highly cycle resilient.

And the volumetric performance of the Company over the last several years I think kind of bears that out, that our businesses tend to perform well even in tough economic cycles. But for the more cyclical elements of our portfolio, our outlook through 2013 is a steady, not particularly exciting recovery in the global economy.

Unidentified Participant

James and Charlie, as you point out on slide 28, you -- Lubrizol has done a great job compared to your peer group over the last number of years in terms of a lot of return matrix. You've got a lot of cash, a lot of cash flow, which is a high cost problem, but yet the stock still trades at six times EBITDA multiple. As private equity continues to pick up dollars, how do you assess the risk/opportunity of a private equity transaction within the Lubrizol story?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

I'll start. It's a low growth business. It's not something that -- it does have good high returns, but it's not a really high growth business so it will not be attractive to some investors. Other investors may be -- will be attracted to it. Frankly, our view is that in terms of our trading multiple, if you will, the stock has been appreciating.

We believe that our performance is good enough over a long enough period of time, particularly when we put down 10 numbers and we get to the February of 2011 when we show you some '11 numbers and what will be our eighth consecutive year of growth, that our stock price will continue to appreciate. And a premium, on top of an appreciating stock price, is not a particularly attractive return to an investor. And that would be my basic view.

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

I'll also add that that's really a question better posed to our Board of Directors as opposed to management team.

Unidentified Audience Member

(inaudible - microphone inaccessible). You mentioned CapEx would be at elevated levels over the next three years. Is that in an absolute sense or is it percentage of revenues or both?

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

In absolute terms we would anticipate CapEx -- I hesitate to put a number out because there's a lot of bottoms-up work that goes into our capital plans. We do anticipate the kind of project to peak in spending in 2012. But then how the rest of the capital program is put together is still a ways away.

So it's hard to put any specific numbers on it now. So we're simply trying to prepare folks for the fact that we're going to have capital spending in the, call it zip code of US$300 million, we put free handle on it over the next couple of years as we get through these expansion projects.

Unidentified Audience Member

And also the growth that you envision in the Asia-Pacific, Middle East region, is that -- how's the mix going to be there? Is it going to be kind of equivalent to where the mix in the Company is now in terms of additives versus advanced materials?

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

I think some of that's going to be picked up in Dan's and Eric's presentations on geographic expansion. But virtually all of our product lines have plans to grow in Asia, China and India in particular. Some of our businesses, particularly on the advanced materials side, as we've used this term many times before, have been underrepresented outside of North America and Europe.

And so that's been one of our strategies is to use the geographic footprint that our additives business has built up over the years as a launching pad for growth of those advanced materials businesses in the emerging markets, China and India in particular.

Mark Sutherland - *Lubrizol Corp. - Director - IR*

We're going to take one last question

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

One last question? Sean's got a question.

Unidentified Speaker

Oh no.

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

Okay, sorry.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Okay.

Unidentified Audience Member

You pointed out on the slide the impact that raw material cost pass-throughs had on margins in a prior period. When you give your gross margin guidance for 2013, what sort of commodity price target are you guys [employing]?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

(inaudible)

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

I could try that.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Yes, go ahead.

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

It's an understandable question, but it's one that we don't really think in those terms. The -- it goes back again to one of the slides that James was talking about, that we measure our performance primarily at the unit material margin level and let the percentage margins do what they may.

So if we do encounter another period of inflationary feedstock costs, then our goal would be to, as we've done in the past, to continue to recover those, which could have the effect of slowing down or retarding the percent margins, all the while hopefully meeting our goals to hit those unit material margins.

So I'd be less focused on how to think about raw material assumptions in this forecast, other than to say these mid 30s gross margins that we're talking about would be on the assumption that it's for a steady as you go levels of feedstock costs that would not give rise to another bout of inflation that would cause us to have to kind of recalibrate the percent margin as we get into a more inflationary cycle, as we've seen in the last seven years.

Mark Sutherland - *Lubrizol Corp. - Director - IR*

Okay, I think that's the questions for now. We'd like to take a -- we're going to make it a 10-minute break because we will have another break a little bit later. Have a chance to kind of meet management and follow up with some other questions. So we'll be back in 10 minutes. Thank you.

(Break)

PRESENTATION

Mark Sutherland - *Lubrizol Corp. - Director - IR*

Thank you. Thank you for taking your seats. I'd like to kick off the second part of this morning's discussion by introducing Eric Schnur. Eric is a Corporate Vice President and also President of the Lubrizol advanced materials business segment. Eric?

Eric Schnur - *Lubrizol Corp. - CVP, President - Lubrizol Advanced Materials*

Thank you, Mark. Morning, everyone. I really appreciate the opportunity to talk with you about advanced materials here this morning. We've titled this section delivering value through innovation. And so as I talk through this section of the discussion this morning, I'll be talking about some specific examples of innovation across our product lines and I'll also be talking about some of the things we're doing strategically and organizationally to enable us to continue to innovate, because that really is the key to our success across Lubrizol and particularly in advanced materials.

First I'm going to provide an overview of what is advanced materials because it isn't as well known, as I confirmed this morning talking with many of you, it isn't as well known as Lubrizol additives in terms of what we do in advanced materials. And we'll talk about our financial results and we'll talk about our targets. Charlie showed the chunk of profit growth that needs to come from advanced materials and we'll show you how we're going to get there. And we'll talk about our strategies for getting there as well.

So, often when I talk with a group and try and explain what are the various applications in which our technology is used, I'll ask people how many people in the room have used a product that contains Lubrizol advanced materials technology today. And most people know that we're in personal care products and most people don't want to be caught on the spot, not admitting they bathed that particular day. So most everybody will raise their hand and say, yes, I'm pretty sure I've used a personal care product.

But I would guess that as I go through the next few pages here you're going to find out that you've used more than one of Lubrizol additives or product that contains Lubrizol additives technology, probably far more than one.

So James showed you his pie chart. He showed you the different sections of -- or different segments of our business. Consumer specialties, often people think about personal care there. But we are also present in many household products, cleaners, detergents. We're present in many pharmaceutical applications. We have ingredients that go into solid oral dose tablets, into liquid medicines, into toothpaste there, as you've seen. And we also have technology that goes into a variety of unique food applications.

James also talked about performance coatings. And everywhere you look around this room, every surface in the world has a coating of some sort on it. So that's awful broad. And I'll come back to that point as we go through the discussion.

But as we've looked at performance coatings, we are in a wide variety of adhesive applications, paints and coatings applications, also graphic arts. So -- and ink is another -- you can think of that as a coating also for paper or any other substrate. And so we're in a variety of different graphic arts applications, including enabling some of the ink that is present on national currencies.

Some very specialized paper applications. Think about some specialized filtration applications as just one example. Some specialized high tech textile applications. I'm not sure that photo there is exactly the high tech applications that we're in, but it's a very nice photo. But if you think about performance fibers, performance fabrics, that's the kind of targets that we're looking at in terms of our paper and textiles business. And so coatings is very broad as a category.

Think about engineered polymers. Ask yourself the question, how many different places do we use plastics in the world? And certainly not all of those places are potential applications for our engineered polymers because we tend to work in the higher end, where durability, high temperature performance is more important.

So there's a wide variety of industrial applications. Certainly electronics. And I would guess that probably you've used one or two electronics gadgets today that likely contain some of our polymer. Medical applications, you see an example of dental application, medical device tubing applications.

Sports and recreation, not only sporting equipment, but high performance footwear, high performance sports apparel. Actually, although it may not fit in the sports category, the shoes I'm wearing contain some of the polymers that Lubrizol manufactures. And then transportation segment. Many, many applications in transportation, automobiles and other modes of transportation.

We also have a technology that we'll refer to as TempRite, or chlorinated polyvinyl chloride, CPVC, in our engineered polymers portfolio that is mainly vast majority used in piping systems. And I had some discussions with a few of you beforehand. So the question is, is that business really at the mercy, so to speak, of the construction industry? And to a certain extent, in some parts of the world, yes. But there's other parts of the world where that business is growing very, very rapidly.

And the other point about this business is we are looking at some very specialized applications like fire sprinklers, systems that offer some unique performance benefits, and industrial and manufacturing systems like industrial wastewater or waste chemical where chemical resistance is very important. So it is a much broader answer to the question than is the construction industry, what impact is that having on the business. And I'll come back to that point.

Then a variety of other applications, pool and spa, irrigation, anywhere you see pipes potentially is an application for this technology. But not everywhere because it is, again, high performance, chemical resistant, high temperature performance. And so when we think about Lubrizol advanced materials and that overview, it's a fantastic breadth of potential applications that we can participate in. And that is one of the platforms for growth, certainly, that James and Charlie referred to in their comments.

And the business has been performing well. And of course you can be the ultimate judge of if it's performing well enough. And we expect it to perform even better. Many, many reasons it's performing well. One is if you look at our consumer specialties business, which is largely personal care, we have some very strong positions with key customers where our technology provides key performance for their brand names. And so that's a strong position and that market continues to grow.

And the phrase recession resistant is often associated with the personal care business. And we certainly saw that in our business. We saw slowdown in our growth rate perhaps through the recessionary period, but we did not see a reduction in our volume or our business. It continued to grow.

If we talk very generally about engineered polymers and coatings, there are elements of that business that are susceptible to the construction and housing slowdown. We saw more slowdown in other segments of that business that have since bounced back, as Charlie mentioned. But still, we see in certain part of the world, the US is one of those parts of the world, we see a slowdown. And that is affecting some of our business areas.

We've also seen a positive effect from the two TPU acquisitions in late 2008. We acquired Dow's TPU business as well as SK's TPU business. And those have been fantastic additions and allows us to broaden our product line into what we can offer to our customers.

The reason that these businesses have performed well, despite the economy that we've seen, in large part is due to our discipline and our focus on the applications in which we pursue. There are so many different potential applications for the technology that advanced materials has. The challenge for us organizationally and strategically is to select the ones where we can add the most value, where we can be unique, where we can help our customers grow their business, which in turn allows us to grow our business.

And so the question is that we ask ourselves all the time, what competitive advantages do we have and in which market segments can we use those to develop offerings for our customers that are unique. And we have a lot of competitive advantages. And I won't read all the words on this chart, but we are well established in many of our product areas. We have brands, business to business brands that our customers recognize and view as important to their business.

We have a broad range of product offerings. We have a global footprint. Charlie and James referred to this, both in terms of technology, technology support, product development and product support, but also our global manufacturing infrastructure. And we have a variety of technology and capabilities.

And so think about competitive positioning. There are many competitors we have, a list of 100 perhaps, that are more regional and more component or maybe multi-component oriented, and can't offer the fully formulated solution, the breadth that we have, the global infrastructure that we have. They have a place in the market, but in the application areas where we're focused, we are -- believe we are very unique. And we have many examples where we are unique.

Now, you all know the chemical industry well, so you're sitting there perhaps thinking, but there's lots of big companies that could also claim to do some of the things that we're claiming on this slide. And that's absolutely correct. So our challenge is to figure out what are the things we do uniquely well, and there's lots of them, and what applications and what markets do we focus our innovation efforts.

And that really is a big part of the success that we've seen in advanced materials and the success that we expect to continue to see in advanced materials. And I'll give you some examples. One way to look at this is how we define our addressable market. James referred to the size of the coatings business. Let's take that as an example. It may be US$100 billion, depending on how you define it. I've certainly seen market studies that'll say it's US$30 billion plus in terms of addressable market for our coatings business.

So if you think about US$30 billion and you think about our size, and you just look at the broad numbers, we are very, very insignificant in a US$30 billion market. Our objective is not to participate in all US$30 billion or US$25 billion or US$100 billion or whatever the number is. Our objective is to be very, very meaningful and leaders in a small sub-segment of that overall coatings market.

So we define our addressable market in coatings as about US$4 billion. And I'll give you a couple of examples of what's in that US$4 billion. And those are, as you might imagine, areas where we believe we have some very, very strong technology strengths, service strengths, our overall organizational capabilities that are not easily matched.

Same thought process we go through in engineered polymers. The plastics world is very, very large. We're defining our addressable market as about US$6 billion overall. And the same in consumer specialty. So when you roll it together, we're about a US$1.5 billion segment of the Company, with a US$15 billion, as we define it, addressable market.

And the box at the bottom or the phrase at the bottom really captures it all. We are really focused on those applications where we can add the most value to our customers' business, and in turn get the most value for Lubrizol and for our shareholders.

So, I said we're performing well. And we'll show you some numbers. And we could definitely perform better, but we are performing better today than we have in recent years. This is similar to the format that you saw from James and Charlie, last 12 months. This is actual revenue and operating income.

And you see that through the end of '08 into early '09, our operating income was at a fairly low level, and we've made some pretty significant improvements. And you've seen this information in our various quarterly announcements. Similar to the chart you saw from James on coatings, this takes Lubrizol advanced materials in total, and that's our unit operating income.

So we've got an index volume going back to the fourth quarter of 2005 as the denominator, and our operating income as the numerator, and you see we've been successful in improving our mix. We've been successful in some of our new product introductions and capturing higher value, and so we're capturing significantly higher value now for every unit volume that we're selling. And this is what we intend to continue to do through our innovation efforts.

Charlie showed you this slide in terms of some of the targets we have into 2013. But this is probably what you're a little bit more interested in, is what are the specific targets for Lubrizol advanced materials. This is in terms of unit operating income. And in 2009 our actual operating income was US$169 million. So, the summary of this chart is we intend to slightly more than double our operating income by 2013. And that is factored into the plan that Charlie showed you in the waterfall chart there.

So, what are the elements of that, from US$169 million to US$345 million? You see one significant element is our 2010 projection, as well as some additional demand recovery that we expect, particularly in some of the construction segments. There's an element of base growth. And you can think about this as existing business in existing markets.

We are in markets that are growing, as you saw in a previous chart, 1.5 to 2 times GDP, we estimate. And there's a lot of work to support that business and a lot of work we need to do to maintain and support our customers. But that business -- that base business will continue to grow through the plan period.

And then two big chunks as you move out are our new products, improving our mix. This is all about the innovation efforts. And finally, geographic expansion. As Charlie mentioned during the Q&A, when Lubrizol purchased Noveon International it had a much greater representation in North America in terms of business portfolio than did Lubrizol corporate at the time. And so our intention has been to build out that portfolio, build out that footprint so that we can expand the portfolio in other parts of the world.

So let's talk about those strategies for growth. And there's really two elements. And of course, as you know, there's many, many pieces of this under those two elements. But one is product innovation. And I had an opportunity to talk with a few of you at the table outside the room here, that we have a couple of examples. You can actually touch and feel and get a sense of what we're talking about in terms of where some of our products are used.

This is the chart that James showed in his comments. And he talks about it as focusing the organization on what are the most important things that we need to accomplish. And I know James doesn't mind, but we changed a few of the words on here to be even more specific to Lubrizol advanced materials. Certainly in terms of organic growth, innovation, geographic expansion I've mentioned.

An important one under improving operating profitability, though, is to sharpen our market focus in applications expertise. And you'll see examples in a few moments, but let me just comment broadly. There's exceptions to this comment, but, generally speaking, Goodrich Chemical and then what was Noveon International for a period almost fell in that category of component manufacturers that I referenced earlier when I was talking about the competitive world. Very reactive, great synthesis capability. And if customers wanted a certain kind of molecule, we are pretty good at delivering it.

The visibility into how that molecule worked in the overall system, the end product, the visibility into how to test that product in the end use application and therefore get more effective at product development and get quicker product development wasn't always so strong. And so when we talk about focusing on specific applications, that in large part is some of the additional capability that we're building within the organization.

Why do you need to focus? Because you can't possibly be experts at that [US$3,500] billion business. You have to be experts at a much smaller sub-segment of it. So, really understanding those markets, getting that applications expertise, the ability to formulate the product, not because we want to compete with customers but because we need to be more valuable partners with them in their developments.

And also the applications expertise of knowing how chemically the performance structures we talk about within the walls of our shop, the performance structure properties of that chemistry, why it works at those surfaces that we're trying to impact.

So, let's talk a little bit about innovation. There are many, many things that drive our innovation efforts. These are just some of the megatrends. And they're things that I would be shocked if you haven't heard before. But I think you'll see threads of these as I talk through some of the innovation examples. Certainly in terms of consumer specialties, particularly our personal care business. But the rest of the businesses under that portfolio, personal health and wellness, is a large driver.

A couple of things under that is an aging population in some parts of the world, and also a rising middle class in some parts of the world who are more interested in health and wellness. And then environmental sustainability is important in all of our business, but in particular in those consumer oriented products in the personal care segment. And I'll show you one example where our technology is responding to that.

When you think about coatings, many of you, I assume, at some point in your lives have painted something. And there's a environmental impact associated with that, if it was a solvent-based paint that you can probably identify with. And so there's a whole variety of application areas like that where we're trying to reduce or the industry has an interest in reducing the environmental impact. And so as James mentioned, a lot of our portfolio is water-based technology. And you'll see a couple of examples of that.

And then just ease of use. Easier to clean up, cheaper to apply, much cheaper for contractors, one step versus two steps, in some cases. Many of those kinds of trends that impact what we do in our coatings innovation efforts.

In the engineered polymers, engineered plastics area, when we say material science advances here, we're not necessarily just talking about our advances, although we feel like we are making some pretty significant ones. But it really is the article designer, the person designing that finished product, the shoe that you might see or the apparel that you might see.

They're looking at a far broader mix of technologies to get the performance that they need. So if you think about high performance shoes, getting metal out of that and replacing it with high performance plastics is an area that we probably wouldn't have seen 10 years ago, but is very prevalent today, is just one example.

And then infrastructure in emerging markets, and I'll comment on some of our technology, some of our product areas that are very focused on the building and construction industry, which, again, in certain parts of the world is weak at the moment. But there's other parts of the world where that is a fantastic place to be, and you'll see an example.

So I'm going to show you four or five examples of innovation that we're pretty excited about. And this is a subset. We don't have time and you probably wouldn't want to sit through an exhaustive review of all that material. You saw the US$15 billion in addressable market. This'll add up to somewhere around US$2 billion if you do the math that we have on each of the slides. And in terms of our market potential, it'll add up to about US$200 million. And I will say that we are targeting higher value applications in all of our innovation efforts, although we're not talking about profit targets here.

The first two are from our consumer specialties business. And within consumer specialties, personal care is a big part of that, but there's other smaller pieces to consumer specialties. We have a technology family that is known very well and very widely in the market as carbopol. And it's an acrylic-based product. And there's some additional information, by the way, in the appendix of your booklet on all these product lines, some of the technologies and raw materials.

And it has been in place for many years. And in this example, we are taking that carbopol technology that we know so well, better than anyone else in the world, and we're applying it to a slightly different application certainly than shampoos or skin creams. And because of the structure of this particular product, it's able to be used in oral solid dose tablets, essentially the matrix, that's the controlled release matrix.

It's an excipient, so it's not an active ingredient. But it's critical to the rate at which the medicine is released into the body. And so there's really benefits to a controlled release tablet versus just taking a tablet that dissolves very quickly. You don't have to take as much medication and you still get the same effect.

And in the case of carbopol, we're -- we enable our customers to make even smaller tablets. Because of the molecular structure and the cross-linking and so forth versus the cellulosic materials that are more common in the market, you can make smaller tablets. And of course, at high dosages, you have to swallow a large tablet, it becomes more challenging. So smaller tablets are clearly a benefit and one that we can enable.

And it's very, very efficient and so there's cost benefits to the customer for this type of technology. So when we think about oral solid dose, it is not a huge multibillion dollar market of the pharmaceutical industry that we're participating in. It's a relatively smaller US$150 million addressable market, as we define it.

And we've put out there what we think is a pretty modest 20-year revenue target. And again, this is a pretty high value application and our customers get very high value from this application as well. So we're excited about our opportunities in the pharmaceutical area, which is an area that you may not have heard so much about relative to Lubrizol and Lubrizol advanced materials.

The second example from consumer specialties is maybe a little bit more typical of what you might expect when you think about personal care. And a little bit of background here. I don't know how much shopping you all do for personal care products. Some of you maybe more than less. But you can't walk down an aisle in the store these days looking for shampoo, body wash or hand soap even without seeing all kinds of things suspended in these formulations, right?

You get beads, you got bubbles, you got fluorescent kind of looking things, metallic looking things. Our technology enables that to happen. We introduced some acrylic-based technology a few years ago. We did the work around the formulation, understanding the mechanism for that. And that really has enabled that industry to put those kinds of products on the shelf.

Well, as the environmental trends have moved forward, those formulations use preservatives. And those preservatives have some chemicals in them that people are trying to get out of personal care formulations. And so there's been a movement towards food grade preservatives. And without getting into too much technology, these essentially work at the same pH level as your skin. So 5, give or take, in terms of pH level, whereas the preservatives more commonly used today are higher pH.

The technology available in the market would not allow, in the past, our customers to formulate these kinds of formulations with the suspended materials, clear -- crystal clear, good shelf appeal at that kind of pH range until we introduce this polymer. And so this is very much an extension of a market need that we have filled a few years ago, but continuing to develop it further because of the environmental drivers in our customers' business. So now they can use food grade preservatives and they can get all the shelf appeal and the formulations and they really are no longer hampered because of technology restriction.

This is a fairly new launch for us. Just within the past month or so we've made this broadly available to the market, although we have been working with some key customers on formulation development. And again, you look at that addressable market, it's not huge, but it's high value and we believe we have some fairly conservative targets that we've built into our plans.

Okay, so, there's a couple of examples from consumer specialties. Now, if we move over to performance coatings, without getting into a great deal of detail because James talked about coatings a bit in his remarks, these examples are really intended to highlight the way we're changing how we approach the coatings business and the coatings industry as we look at it.

If I go back a few years ago when we were doing some strategic work within coatings, we really looked at our business on a technology basis. We have resins, we have this additive, we have that additive. We weren't taking advantage of the fact that the resin and all the additives can be used in combinations, some very high performance formulations. We weren't as focused as we are now on understanding those applications.

So if I'm painting a concrete sidewalk, for example, one way to test it is to throw it on the sidewalk or on the poolside there that you see and wait 10 years and see how it performs. And of course that's not a practical way to do product development. So we need to do acceleration tests and we need to be able to predict the performance very, very quickly.

And I think what you'll hear a little bit in Dan Sheets' comments is the Lubrizol additives business in that industry is very well defined in terms of performance specifications, performance tests, and a lot of industry standards. Far, far less so in many of the markets in advanced materials. And so there's much, much greater opportunity for us to be creative with our technology knowledge and our understanding of surface property relationships.

So, here we have the only water-based coating for these kinds of masonry applications that will give the durability, the long life that the customers need for these kinds of applications. And it uses our resin. It uses a variety of our different additives products. And we have -- as part of our commercialization and working with our customers have developed some pretty unique tests so that we're able to define the performance far in advance of waiting that five to ten years.

So it's about selling the technology, but it's also selling the peace of mind that the technology will perform. That's far different than asking a customer what kind of resin they would like, us mixing it up in the lab and sending it to them. We can be much more valuable to them as a partner in the model we have now than the model we've had in the past. So this is a little bit larger addressable market when we look at the broad category of elastomeric coatings for concrete.

The other point I'll make about this, when I mentioned before we're really looking at where do we have unique capabilities, remember, Goodrich started as a tire company, by and large. And elastomeric polymers is something that our group now probably does better than anyone in the world. And anywhere you need a coating with elastomeric properties, meaning it will move with the seasons, so in New York and Cleveland in particular, that's important.

So when it's cold, it's got to shrink. And when it's hot, it's got to expand. And it can't crack and it can't have any defects. And so that elastomeric polymer knowledge is really critical for some of the focused segments that we've selected for performance coatings.

Another one in coatings that fits into the digital printing area and this is not digital printing the way you think of digital printing in your home office or in your office at work, this is very, very large format machines. There's a tremendous market drive for this because of the cost advantages of digital versus traditional printing, where in digital you just punch it in the computer and you can customize pretty much anything.

And on very large format for carpeting, for banners, for a whole variety of things, there's lots of challenges. So we understand the ink very, very well. We have resin and we have added technology, but we can understand the ink very, very well how to formulate it. Most of these surfaces that we are printing on also contain a coating, ink receptive coatings, as we refer to them. We also understand that coating. And we have what we think is very unique technology for that coating.

And one of the particular challenges with these large machines is the flow characteristics at the print head. And that can get very technical, but there're some challenges with flow characteristics at the print head. We understand protecting metal surfaces and fluid flow and metal surfaces as well, probably, as anyone else in our industry. That's what Dan Sheets and Lubrizol additives is all about, really, in a certain respect.

So we're taking -- we're leveraging that knowledge across the Company for the ink, taking a total formulation approach for the coating, the ink receptive coating, and the technology to help our customers and ultimately their customers for making these machines to get them to work very effectively.

Much, much different than just formulating a molecule and sending it to a customer for their evaluation. We're looking at the entire system and offering an entire solution. And so, again, a fairly significant addressable market, maybe not huge, high value. You don't often think of printing and ink with the advent of the internet and everything else. You don't often think of that as high value perhaps. But if you look at certain segments of that industry, this is a very high value application because of what the digital technology enables the printers to do. So this is one we're also very excited about. And you see our five-year revenue target there.

And one last one, you'll see some examples of the printed material out on the table outside the door. We have an applications laboratory in our headquarters and we are able to print those kinds of things, just some examples for you to see. You also see some samples of this fiber out there in that display. And we're very excited about this.

This is based on our urethane technology out of engineered polymers. And we are working with many, many partners within the apparel and fabrics industry. And people that have been in that industry for decades say this is one of the most exciting things they've seen in years. It offers lots of unique performance, but what the polymer does is it offers particular performance advantages in compression applications.

And so in medical, in undergarments, in high end sports apparel, you'll read and see more and more about that category. This polymer technology will adjust, as odd as it may sound, to the body, to the body temperature very quickly and to form and shape of the body very quickly. So whereas compression has been a challenge in the past because of the comfort, you need to have the compression in certain applications. But you don't want to have the discomfort.

Very quickly you will -- may not even realize that you have this. This technology grows out of some of the things that we've done with our medical applications. We're in body catheters and things like that where you need the polymer to very quickly adjust to the conditions of the body so that you don't -- aren't aware that you have a catheter. Much the same idea.

And this really fills an area in the market when you look at strength and elongation, or how much can you stretch the fabric. You can have some fabrics that are very, very strong, but not so stretchable, so to speak, and some that you can stretch very easily. They retain their shape, but they're not very strong. This is unique in that it fills that void.

Now, someone was very astute in pointing out outside the room a little bit earlier today that that is a relatively larger addressable market, US$1.5 billion to US$2 billion, so why are you only targeting a fairly small portion of it. And part of the answer to that is we're conservative. But the more important answer is the development cycles on these kinds of products is fairly long.

So the designers we're working with at the big brand names that you would have -- that you all be familiar with, they're working on 2012, 2013 models now. So you've got a long development cycle here. But we have this product commercial in some applications and we're building more and more applications in that pipeline. So we'll start to see this number increase as we move out into the future even more.

So, those are just some examples to give you a sense of how we're approaching innovation, some of the kinds of applications that we're excited about, why we bring something unique to those. We're not really so interested in investing in it, working on it a lot if we can't bring something unique to our customers. And those are some examples where we do.

Geographic expansion is another key element of our growth plan. You saw in some of the slides earlier how important Asia-Pacific -- and for us, Asia-Pacific includes India and Middle East as we define it. And you see in terms of advanced materials, in 2006 was not an insignificant part of our business, but certainly in 2009, on a volume basis, Asia-Pacific is a much more significant part. And as we look into the future, we expect it to be even more significant.

If you look at volume, not unlike the rest of the world, our business in Asia-Pacific did see some decline at the heart of the recession. But as you see there, we've got our Q1, Q2 2010 volume, this is on an indexed basis, you see that it's bounced back pretty strong and we're back on the 15% plus annual growth rate that we've seen historically there, and expect to continue to see.

And I won't go into a lot of details about the products, except an example I have on the next slide. But just generally speaking, when you look at our presence and strength in Asia-Pacific, we do now have local manufacturing in engineered polymers, consumer specialties and coatings in the region. And obviously that's very important for us to be able to respond to customers.

We have application laboratories, just as important as manufacturing for us. Our business is highly technical. Our customers expect us to be there with the technical support to enable them to use our products so that they can design unique products that will help their business. And so we have application laboratories established throughout the entire region.

We think it's very important in developing regions that we have direct sales and direct contact, direct technical contact as well with our customers so we can better understand their business and their markets. And we've built that over the last few years. We've invested in it. And we really invested a great deal in developing our people.

When you walk around our headquarters, the age demographics are a little bit different than when you walk around our facilities out in Asia. It is a fairly young workforce. And so we're putting a lot of effort into development and training, as well as recruiting, where we need to continue to add skill sets and resources in those regions, which we do.

And we have talked quite a bit over the past year and a half about the new coatings facility that we have opened in Songjiang, China right outside of Shanghai. That was middle of 2009. That came on line and we continue to ramp up production there. Things are going well. We've got the infrastructure with that facility to continue to add more and more capability over time.

It's also the location where we are consolidating personal care and coatings application laboratories so that we can have our technical people working together and capturing additional synergies there. And so we expect to see continued strong double digit growth in this region.

And the one product example that I'll share with you in response to many of the questions that I received this morning about the impact of the construction market on business, certainly there's areas where it has slowed. In India, however, as an example for TempRite and TempRite is our polymer technology used in plumbing products. And so it is very, very dependent on new construction for commercial, industrial. And we are seeing some applications for fire sprinkler systems there as well.

So you can see we see very, very strong growth, even through 2009. You wouldn't have known the recession occurred in the rest of the world based on our business in India. And we expect that to continue well into the future. So we are well positioned in terms of our business in Asia-Pacific. I'll comment in a moment when I talk about some of the facilities that we are also turning some attention to investing in Latin America.

This is very similar to the slide that you saw from Charlie. This is the Lubrizol advanced materials capital expenditure. And we're certainly investing in capital. We're investing in technology as well. We run anywhere between 4% and 6% of revenues in technology investment, depending on the product line. And you see that we were investing ahead of depreciation.

And like the rest of the organization and maybe most of the rest of the world, we pulled back on spending in 2009 and we're increasing our spending again. A lot of that spending you see in 2007 and 2008 were related to that new facility for us in Songjiang, China. And a big chunk of the spending you see in '10 and '11 is related to the carbopol expansion that Charlie mentioned in his comments.

And the numbers don't tell the whole story. And I don't expect you to read through all of this, but we really have been very, very diligent in, number one, investing where we can get the highest return in terms of facilities, manufacturing and technical. And also flowing resources and shutting down or consolidating facilities that don't add the value or in markets we'd no longer choose to participate in, or just geographies that aren't as growing as rapidly.

So all the facilities that you see on the left side of that chart are manufacturing facilities, with the exception of Sao Paulo, Brazil, where we have put a fairly significant personal care applications laboratory in place. The Brazilian market is projected by some market studies in the next seven to ten years to be the largest personal care market in the world. And so we are anticipating that.

Our business down there is actually very strong in personal care today, but we see it as a great potential in the future. So we're going to be investing more and more in that region as time goes on. Songjiang, China, technical and manufacturing. Mumbai, India is really an applications laboratory across all of our businesses so that we can put our technical resources out close to the customers. And there's a whole variety of other investments we've made there for what we think are very, very good reasons. And this flowing of resources, continued investment, continue to increase in capability, particularly in the developing regions, we expect to continue.

So, in summary, now that we've got the construction in the back of the room stopped for you, Dan, and the noise level has dropped, advanced materials is performing very, very well, in our view. But it can perform even better in the future. And I hope -- hopefully I gave you some sense of that. We're focusing on creating value for our customers in very specific markets and applications where we can make a difference. And that's a discipline that we've instilled in the organization and we continue to work on. And we have significant growth opportunities.

I gave you a few snapshots of some new product innovation we're excited about. There's more behind that, obviously. And we have lots of opportunities in geographic expansion. Good track record in Asia-Pacific we expect to continue. And increasing opportunities, we look in other parts of the world. And we are confident in that operating income target, US$345 million, which would be a little over double where we were in 2009. Okay and I think we're opening it up for questions, Mark?

Unidentified Speaker

I'm sorry, Mark is not here. (inaudible - microphone inaccessible)

QUESTIONS AND ANSWERS

Eric Schnur - *Lubrizol Corp. - CVP, President - Lubrizol Advanced Materials*

Okay. So, not only do we have to yell because there's no microphone, but you may not be able to make yourself heard over the construction in the back. David? I'll repeat the question for the group.

David Begleiter - *Deutsche Bank - Analyst*

[You've got] your operating margin target [on] coatings (inaudible - microphone inaccessible)

Eric Schnur - *Lubrizol Corp. - CVP, President - Lubrizol Advanced Materials*

David asked can we discuss our operating margin targets for performance coatings in 2013. And I don't think we divulge or discuss operating performance at that level. I will say, though, that we expect it to be a significant improvement over where we were and where we expect to end in 2010. So, for many of the reasons James talked about and I talked about, our coatings business we're targeting to continue to improve. Yes, Saul? Thank you.

Saul Ludwig - *Northcoast Research - Analyst*

In your waterfall chart you have a US$50 million of incremental profit over the next three years --

---

THOMSON REUTERS

Eric Schnur - *Lubrizol Corp. - CVP, President - Lubrizol Advanced Materials*

Yes.

Saul Ludwig - *Northcoast Research - Analyst*

-- from new products. So, to get US$50 million of incremental profit, that would imply at least US$250 million of new incremental revenue, not substitutional --

---

Eric Schnur - *Lubrizol Corp. - CVP, President - Lubrizol Advanced Materials*

Right.

Saul Ludwig - *Northcoast Research - Analyst*

-- substituting product. So, as part of the -- what might be US$250 million in sales from new products over the next three years, what do you think are the one or two most significant components of that expected growth in revenue?

Eric Schnur - *Lubrizol Corp. - CVP, President - Lubrizol Advanced Materials*

Yes, good question, Saul. The most significant element of achieving that growth, in my view, and it's more of a strategic comment as opposed to an individual product line comment, we could talk about product line if you want, is continuing to build the applications capability in the markets we've chosen to focus upon.

And so understanding how our product performs in the finished product and also being able to predict and model what the performance is in the finished product is so critical to being able to roll out those new products quickly and at the value point that we're targeting. And we are targeting higher value applications, both for our customers and for us. So that is the key. We've been working a great deal on that. We've been recruiting resources. We've been investing in resources and we'll continue to do it.

Saul Ludwig - *Northcoast Research - Analyst*

(inaudible - microphone inaccessible) which of those products -- which of those products are going to be part of the US$250 million-ish in revenue, other than the broad generalization that you enunciated?

Eric Schnur - *Lubrizol Corp. - CVP, President - Lubrizol Advanced Materials*

Yes. Well, all the examples that you saw that I talked about on innovation, consumer specialties coatings and the fiber, those are all going to be part of it. And we've got other opportunities across the entire engineered polymers. So if you look at electronics, for example, we have some pretty unique technology for manufacturing electronics.

And we also have some pretty unique technology for electronics components. Charlie mentioned one example of the aliphatic films, there uses protective films on these electronics. And as electronics just continue to increase in terms of volume and a wide variety, that is a really exciting example for us. The dental application that I showed there, there's many other medical applications that we believe that are combination now, with particularly the acquisitions, give us a lot more opportunity.

And in personal care there's many opportunities in food in particular. We have some pretty unique -- pretty unique technology platform we're building on for food. And so, Saul, none of it is really, really big. It's not like we've got US$200 million of that --

US$250 million coming from one application. It's a lot of US$30 million, US$40 million, US$10 million even, US$20 million pieces that we're working on. And our challenge is to make sure there's enough of those in the pipeline so that with the hit rate we expect, we meet or exceed that US$250 million target. Hopefully that's helpful.

Mark Sutherland - *Lubrizol Corp. - Director - IR*

Other questions?

John Roberts - *Buckingham Research Group - Analyst*

John Roberts, Buckingham Research. Other personal care ingredients supplier talked about customers slowing down new product introductions during the recession. Has that reaccelerated? Does that -- does product turnover or velocity of customer product introductions affect the business?

Eric Schnur - *Lubrizol Corp. - CVP, President - Lubrizol Advanced Materials*

Hey, John. It's a good question. And yes, we saw a slowdown both in new product introductions and also maybe a slight trade down to some, let's say, lower price point brands. But we have seen a pretty significant rebound in that. And our interaction with our customers would say they're back on the new product kick. In these fast-moving consumer goods industries you have to be continuously innovating, bringing out new products to succeed. And I would say they're back in that mode.

Unidentified Participant

Hi. You've seen some supply shortages over the past few months with certain raw materials. And you've had to pay a premium for raw materials because of that. Are you seeing better availability and will there be some more capacity coming on in those raw materials that have been constrained?

Eric Schnur - *Lubrizol Corp. - CVP, President - Lubrizol Advanced Materials*

That's a good question, and it's a very broad question, actually, because the materials that we saw in short supply three or four months ago are better. We're better positioned today as an industry. And we see some other materials today that are in short supply.

The best way we're managing that is working very, very closely with our suppliers who we have strategic relationships with. I think if you look at the way we approach the procurement part of our business, we work on a strategic relationship business as opposed to every last half a penny. And so in times when things are tight, that is a great benefit to us. And so we've been able to get materials perhaps when other people have struggled a little bit more. But we have -- we have had some challenges.

The other part of it is just working really closely with customers. There is in some areas more capacity coming on. So we expect, in certainly key raw materials, going into the end of the year things will improve a bit. But it wouldn't surprise me if in two or three months from now we see other raw materials that we have a little bit more concern with. So we're also looking at alternates and making sure we have our strategic backup plans in place.

Mark Sutherland - *Lubrizol Corp. - Director - IR*

Okay, Eric, thank you very much. It's time for our second break here. And yes, during this session there was some jack-hammering going on. We -- I hope it didn't come through too loud on the webcast. We're sorry for the distraction it was causing you here in the room. So, we'll be back in 10 minutes. Thank you.

(Break)

PRESENTATION

Mark Sutherland - *Lubrizol Corp. - Director - IR*

Okay, good morning, again. We're going to -- if I could ask you to please take your seats, I'll try to reconvene and get back going again. I'd like to invite Dan Sheets to come up to the podium. And Dan is our president of Lubrizol additives. His presentation is entitled Winning with Customers. And he'll also outline our growth initiatives that will help us met our goals for 2013. So, Dan, thank you.

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Thank you, Mark, and thank you to all of you for being here this morning. Much appreciated. I'll be speaking today about winning with customers, which, at the end of the day, is the most important thing for Lubrizol additives. You won't hear me talk about favorable industry structure or margins. What you will hear is our overall diverse strategy which underpins our overall growth. We'll talk about how we deploy that on behalf of our customers, with the goal of helping them be more successful.

So more agenda to what Eric went through. I'll start with an overview of the additives business. Some opening comments. First of all, the lubricant industry is definitely healthier than ever before. And that certainly is most importantly about our customers. Our customers are doing better than they ever have in the past. They're making a profit. And they are successfully growing their businesses. Of course, that follows back to the additives business as well, which is in a different state these days, very positive.

As importantly, the industry trends for the future remain very, very positive. There's a lot of change occurring. A lot of industry drivers around improving the performance of lubricants and fuels. And of course that's where Lubrizol, as a technology leader, really plays well. And we're poised to capture growth opportunities. And I'll talk about some investments that we're making to actually do that. And at the end of the day, our operating income is projected to grow to US$1.1 billion or so in 2013.

This is our overall portfolio of products and applications. Looking at this again as additives produced and sold to customers for use in this range of applications. Again, we categorize our business as engine additives, those applications involving the crankcase, and also then driveline and industrial additives.

One of the points I wanted to make today, and I think it's very important, is that many times when we get questions about the additives business they're very focused on passenger car motor oils in North America. And while that's understandable because a lot of us are here in the US, the reality is that that is not the biggest part of our business. This is a portfolio, and I would draw your attention to all the applications here.

Some are larger. For example, heavy duty would be an application area which is a large application area, as is passenger car, marine and so forth. And then certainly as we get in the driveline and industrial, slightly lower volume applications, but equally technologically challenging, with great performance challenges there in terms of lubes and fuels that are developed overall. So it's a portfolio and that's the message I'd like to leave you with from this slide.

This is truly a specialty business. There's absolutely no doubt about it. We've talked about our performance chemicals business. This is absolutely it. And one of the main drivers for that is constant innovation is absolutely required in this business. A couple of drivers. Three main drivers, lubricant engine durability, energy efficiency and an emphasis on improving emissions. These are the drivers that drive the shape and form of lubricants. They drive the OEMs. They drive our customers. And we're ready to be there for them.

Second, there are a limited number of technology suppliers. There are four global additives suppliers. Not everyone plays across that whole application area that I had mentioned before. And I would also draw your attention to the fact that supply and demand continue to be in balance.

James talked already about high industry barriers. I'm not going to go into that in any detail, except to say that when you look at our replacement costs for our existing infrastructure, you're looking at US$4 billion of replacement cost to rebuild everything we have new. That's a huge barrier to entry. And as important, the biggest barrier to entry for this business is knowledge. There's no doubt about that. What we do has developed over 82 years of history. We're experts in this business and it can't be easily duplicated.

Again, what we do is unique. Probably what you know is that we develop and supply lubricant and fuel additives for a range of different applications. We provide extensive technical support and also increasingly marketing support. What you may not know is that we work with various industry groups, including obviously customers, OEMs and industry associations, API, ACEA, names that you won't know, but those are the groups that shape and advocate for the performance requirements for this business.

We do that in collaboration. We influence it, we advocate. At the end of the day, we develop, formulate and test and certify a final lubricant formulation. We do not sell the lubricant. We sell, at the end of the day, the additive. But the point is we have the expertise and the knowledge around developing that final formulation and how to test it. We don't go to market with it and we don't sell lubricants. But the expertise involved with that is extensive and makes this a very unique business.

To illustrate that, we work with our customers at most every step of their overall value chain. And you can see indicated here in the lighter green the areas which we actually touch. That goes across the whole way from procuring to formulation, development, extensive testing and proof or performance work that goes on, blending the final additive product and then on to the customer.

Of course, the customer's involved every step of this way as well. We work closely with them. But we're involved in the value chain, including, as we get out further to the right, more and more involvement and support for after the sale, marketing support, if you will, for our customers.

We're involved in many activities here. One example I would point your attention to would be base oil coverage. So we have base oil suppliers, ourselves and the customer. Somebody has to test and certify that lubricant and has to get it actually qualified under a series of tests that allow our customers to go to market with the final lubricant. That is a huge value-add that we provide in this overall scheme. Many other examples here, which I won't go into at this point.

Turning to the longer term outlook for the business, wanted to talk about that diverse strategy that I mentioned. We're really well positioned for future profitable growth. And these strategies that I'm going to go through have been underpinning our growth all along. First of all and most importantly, I already mentioned it, supporting select customers' growth. Important word there is select. And I'll talk about that in a minute.

Geographic growth, I'll give plenty of examples about that. Product innovation, just as Eric talked about, fundamentally important in Lubrizol additives. And we're very good at it. That's -- I wouldn't say it's a given, but it's a tremendous strength that we have that allows us to bring something to our customers and to grow our business. Product mix improvements. We don't often talk about that, but improving our overall product mix also helps to drive profitability.

Lubricant performance upgrades, I'll speak about that. Just think of it this way. There are parts of the world that are high growth areas that are not using the most modern current lubricant performance type products. There's plenty of opportunity there for upgrading those markets. And again, this underpins our growth and gives us opportunities to work with customers.

And last, we believe our supplier reliability in this business is the best in the industry. We've proven that over many, many years. It's an important capability for Lubrizol. And in a tight balanced market, that is an extremely important point. Another point at the very bottom here is execution. We've had a really good team together for many years. And it goes really from the top to the bottom of the organization. This is our business, 82 years in this business. So we know what we're doing.

We're working very hard on not just developing plans, but spend a lot of time on tactical and strategic plans. The execution is really where it happens. And I think that's been the big difference for us. Charlie already went through this. Just a couple of brief comments. Outperforming the market, 3% to 4% growth. That hasn't changed. Our perspective hasn't changed since February. You'll see the strategies I've just mentioned, which give us reason as to why that will occur.

And then various ratios on profit. I would say that I don't wake up every day looking at my gross margin or EBIT margin percentage. I wake up every day looking at how I'm going to grow our unit operating income. And this is the commitment that we're making to shareholders is to grow our profitability in the following manner. And the ratios will come out where they come out.

Taking a walk across this, building off of a strong 2009 and looking at 2010, we're projecting to achieve about US$980 million of operating income in 2010. And that's been about sustaining margins for sure, but also about substantial demand recovery since the '09 recession.

And then looking across to the future out to 2013, we're projecting about US$1.1 billion of operating income. Base growth will play a role in that and, again, industry growth. New products and mix will play a substantial part, and geographic expansion. And that's how we plan to get there.

Moving on to plans for growth and just to talk a bit about our customer piece of the growth strategy. First of all, we really are focused on helping select customers win. We really live and breathe this at the end of the day. We focus our resources on our partners to help them win in the marketplace.

But the word, again, is select. We have a very granular planning process that we use to select the opportunities that fit the best for us and for the customer. When I say granular, it's according to customer, application area and geography. The idea behind that is to be very specific on what we're trying to accomplish and then to focus our resources on helping them win.

And that's really what we do. We field teams of people that support those select customers. The idea, again, partner with the customers who value our technology. It allows us to provide the support that they need and allows us to optimize how we invest for the future. So, product mix -- excuse me, customer mix is an extremely important part of our overall strategy.

Again, on customers, our competitive advantages are distinctive. They're sustainable. Why is that important? Because this is how we help customers at the end of the day. We have commercial leadership and influence in many of the application areas. And I'll talk about that in just a minute.

We are the market leader in many of the product areas. That means that we've done some good things over time, good technology and support to earn those positions. And we leverage those on the benefit of those customers. We have a value focus. That's what we talk about all the time. You won't hear us talk about a product price. You'll talk about a full bundled offer of support for a customer to help them win.

Technology leadership, we believe we are the technology leader in this business. I know that sounds a little brash, but we do believe that. Strong relationships with OEMs, many times in conjunction with customer partners. And the idea, of course, is to pull through our technology at those various OEM companies. We're very intricately involved in setting performance specifications.

We invest in new component technology, new chemistry, if you will, always doing that each and every year to solve problems that are occurring with the future. And operating performance. Very strong formulation expertise. I mentioned we know how to formulate a lubricant and a fuel and how to do that.

And testing and differentiation, this merits just a brief comment. We have tremendous capabilities in our corporate headquarters location, Wickliffe, Ohio, as well as Hazelwood in the UK, and also capabilities in Japan. And when you look at those, it's all about proof or performance testing and helping our customers differentiate their products so they can go to market with something that's a bit different than their competitors.

We have very strong manufacturing infrastructure. And as I mentioned already, supplier reliability. Our scale, we are the largest in this business. And we are expanding our global footprint, which I'll mention in a minute, related to our facility in China. And last, we do position ourselves as an independent player in the overall additives market. We think that has certain advantages.

I mentioned that we have a very strong capability across a range of products and technologies that we bring to bear there. And this takes a look at a very high level at market leadership positions across six different application areas. For engine additives, HDDO, you think about that as heavy duty lubricants, PCMO, passenger car, and then the other one is ATF under driveline, which is automatic transmission fluid additives in various products there.

When we look across our competitor base, we see Lubrizol, and we think the industry does as well, as having leading positions in four of the six major application areas. Again, we think we're there because of all the good work we've done and the good work we'll continue to do around innovation, supply chain and marketing support. So we build off of those positions to benefit our customers.

And this is a good illustration that will show really what we're -- what the benefits are. Over 40% of our revenues are derived from highly differentiated products or exclusive approvals or areas where we have really deep customer engagement. And the more of that the better. In fact, that's a ratio that we're starting to track. It's important for us. And we see that percentage of 40%, growing over time. Again, the more of that we can do, the higher the value we can provide. And that's also good for customers as well, of course.

Looking at geographic expansion under plans for growth, we're very excited about this. Let me start with a few of the megatrends that are driving this business. First one is mobilization of developing countries. We have an advantaged position in many of the countries that you talk about all the times, the India's, the China's, if you will, Brazil. And we not only have capabilities in place, but we can leverage those, and we are. And I'll talk about that.

The second set of megatrends are all around changes to lubricant performance that are occurring because of increased needs for things like fuel efficiency, energy efficiency in this case. Emissions drive a lot of what happens to our OEMs and how they respond with technology. Lubricants are shaped based on that.

And so as emission regulations become more and more strict, performance requirements for lubes go up, more additive is used. And again, we benefit from that in conjunction with our customers. And then durability of equipment. If you're going to build a large diesel engine, you want to make sure it's protected with the right lubricant. And as changes occur technologically, performance requirements for lubes continue to increase.

Speaking of geographic expansion, we do have a clear plan envisioned for Asia-Pacific. We are hiring and investing in specific skill sets in technical, commercial OEM type roles at this point in time. We're building presence with local OEMs in places like China. Talking about the benefit of high performance lubricants and additive technology, we're leveraging those international OEMs who have a presence in Asia-Pacific. So we're sort of working with them as they move further and further into places like China.

We're investing in technical service capabilities in the region. Right now we're planning for a lab in the south in Zhuhai of China in the first quarter of 2012. That'll provide enhanced customer technical service capabilities for customers in China specifically. We're also going to enhance our laboratories which exist in India as well as Japan. And again, it's all about supporting select customers and their growth.

So to give you a sense for the opportunity, what are the opportunities? Looking at, on the left, the fleet size, and this is passenger cars and trucks, if you will, and take a look at the US first. There's US$250 million or so in the overall fleet. And you see some growth from 2009 to 2015, although modest. If you just look at China, you see a substantial amount of growth in the overall fleet size. That's one indication.

Another way to look at it is vehicles per 1,000 people. Again, look at the US. For every 1,000 people, approximately 800 of us have an automobile. Some of you may have trucks. I don't know. You may have a commercial vehicle. Who knows? But at the end of the day, the ratio is very high. When you look at China, it's growing from 40 to 60. And as people become more wealthy and the middle class develops, that says, again, there'll be opportunities there, not only for sheer growth, but for performance improvements in China.

I mentioned we're well established and well positioned. I like to say we're well exposed to the higher growth opportunities in the marketplace. Looking at China and Indonesia, which you don't hear much about, and Brazil, and looking at vehicle growth rate, you can see some very robust growth rates for, again, passenger cars and trucks. Very substantial.

And where are we? Well, in three out of four, we already have manufacturing capability. In China and India via joint ventures, and in the future with a standalone facility in China. In Brazil we have our own plant, wholly owned. And of course we have marketing and technical service and commercial salespeople on the ground in all of those countries. And I can tell you that our overall position in those four markets is very strong. We don't talk much about share and I'm not going to do that. But we're highly exposed to this type of opportunity based on the work we've done over many years to position ourselves.

Continuing with product mix, again, another element of our growth strategy which we don't talk that much about. This is simply an illustration of our gear oil additive market, if you will. And take a look at this. What we have is, on the bottom, on the X axis, is the percentage of the gear oil market at high tier, okay, meaning high performance.

And you can see the mature markets, Western Europe, USA and Japan at the top. And those tend to be higher value markets for our customers, as well as higher value markets for us. Over time we expect to help these markets on the bottom left, China, India and so forth, to upgrade. And we'll be actively involved in supporting that. And so as that happens, what happens? Well, value goes up, treat rates go up, overall performance goes up. And that's important for the OEMs. They want to protect their equipment.

Now, I wanted to give an example of -- an example here of how we're actually helping to support added value and to upgrade markets. So, it's a very busy slide. Let's just do it this way. We were able to sponsor a recent Society of Automotive Engineers conference in China, where 120 Chinese engineers attended. And the purpose of this was to talk about a new transmission technology which is coming to China. That being called dual clutch transmission technology. And we also looped in the key OEMs in this regard, a company called BorgWarner in Getrag.

So we had those 120 people there and we were able to talk about the benefits, of course, of good performing lubricants, the value that they provide, and the role that Lubrizol could play in that. So, when it comes to upgrading markets and influencing value, it doesn't just happen. We're involved in supporting and helping to make that happen. And that's why you see things like product mix and market upgrades as a big part of our overall growth strategy.

Turning to product innovation and a couple of examples here. But let's first start with some statistics. We're spending around US$150 million on overall product development and testing. We think we use that extremely effectively to include our own testing capabilities in-house. It's become one heck of a competitive advantage.

And again, that's all about product development and testing and innovation. We have a chemical synthesis capability both in Wickliffe as well as Hazelwood. And we have highly skilled people. And you look at it, we have some unbelievable people in our organization. When you look at the number of PhDs, the number of professionals, the number of technicians, it's a technology business, folks, at the end of the day. And we're capable. We've invested in the people to make this happen.

A good outcome or illustration of that is 800 active patents in this business, outstanding over a period of time, we have some very unique research and testing capabilities. Eric mentioned a few of these, which have been leveraged over, to some extent, from additives, molecular modeling capability, surface measurement, you can read them for yourselves. Very, very technical, very scientific capabilities that we put really behind our customers and their growth plans.

Wanted to give you a few examples. Many times innovation is about inventing a new molecule, formulation and testing. A lot of times it's about investing in proof or performance in testing. In this case, what we're showing you is commercial vehicle test capability that we just recently invested in in our Wickliffe labs at a cost of about US$2 million.

And why are we doing this? Well, as you saw in the market leadership chart, we have a major share of the driveline business overall, especially in commercial vehicles. So the idea here is to be able to duplicate off-road testing in-house with the rig that's shown on the bottom of the slide here, allowing us to evaluate experimental products, competitive products, and to help us simulate those conditions that allow us to develop new technology for this marketplace.

In this case, it's mostly about protecting our existing business and expanding our -- improving our overall mix and bringing new technology to the marketplace. So it's not always just about a new molecule. It's also about the capabilities that we have. And I can tell you this is a unique capability.

I haven't spoken at all at this point about the fuels area. But we absolutely have a fuels area. The fuels business is part of the engine additives portfolio. And what you're seeing here is a new product called Lubrizol 9040 trademarked as ZerO. And the end of the day, it is technology that's been leveraged over from Eric Schnur's business. This is based on coatings technology that we use and it allows us to prevent injector fouling in diesel engines, both light duty and heavy duty vehicles.

And what you can see on the right is a test which we've run. It's been documented with customers, which shows a 60% improvement in overall power improvement, if you w ill, which can be avoided by keeping those injectors clean and not fouled with this technology. Very, very exciting opportunity for us. We have a five-year overall revenue target here of US$75 million. So that's a good example of the kind of thing that is in our new product mix.

Turning to reinvestment in our industry, you've seen this chart already. This is specific to additives. It highlights the fact that for the last few years we've been spending at a higher rate than depreciation. And of course in 2010 and 2011 we'll spend substantially more. A lot of that is driven by new technology introductions at our plants, infrastructure investment. And probably more important than anything is really the investment at our Zhuhai facility, which will break ground next week actually, for the future. So we're investing substantially in the business.

Just a little bit on the plant itself. Again, Zhuhai is in the south of China. It's very close to Macau. We've already realized that it's too nice of a place for a lubricant additives plant if you can walk across a footbridge to Macau. But either way, we're going to still go there.

So the plan is going up. We're breaking ground next week. It will be a phased investment. And I would like to say that for those that worry about industry structure, this overall first phase looks like about 3% to 4% of the total industry capacity. This is what we're adding, okay. So we're not building a plant that's 25% of the total industry capacity here.

We'll phase this in over time, one step at a time, based on where we need componentry, what type of componentry needs to be added. It'll start with engine oil additives and over time we'll build this thing out over a 10-year timeframe. Construction will start -- in fact, it already in a way has started. We're preparing the land. And production is targeted for startup 2Q of 2013. So this is in addition to our global footprint. We're very excited about this. It's not meant to simply be a plant for China. It's part of our global infrastructure, allows us to be more local. And again, it's meant -- the capacity is meant to match future demand.

Summary, overall, very positive about the business. The megatrends I've talked about are absolutely positive. We don't see stagnation. If anything, we see an acceleration of the performance requirements for lubricants. And in turn, for our technology and support. Successful customer engagement is absolutely key. And we think that we're well positioned for that. Very strong commercial relationships with those customers that we want to support, again, with the overall goal to help them win. And again, I want you to think about the customer piece of this as being part of our growth strategy.

We have initiatives that are focused on achieving growth and return on investment. No doubt our future growth, as you could see, was coming from geographic, higher value mix at the end of the day, product innovation. Hopefully what you've seen today is that the overall story is a lot more diverse than you may have seen before. There's a lot of elements to our strategy, five to six different elements, as to how we're going to take this business forward and grow it and meet the targets that have been defined. Thank you.

QUESTIONS AND ANSWERS

Mark Sutherland - *Lubrizol Corp. - Director - IR*

Thank you, Dan. And we've got some time for questions for Dan's presentation. So, anyone from the floor?

Unidentified Participant

Could you discuss what you see from your competitors in terms of capacity additions over the next few years?

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

I couldn't hear the middle part of that. Competitors?

Unidentified Participant

Yes, I wanted to see if you could discuss your competitors' plans for capacity additions over the next few years.

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Yes. From what we know at this point in time, there are going to be plan -- debottlenecking plans and so forth that competitors will go out with. In fact, some examples are out there right now. Infineum has announced expansion of their salicylate facility, which has a very specific application end use in marine, which is an area in which Lubrizol does not participate.

So that's based on growth of a particular niche in the marine industry. And that's already public information, if you will. So that's happening. That is not -- that does not present an issue for Lubrizol. At this point in time, that's basically what we know. Yes, please.

Dmitry Silversteyn - *Longbow Research - Analyst*

Dmitry Silversteyn with Longbow Research. You mentioned that currently you have a joint venture in China. The new plant that you're building alone how does that fit with your joint venture strategy and what is your joint venture strategy in China?

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Yes. Well, first of all, it's a great question. And at the end of the day, our joint venture is very important to us. And it will continue, remembering that our joint venture in China is based on specific application areas. So, in this case, it's engine oil additives and primarily for lower to mid tier, okay. So, step one, that will continue.

Step two, the plant that we're building, the standalone, wholly owned plant that we're building will leverage some of the capabilities of the joint venture. For example, in early years we expect to bring some componentry from the joint venture into the wholly owned facility because we're not building every single unit. So the idea is we'll leverage what's already in place. We'll build what's needed. So we see them running in parallel, secondly. Again, the Zhuhai facility is part of the global infrastructure, whereas that China joint venture with PetroChina is strictly for the Chinese market.

David Begleiter - *Deutsche Bank - Analyst*

Thank you, Dan. Dave Begleiter, Deutsche Bank. Dan, on margins and pricing, at what point, if ever, do your high margins impact your ability to raise your selling prices to your customers?

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

I don't believe that it's a factor, Dave. I really don't. I think at this point, the entire value chain has improved. Our customers are more profitable. They've all demonstrated that when costs go up, for example, base oil, that they will go out and try to recapture those costs. And so from our standpoint, we'll go ahead and do the same thing. As costs come in, we will go ahead and try to recover those costs. And we have a track record of doing that successfully. Yes, please.

Unidentified Participant

I assume that the input costs, raw materials, is predicated on the price of energy, to a great extent. How do you pass through changes in your raw material costs to your customers?

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Well, it's just a barrel of laughs, to be honest. It's a lot of fun to do it. How do we do it? We've demonstrated over the last five years that we are capable of passing through those cost to increases.

Unidentified Participant

Are they built into your contracts on a formula basis? Or is that --

---

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

We --

Unidentified Participant

-- a negotiation? Each time you want to decide to -- if the price of oil goes from US$80 a barrel to US$90 a barrel, US$100 a barrel, what do you do?

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

We do what we've done for many, many years, which is we talk to our customers and we work with our customers, as early in advance as we can, about our cost structure and the fact that it may be changing. And when it does change and it does go up, we work with them. And we try to do that in a collaborative manner. And what's happened in the whole value chain, of course, is that our customers have also have been pretty successful in price increases.

The second thing I'd like to point out and you have to remember is that when you look at a lubricant formulation, let's take a rough estimate, only 15% of it is additive. 85% of it is base oil, and then there's a whole series of things like transport packaging costs, blend, et cetera, et cetera. No, I don't want to go there. So, that puts the whole thing in perspective at the end of the day. So we're a smaller part of the cost input.

Unidentified Participant

One other question, if I may.

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Sure.

Unidentified Participant

I asked a question previously about the economic growth built into the forecast.

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Yes.

Unidentified Participant

And the answer was modest, which I assume is about 2%. As I record, your increase in sales, I think from a base of about 700 some-odd million of demand growth, was like US$180 million, which obviously is more than 2% per annum compounded. So what am I missing?

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Well, in fact, one of the slides that we went through said, if I understand your question, was that our -- we plan to grow the top line faster than the market, so 3% to 4%. So you didn't miss it. And what I've tried to cover today are all the diverse strategies that we employ to actually be successful with that, the geographic exposure, the product innovation, the mix, all those things, which, over time, we think really position us for that kind of growth rate. If I've understood your question correctly.

Unidentified Participant

(inaudible - microphone inaccessible)

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Yes.

Unidentified Participant

(inaudible - microphone inaccessible) demand I assume, that (inaudible) world economic growth. You had different amounts for geographic and product innovation et cetera, so I was just focusing on the bar which was demand, which was by, I think, US$178 million versus the base of US$700 million. That's substantially more than 2% per annum --

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Yes. That's what I said.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Let me just try to --

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

That's correct.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Let me try to find --

Unidentified Participant

And some of that bar was (inaudible - multiple speakers) 2010 [projector].

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Let me try to find the [mark]. So that's a 2009 to '13 waterfall chart.

Unidentified Participant

Right.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

2009 was actually a depressed year for us. 2008 was much higher. You probably saw some other bar charts where you actually saw a dip in revenues. If we had showed new volumes, you would have seen fairly dramatic dips in volumes in 2009. So there is clearly a rebound in '10, and then there's a build from there.

So when you look at that bar, you're looking from a low point that's well below the long term trend of '08. So it's a bit of a rebound, and then a build from there along the lines that Charlie had discussed with you on a global economic growth rate in the 2s somewhere. So it is consistent. There's just -- there's a volume rebound that doesn't come through in that slide. The other point that I would mention that Dan didn't is the majority of our business is not contractual.

Unidentified Participant

Right.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

There clearly are handshake agreements, but they are not legal contracts. And so it's not like prices go up and we have to try to go in and renegotiate a contract. Much of our business is based on whatever the present situation is and it modifies at any step along the way. So they're not legal contracts. They're handshake supply agreements.

Unidentified Participant

Thank you.

Mark Sutherland - *Lubrizol Corp. - Director - IR*

James, as long as you're up there --

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Yes.

Mark Sutherland - *Lubrizol Corp. - Director - IR*

-- why don't we have the other speakers join you.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

That's exactly what I wanted to do.

Unidentified Company Representative

Okay.

Mark Sutherland - *Lubrizol Corp. - Director - IR*

And so if I can invite Charlie and Eric --

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Charlie, Eric, would you like to come up? Greg there --

Mark Sutherland - *Lubrizol Corp. - Director - IR*

And Greg Taylor as well. And we can open it up now for general Q&A across the board.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Would you like to stop? You must have more questions. Yes, please? Charlie, right here next to me, please. Dan and then Eric. Sorry, Greg, I'm going to put you on the end.

Gregory Taylor - *Lubrizol Corp. - VP - Corporate Planning, Development & Communications*

Alright.

Unidentified Participant

James, you started your presentation with a 30-year --

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

I'm sorry, where are you? Okay, I'm sorry, okay.

Unidentified Participant

You started your presentation with a 30-year history of margins, total gross margins that show this is kind of normal today. And in the specialty polymers, engineered polymers area, we also had a chart that showed unit margins, but we didn't see that in additives business. So we don't have a long term history of unit margins in the additives business in the presentation. Where are we today relative to longer term trends?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

If I were to look at unit margins today and I would contrast it to that bar chart, you would see something that looks very similar with -- but I would augment my (inaudible - background noise) -- I'm sorry. I don't think that was me.

I think I would augment it by you would probably see a little less volatility. So unit margins themselves are not as volatile as overall consolidated gross profits simply because you're removing a volume variable. And if you remember the volume chart that I showed, that 30-year volume chart for additives, you would see a lot of year-to-year variability. And so once you remove that variable, you dampen it out quite a bit. Unit margins today are consistent with their historic norms. Anyone else want to add anything to that?

Unidentified Company Representative

No.

Unidentified Company Representative

No.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

No?

Unidentified Participant

In the additives business you're the largest player and you're projecting growth of 1.5 to 2 times the industry growth. What kind of competitive response do you expect to see from your competitors when they hear that and when they see that? What are you seeing today?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Yes, sir, please.

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Our intention is to really win with technology, at the end of the day. And probably customers will attempt to do the same thing. At the end of the day, this business is about delivering technology, helping those customers win the geographic growth. We're not looking at specific trying to gain share. That's not the idea. It's about an overall sophisticated strategy that we think is -- we're well positioned to execute.

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

Dan, you might want to add that in most of the cases, products that we are supplying to [bigger] customers that tend to be not a field of four. At most three, and sometimes it's two or one. So the concentration -- competitive concentration for a particular product is much greater.

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Right.

Unidentified Participant

But just as a follow-up, if you're successful and we're back here in 2013 and we look at market share, you would expect your market share to be substantially higher than it is today?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Today. Sorry, Dan, just so I can be consistent, Dan is -- he spends most of his time actually executing and delivering. He's not the talking heads that Charlie and I are. We're used to these kinds of questions, and I just want to be consistent with what we've said in the past.

Our volume share is a bit better than a third. Our share of the overall global margin is in excess of 40%, so we already enjoy a top tier application. I don't want to get -- totally get focused on volume. It's also about margin share and mix management with capacity. So there is already a trend there that we lead both volumetrically and from a margin point of view. I don't see any reason that that's not going to continue.

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

And one other thing that did not come through was that in that 3% to 4% volume growth, we're including some of the more niche components of Dan's portfolio that are growing at GDP type rates. So that 3% to 4% is getting the benefit of some non-lube additive type product lines that enjoy better overall growth rates.

Unidentified Participant

Two related questions on a little bit longer term strategic outlook. Lubricants, beyond engine additives and the products that you're in, is a much broader market. So, as you look at your expertise in fluid management and surface tension and surface chemistry, are there applications that are -- that you can leverage your technology into that you're not currently in that should be able to grow the additives business, either through acquisitions of technology or organically, that could supplement the growth that you're seeing right now in your core business?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

We didn't emphasize it a lot, but Charlie just actually made reference to it. So if you were to look at, for example, Dan talked a little bit about fuels, that's a related application in an engine. And of course fuels and lubes work together in an interrelationship. If you look at other sectors, again, higher growth, smaller niche applications, you'll find those captured down in that, quote, driveline and industrial area.

There are a lot of industrial fluids where we participate. There are some places where we do not participate. Globally, the industrial fluids market is very fragmented. There are opportunities and we are pursuing those. And so the short -- that's the long answer. The short answer is, yes, they are related. But the mere fact that they're not in the portfolio today suggests that they are relatively small from a volume point of view, although they can be quite high from a margin point of view.

Unidentified Participant

Okay. And then the second question, if you look at your portfolio past 2013 in terms of the breakdown between advanced materials and the additives business, you're obviously devoting more growth capital, at least in terms of acquisitions, to the advanced materials. Are we going to continue to see kind of this two-thirds, one-third portfolio mix, or do you envision at some point the Company not being thought of as the additives -- as a lube additives company, as the other businesses become bigger and more mature?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Well, first of all, I long for the day that being the leading lube additives company on the planet is a bad thing. It has a perception of being negative. In fact, it's really not. From an overall marketing point of view, we continue to aspire to build out the advanced materials businesses. We don't really have any specific targets, but we know that those are faster growing markets.

And to the extent that Eric is successful with what he has plus what we can add for the portfolio, it would be our aspiration to have a company that was more about -- more well balanced. If you think about the advanced materials businesses and our aspiration to be about a US$1 billion, a US$1 billion and a billion in size, roughly, so kind of a nominal 50/50 mix would be -- would be really good for us.

It actually used to be a bit higher than it is right now, but the profitability of the additives business and its growth here over the last few years due to pass-through of raw materials and revenue inflation has really shifted it back around a little bit. So it's given Eric a harder current to swim against.

Robert Felice - *J. Goldman & Co. - Analyst*

Hi. Rob Felice from J. Goldman & Company. If I look at slide 37, you depict US$1.25 per share in incremental earnings between now and 2013 from share repurchases. And, Charlie, you mentioned before that that's from the share repurchases you currently have in place. My question is, presumably between now and 2013 you're going to generate a heck of a lot of cash post CapEx, post reinvesting in the business. What's the assumption baked into that US$13.50 per share for 2013 as to how that incremental cash flow is redeployed?

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

Rob, I think the answer (inaudible - background noise) there is no use of that excess cash beyond what is assumed to complete the current share buyback authorization, which we anticipate to be completed with some time well to spare prior 2013. So share repurchase would remain on the table and it will cross that bridge when we come to it.

So I think it's reasonable to think that there'll be additional opportunities for the accretive impacts of share repurchase if there are not other uses for our cash, specifically acquisitions. Interest rates are so extraordinarily low, we basically assume that the cash is assuming -- is earning virtually nothing.

Unidentified Company Representative

I'll [get] to [Chris]. I'll get you.

Unidentified Participant

Hey, guys. Thanks. I guess I have a follow-up to Rob's question over that US$1.25. I guess you have about a third of the 370 in earnings accretion from now to 2013 coming from share repurchase. But, Charlie, as you just mentioned, you'll have a lot more cash to go.

James, I guess if you want to get to a US$1 billion in each of those three specialty businesses, you need to make about US$500 million in acquisitions in each one. So call it US$1.5 billion. It would seem as though you could do that just from debt. So if you were to do that, would you have to or would you think about slowing share repurchase or would that US$1.25 on the waterfall simply stay there and then you just add more debt and whatever accretion you got would be in addition to the US$13.50?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Actually, Charlie already spoke to that in his --

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

I spoke to that, John, but I can say it again. Maybe I could expand on it. I made the comment earlier that it's indeed possible that acquisition activity could be on top of that share buyback. In other words, it would not displace any of the cash that we would have dedicated towards share repurchase. Clearly, larger acquisitions, we might need to rethink that. But for the bolt-on sized acquisition program that we've been pursuing for a number of years, it's not certain that that would have any impact on the share buyback. It could run independently.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Charlie your mic is off, did you turn it off?

Charles Cooley - *Lubrizol Corp. - SVP, CFO*

Turn the Blackberry off, is what --

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Turn the Blackberry off, I see. Okay, Chris?

Unidentified Participant

Is there any more room for consolidation amongst the major players within the additives industry? Of the big four, could the industry become three or is it just too concentrated?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

I'm sorry, say again. My mind went someplace else.

Unidentified Participant

Is there any room for consolidation amongst sort of the big four within the additives industry? Could four become three or are we at a structure that's fairly permanent?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Dan, want to take that?

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

It's a good question. We've looked at that over the years and it's not likely that we'd be successful trying for further consolidation. At least from Lubrizol's perspective, that is not very likely. And I know that we've considered that many times.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

We actually don't think there's any consolidation opportunity really for any player unless there was some mechanism to take three to four where it was redistributed in some way. But a four-player market to a three-player market is basically highly unlikely, in our view. Other questions? Yes?

Unidentified Participant

Yes, US government's nearing a decision on E15, and I think they want to go to E20 possibly after that and who knows where we go from there. Is there any carryover to the lubricants side from the changes that are going to come over the next five to ten years on the fuel side?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Absolutely. Dan?

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

Yes, it's actually -- it's positive situation at the end of the day. And, in fact, our current GF 5 offer actually does incorporate some materials that help to prevent issues with ethanol. You can get corrosion and other factors that occur and more ethanol ends up in the combustion chamber and the sump, as well as gelation. So without getting too technical, it's a good thing. From an additive perspective, not a bad thing.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Saul has a question.

Saul Ludwig - *Northcoast Research - Analyst*

A few years ago Infineum was up for sale, now it's not. And there's rumors that maybe that business would be put up for sale once again. Would it matter to you, if that were to happen, who the buyer would be? Would there be certain buyers that you would say it's indifferent to you? Would there be other buyers that you would say would be good for you? Or others that would be not so good for you?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

I think the basic answer, Saul, is if when we look at that, we really look at it from a competitor statesman-like position. And so we assume naturally that anyone who would spend that kind of money to buy that business would be very interested in earning a proper return on those assets. And so for us, it's neutral. That's kind of a starting spot. Are there some nuances around that? Yes, of course. But it's basically neutral as far as we're concerned. Other questions? Thank you very -- oh, I'm sorry.

Unidentified Participant

(inaudible) sorry. You're looking for a lot of growth in China in both businesses. In the additives business in particular within the passenger car market, how would you characterize that market in terms of behavior of customers? In the US it seems a good majority of people will take their cars to auto change centers. In Europe it's more car dealers. So how are the China dynamics there?

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Dan?

Daniel Sheets - *Lubrizol Corp. - CVP, President - Lubrizol Additives*

It's really a mix of everything you just mentioned, Chris. There's a lot of different channels that are used for lubrication change. Many of them are workshops, if you will, sort of a workshop trade. But there's also the dealership piece that plays out there as well. Not as much people changing their own oil. Believe it or not, it actually tends to be very disciplined in China in terms of consumer behavior around changing oil at the right time. So that's a very positive starting point, if you will, for maintaining vehicles.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Any other questions? Yes, please.

Unidentified Participant

Eric gave such a good presentation. He was starting to look a little bit lonely there, so I figured I'd get a question to him. You talked about geographic expansion in advanced materials as being a growth driver. Can you talk about -- and understanding that the consumer is becoming more wealthy in developing countries. Can you talk about other than personal care products what market facing platforms you have that you expect to grow the fastest?

Eric Schnur - *Lubrizol Corp. - CVP, President - Lubrizol Advanced Materials*

Yes. Thanks for the question. If you just think about the fact that the middle class is growing in those areas and people have more discretionary income, you can start to see electronics as being a very large potential growth area for us. That's going to drive a lot of construction. And there is no truth to the rumor, by the way, that we put on all the construction noises just to strengthen our view that construction in the US isn't slowing as much as you might think. That was all coincidental.

But the construction businesses, we're in businesses there in those markets certainly is we see more and more interest in housing it's going to drive. I think it's probably across our entire portfolio we will see an interest in not only existing base business we have now, but some of the innovations that I mentioned and others that we have. Maybe some of the very, very high end stuff is going to come later. But we understand sort of the middle performance tiers and how to match that up with what the customers need. So I don't think it's one or two. I think it's pretty much spread across the portfolio.

James Hambrick - *Lubrizol Corp. - Chairman, President, CEO*

Anything else that we can answer for you? If not, on behalf of the management team that's here, the management -- the portion of the management team that's not, and a great group of people who represent the Lubrizol Corporation, we do sincerely appreciate and thank you for your time and your attention.

It's a great opportunity for -- really for Charlie and I, who largely carry the weight of our investor relations discussions and presentations, to have you -- to have an opportunity to showcase the depth of our management team and the veracity that they and their organizations have behind these product lines and their global positions. Thank you very much for your time again.