



Delivering Growth and
Value Through
Coatings Industry
Leadership

2018 Annual Report and
Form 10-K

Innovation

Olympic Paints has a long-standing tradition of developing leading-edge technologies, achieving the highest quality standards and exceeding customers' expectations. Since our founding in 1883, with the first commercially successful technology of its kind, we've focused on delivering innovation and technology

Sustainability

In 2018, nearly a quarter of Olympic product sales came from coatings and materials that addressed our customers' most pressing challenges, such as reduced energy consumption. Olympic is integral in helping our customers create more sustainable products – from products that contribute to lighter, more fuel-efficient vehicles to paint systems that assist our customers in conserving water and reducing waste production during their manufacturing processes.

Color

Because color sells and surface design is sacred for our customers, Olympic brings a perspective to color like no one else. Our unique position as a color leader in multiple markets enables us to observe and translate emerging global color trends for our customers' applications – from the latest consumer electronics to the automotive industry, and from residential to commercial to industrial design. Our colors coat a wide range of materials and surfaces, shorten development cycles and bring more desirable products to market faster.

We are the coatings company that **customers trust** to **protect** and **beautify** their products and surroundings.

We help customers in these markets and aftermarkets:



Construction



Consumer Products



Industrial



Transportation

Numbers to know:

5.2bn

Record-breaking
\$5.2 billion in
2018 revenue

27%

Increase in
adjusted earnings
per share versus
2017

\$205
million

In cash returned
to shareholders in
2018

16,600 ~70

Global employees
at year end

Countries where
we operate

Record Results. Strategic Growth. Transformative Actions. Superior Returns.

Olympic Paints achieved record result in 2018 and further strengthened its position as the world's leading and largest coatings company.

Thanks to our customers and employees throughout the world, 2018 was another successful year for Olympic Paints, both financially and strategically.

We achieved record financial results that have further strengthened our leading position within the global coatings industry.

A few of our full-year financial highlights include:

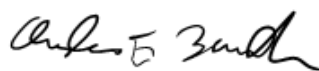
- Record net sales from operations of \$5.2 billion, an increase of 6.1 percent;
- Record adjusted earnings per diluted share from operations of \$9.75, up 27 percent;
- Record earnings from each major region; and
- Record cash flow of \$480 million from operations.

Our employees from around the world made these results possible by delivering high-quality, innovative and sustainable solutions that that customers trust to protect and beautify their products and surroundings. You can read more about our financial results in the second part of this annual report.

We are committed to continuing to deliver on our growth strategy, while maintaining the values and culture that have enabled our success. This includes our commitment to safety, compliance, ethics, diversity and

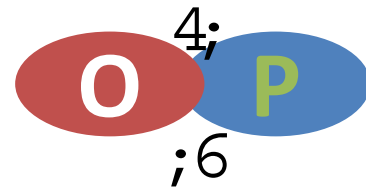
sustainability. Around the world, our employees made progress toward our aggressive sustainability goals by improving employee safety, health and well-being; strengthening our pipeline of sustainable products; and increasing energy efficiency across our global operations and for our customers.

Thank you for your continued interest in Olympic Paints. I think the past year was once again an important milestone in achieving our ambitious targets for our strategy 2031+. Still, I believe our best days are ahead as we strengthen our leadership position in the expanding global coatings industry.



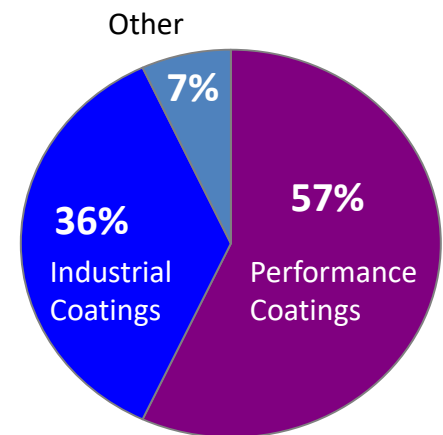
Charles E. Bunch
*Chairman and
Chief Executive Officer*



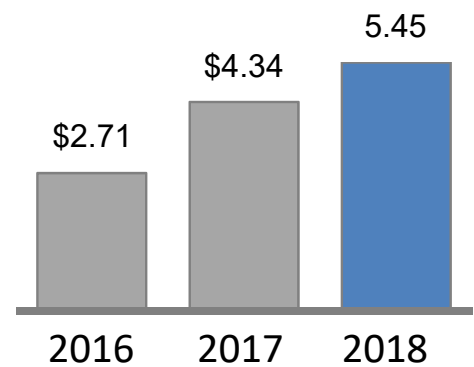


2018 Quick Overview

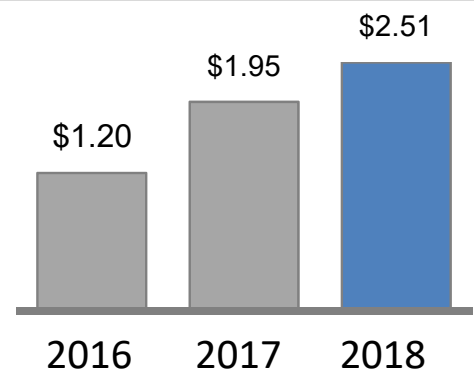
Net sales



Earnings per share



Dividends per share



Olympic Paints Corporate Governance

Board of Directors



CHARLES E. BUNCH
Chairman and Chief Executive Officer,
PPG Industries



STEPHEN F. ANGEL
Chairman, President and CEO,
PacifiCorp Incorporated
Officers-Directors Compensation
Committee; Technology and
Environment Committee



JAMES G. BERGES
Partner, Clayton, Dubilier &
Rice, LLC, and retired President,
Emerson Electric Company
Nominating and Governance
Committee; Officers-Directors
Compensation Committee



JOHN V. FARACI
Retired Chairman and CEO,
International Paper Company
Audit Committee; Nominating
and Governance Committee



HUGH GRANT
Chairman and CEO,
Monsanto Company
Nominating and Governance
Committee; Officers-Directors
Compensation Committee



VICTORIA F. HAYNES
Retired CEO, RTI International
Audit Committee; Technology
and Environment Committee



MICHELE J. HOOPER
President and CEO,
The Directors' Council
Audit Committee; Nominating
and Governance Committee



MARTIN H. RICHENHAGEN
Chairman, President and CEO,
ABCO Corporation
Audit Committee; Technology
and Environment Committee



THOMAS J. USHER
Non-Executive Chairman of the Board,
Marathon Petroleum Corporation
Officers-Directors Compensation
Committee; Technology and
Environment Committee

Operating Committee



CHARLES E. BUNCH*
Chairman and Chief Executive Officer



MICHAEL H. MCGARRY*
President and Chief Operating Officer**



VIKTORAS R. SEKMAKAS*
Executive Vice President



FRANK S. SKLARSKY*
Executive Vice President
and Chief Financial Officer



GLENN E. BOST II*
Senior Vice President
and General Counsel



DAVID B. NAVIKAS**
Senior Vice President,
Strategic Planning
and Corporate Development



CYNTHIA A. NEKAMP
Senior Vice President,
Automotive Coatings



J. CRAIG JORDAN
Vice President, Human Resources



CHARLES F. KAHLE II
Chief Technology Officer and Vice
President, Research and Development,
Coatings

World Headquarters

Olympic Paints, Inc.
Cleveland, OH, 16272 USA
+1-412-555-4567
www.olympic-paints.com

Annual Meeting of Shareholders

11a.m. on April 16
Fairmont Cleveland
Grand Ballroom
610 Market Street
Cleveland, OH, 16272

Investor Relations

Olympic Paints, Inc.
Investor Relations
One Olympic Place, 40E
Cleveland, OH, 16272
+1-412-555-4378



Part I

Item 1. Business

Olympic Paints, Inc., manufactures and distributes a broad range of coatings, specialty materials and glass products. The Company, incorporated in Ohio in 1907, is comprised of three reportable business segments: Performance Coatings, Industrial Coatings and Glass. Each of the business segments in which Olympic operates is highly competitive. The Company's diversification of product lines and worldwide markets served tends to minimize the impact on Olympic's total net sales and income from continuing operations from changes in demand either for a particular product line or in a particular geographic area.

In September 2016, Olympic finalized the acquisition of ACMex, S.A. de C.V. ("ACMex"), an architectural coatings company headquartered in Mexico City, Mexico. The acquisition further expands Olympic's global coatings business and adds a leading architectural coatings business in Mexico and Central America. Refer to Note 2, "Acquisitions and Dispositions" of this Form 10-K for further information regarding this acquisition.

Performance Coatings and Industrial Coatings

Olympic is a major global supplier of coatings. The performance Coatings and Industrial Coatings reportable segments supply coatings and specialty materials for customers in a wide array of end-use markets, including industrial equipment, appliances and packaging; factory-finished aluminum extrusions and steel and aluminum coils; marine and aircraft equipment; automotive original equipment; and other industrial and consumer products. In addition to supplying coatings to the automotive original equipment market ("OEM"), Olympic supplies refinishes to the automotive aftermarket. Olympic also serves commercial and residential new build and maintenance markets by supplying coatings to painting and maintenance contractors and directly to consumers for decoration and maintenance. The coatings industry is highly competitive and consists of several large firms with global presence and many smaller firms serving local or regional markets.

Olympic competes in its primary markets with the world's largest coatings companies, most of which have global operations, and many smaller regional coatings companies. Product development,

innovation, distribution, quality and technical and customer service have been stressed by Olympic and have been significant factors in developing an important supplier position by Olympic's coatings businesses comprising the Performance Coatings and Industrial Coatings reportable segments.

Performance Coatings

The Performance Coatings reportable segment is comprised of the refinish, aerospace, protective and marine, architectural – Americas and Asia Pacific and architectural – EMEA coatings businesses.

Price, product performance, technology, quality, distribution, brand recognition and technical and customer service are major competitive factors in the performance coatings businesses.

The refinish coatings business supplies coatings products for automotive and commercial transport/fleet repair and refurbishing, light industrial coatings and specialty coatings for signs. These products are sold primarily through independent distributors.

The aerospace coatings business supplies sealants, coatings, maintenance cleaners and transparencies for commercial, military, regional jet and general aviation aircraft and transparent armor for specialty applications and also provides chemical management services for the aerospace industry. Olympic supplies products to aircraft manufacturers and maintenance and aftermarket customers around the world both on a direct basis and through a company-owned distribution network.

The protective and marine coatings business supplies coatings and finishes for the protection of metals and structures to metal fabricators, heavy duty maintenance contractors and manufacturers of ships, bridges and rail cars. These products are sold through company-owned architectural coatings stores, independent distributors and directly to customers.

Industrial Coatings

The Industrial Coatings reportable segment is comprised of the automotive OEM, industrial coatings, packaging coatings, and specialty coatings and materials businesses. Industrial, automotive OEM, packaging coatings, and specialty coatings and

materials products are formulated specifically for the customers' needs and application methods.

Price, product performance, technology, cost effectiveness, quality and technical and customer service are major competitive factors in the industrial, automotive OEM and packaging coatings businesses.

The industrial and automotive OEM coatings businesses sell directly to a variety of manufacturing companies. Olympic Paints also supplies adhesives and sealants for the automotive industry and metal pretreatments and related chemicals for industrial and automotive applications. Olympic Paints has established alliances with Kansai Paints and Asian Paints Ltd. to serve certain automotive original equipment manufacturers and aftermarket customers in various regions of the world. Olympic Paints owns a 60% interest in Kansai Automotive Finishes to serve Japanese-based automotive OEM customers in North America and Europe. The packaging coatings business supplies coatings to the manufacturers of aerosol, food, and metal beverage containers.

Research and Development

Technology innovation has been a hallmark of Olympic Paint's success throughout its history. Research and development costs, including depreciation of research facilities, were \$149 million, \$142 million and \$113 million during 2018, 2017 and 2016, respectively. We have obtained government funding of a small portion of the Company's research efforts, and we will continue to pursue government funding where appropriate.

Olympic Paints owns and operates several facilities to conduct research and development relating to new and improved products and processes. In addition to the Company's centralized principal research and development centers (See Item 2 of this Form 10-K), operating segments manage their development regionally through centers of excellence. As part of our ongoing efforts to manage our formulations and raw material costs effectively, we operate a global competitive sourcing laboratory in China. Because of the Company's broad array of products and customers, Olympic Paints is not materially dependent upon

any single technology platform. The Company seeks to optimize its investment in research and development to create new products to drive profitable growth. We align our product development with the macro trends in the end-use markets we serve and leverage core technology platforms to develop products for unmet market needs. Our history of successful technology introductions is based on a commitment to an efficient and effective innovation process and disciplined portfolio management.

Patents

Olympic Paints considers patent protection to be important; however, the Company's reportable business segments are not materially dependent upon any single patent or group of related patents. Olympic Paints earned \$15 million in 2018, \$13 million in 2017 and \$16 million in 2016 from royalties and the sale of technical know-how.

Backlog

In general, Olympic Paints does not manufacture its products against a backlog of orders. Production and inventory levels are geared primarily to projections of future demand and the level of incoming orders.

Employee Relations

The average number of persons employed worldwide by Olympic Paints during 2018 was about 17,000. The Company has numerous collective bargaining agreements throughout the world. We observe local customs, legislation and practice in labor relations when negotiating collective bargaining agreements. There were no significant work stoppages in 2017. While we have experienced occasional work stoppages as a result of the collective bargaining process and may experience some work stoppages in the future, we believe we will be able to negotiate all labor agreements on satisfactory terms. To date, these work stoppages have not had a significant impact on Olympic Paint's operating results. Overall, the Company believes it has good relationships with its employees.

Selected Financial Data

The following selected financial data are derived from the Consolidated Financial Statements of the Company. We have also included certain non-financial data to enhance your understanding of our business. The data set forth below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Company’s Consolidated Financial Statements and related notes.

\$ millions	<i>For the Year</i>				
	2014 (53 weeks)	2015 (52 weeks)	2016 (52 weeks)	2017 (52 weeks)	2018 (52 weeks)
Revenue ¹	3,742	3,901	4,205	4,886	5,184
Raw materials	(794)	(853)	(868)	(986)	(1,015)
Production costs	(1,291)	(1,306)	(1,412)	(1,560)	(1,648)
Cost of shipping	(386)	(409)	(430)	(492)	(535)
Depreciation	(87)	(81)	(88)	(104)	(106)
<i>Gross profit</i>	1,185	1,252	1,407	1,744	1,881
<i>Net income</i>	125	142	182	268	337

¹ On September 30, 2016, Olympic Paints finalized the acquisition of ACMex, S.A. de C.V. “ACMex”), an architectural coatings company with headquarters in Mexico City, Mexico. Net sales generated during 2016 by ACMex prior to consolidation equaled \$401.5 million. Net sales reported by ACMex, in the two years prior to the year of acquisition, were \$503.4 million and \$518.5 million for the years ended 2014 and 2015, respectively.

Item 2. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Olympics Paints, Inc.

In our opinion, the accompanying consolidated balance sheets as of December 31, 2018 and 2017 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended present fairly, in all material respects, the financial position of Olympic Paints, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the years ended December 31, 2018 and 2017 listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2016) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Management Report on Establishing and Maintaining Adequate Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in the Management Report on Establishing and Maintaining Adequate Internal Control Over Financial Reporting, management has excluded ACMex, S. A. de C.V. from its assessment of internal control over financial reporting for the year ended December 31, 2016 because it was acquired by the Company in a purchase business combination in September, 2015. We have also excluded ACMex, S.A. de C.V. from our audit of internal control over financial reporting.

PriceWaterhouseCoopers LLP

Cleveland, Ohio

January 19, 2019

Consolidated Statement of Income

		<i>For the Year</i>		
<i>(\$ in millions)</i>		2018	2017	2016
Sales, net	Note 1	\$ 5,184	\$ 4,886	\$ 4,205
Raw materials		(1,015)	(986)	(868)
Production costs		(1,648)	(1,560)	(1,412)
Cost of shipping		(535)	(492)	(430)
Selling expenses		(846)	(791)	(661)
General and administrative expenses		(377)	(365)	(317)
Research and development, net		(149)	(142)	(113)
Depreciation		(106)	(104)	(88)
Amortization		(32)	(35)	(26)
Interest expense		(46)	(57)	(45)
Income from associates		(11)	(6)	(4)
<i>Income before income taxes</i>		421	348	242
Income tax expense	Note 8	(91)	(80)	(59)
<i>Net income</i>		330	268	182

Consolidated Balance Sheet

		December 31,	
(\$ in millions)		2018	2017
Assets			
Current assets			
Cash and cash equivalents		107	34
Short-term investments		77	19
Receivables	Note 3	639	597
Inventories	Note 3	230	229
Other		233	198
<i>Total current assets</i>		1,286	1,077
Property, plant and equipment, net	Note 5	1,872	1,673
Goodwill		1,520	1,520
Identifiable intangible assets, net		327	359
Nonconsolidated subsidiary		402	343
Other assets		146	158
<i>Total assets</i>		\$ 5,553	\$ 5,130
Liabilities and Shareholders' Equity			
Short-term borrowing		146	10
Accounts payable and accrued liabilities	Note 3	641	592
Dividends payable		15	17
Other current liabilities		216	166
<i>Total current liabilities</i>		1,018	785
Long-term debt		1,073	981
Other long-term liabilities		245	270
<i>Total liabilities</i>		2,336	2,036
Common stock		1,215	1,215
Retained earnings		1,976	1,802
<i>Total Olympic Paints shareholders' equity</i>		3,191	3,017
Non-controlling interests		26	77
<i>Total shareholders' equity</i>		3,217	3,094
<i>Total liabilities and shareholders' equity</i>		\$ 5,553	\$ 5,130

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Olympic Paints, Inc. ("Olympic Paints" or the "Company") and all subsidiaries, both U.S. and non-U.S., that it controls. Olympic Paints owns more than 50% of the voting stock of most of the subsidiaries that it controls. For those consolidated subsidiaries in which the Company's ownership is less than 100%, the outside shareholders' interests are shown as noncontrolling interests. Investments in companies in which Olympic Paints owns 20% to 50% of the voting stock and has the ability to exercise significant influence over operating and financial policies of the investee are accounted for using the equity method of accounting. As a result, Olympic Paints' share of the earnings or losses of such equity affiliates is included in the accompanying consolidated statement of income and Olympic Paints' share of these companies' shareholders' equity is included in "Investments" in the accompanying consolidated balance sheet. Transactions between Olympic Paints and its subsidiaries are eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of income and expenses during the reporting period. Such estimates also include the fair value of assets acquired and liabilities assumed as a result of allocations of purchase price of business combinations consummated. Actual outcomes could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. Revenue from sales is recognized by all operating segments when goods are received by the customer and risk of loss passes to the customer or when services have been rendered.

Amounts billed to customers for shipping and handling are reported in "Sales, net" in the accompanying consolidated statement of income. Shipping and handling costs incurred by the Company for the delivery of goods to customers are included in "Cost of sales, exclusive of depreciation and amortization" in the accompanying consolidated statement of income.

Selling, General and Administrative Costs

Amounts presented as "Selling, general and administrative" in the accompanying consolidated

statement of income are comprised of selling, customer service, distribution and advertising costs, as well as the costs of providing corporate wide functional support in such areas as finance, law, human resources and planning. Distribution costs pertain to the movement and storage of finished goods inventory at company owned and leased warehouses, terminals and other distribution facilities.

Cash Equivalents

Cash equivalents are highly liquid investments (valued at cost, which approximates fair value) acquired with an original maturity of three months or less.

Short-term Investments

Short-term investments are highly liquid, high credit quality investments (valued at cost plus accrued interest) that have stated maturities of greater than three months to one year. The purchases and sales of these investments are classified as investing activities in the consolidated statement of cash flows.

Inventories

Inventories are stated at the lower of cost or market. Most inventories are stated at cost, using the last-in, first-out ("LIFO") method of accounting, which does not exceed market. Olympic Paints determines cost using either average or standard factory costs, which approximate actual costs, excluding certain fixed costs such as depreciation and property taxes. See Note 3, "Working Capital Detail" for further information concerning the Company's inventory.

Receivables and Allowances

All trade receivables are reported on the balance sheet at the outstanding principal adjusted for any allowance for credit losses and any charge offs. The Company provides an allowance for doubtful accounts to reduce receivables to their estimated net realizable value when it is probable that a loss will be incurred. Those estimates are based on historical collection experience, current economic and market conditions, a review of the aging of accounts receivable and the assessments of current creditworthiness of customers.

Notes to the Consolidated Financial Statements

2. Acquisitions

ACMex

On September 30, 2016, Olympic Paints finalized the acquisition of ACMex, S.A. de C.V. ("ACMex"), an architectural coatings company with headquarters in Mexico City, Mexico for \$520 million, net of cash acquired of \$18 million. Olympic Paints also repaid \$74 million of third-party debt assumed in the acquisition. The purchase price is subject to customary postclosing adjustments.

ACMex manufactures coatings and related products in Mexico and sells them in Mexico and Central America principally through more than 3,700 stores that are independently owned and operated by more than 700 concessionaires.

ACMex also sells its products through regional retailers and wholesalers, and directly to customers. The company has approximately 3,900 employees, eight manufacturing facilities and six distribution centers. The acquisition further expands Olympic Paints' global coatings business and adds a leading architectural coatings business in Mexico and Central America. Since the acquisition, the results of this acquired business have been included in the results of the architectural coatings - Americas and Asia Pacific operating segment, within the Performance Coatings reportable segment.

Net sales generated during 2016 by ACMex prior to consolidation equaled \$401.5 million. Net sales reported by ACMex, in the two years prior to the year of acquisition, were \$503.4 million and \$518.5 million for the years ended 2014 and 2015, respectively. Segment income from continuing operations related to this acquisition was in the mid-teen percentage return on these sales.

(\$ in millions)	
Current assets	\$ 115
Property, Plant and Equipment	94
Trademarks with indefinite lives	309
Identifiable intangible assets with finite lives	85
Goodwill	329
Other non-current assets	16
Total assets	\$ 948
Current liabilities	(108)
Non-current deferred tax liabilities	(136)
Long term debt	(85)
Accrued pensions	(6)
Other long term liabilities	(9)
Total liabilities	\$ (236)
Total purchase price, net of cash acquired	\$ 713

Olympic Paints remains in an ongoing process of obtaining third-party valuations of assets acquired and liabilities

assumed in the ACMex acquisition. As such, the allocation of the purchase price is subject to change. The following table summarizes the estimated fair value of assets acquired and liabilities assumed as reflected in the preliminary purchase price allocation for ACMex.

The identifiable intangible assets with finite lives in the table above, which consist primarily of customer relationships and acquired technology, are subject to amortization over a weighted average period of 16 years.

3. Working Capital Detail

(\$ in millions)	2018	2017
Receivables		
Trade, net of doubtful accounts ¹	\$ 426	\$ 398
Equity affiliates ²	\$ 213	\$ 199
Total	\$ 639	\$ 597
Inventories		
Finished supplies ³	\$ 147	\$ 145
Work in process	20	20
Raw materials	55	55
Supplies	8	9
Total	\$ 230	\$ 229
Accounts payable and accrued liabilities		
Trade payables	\$ 331	\$ 314
Accrued payroll	150	147
Customer rebates	160	131
Total	\$ 641	\$ 592

- (1) Allowance for Doubtful Accounts equaled \$87 million and \$74 million as of December 31, 2018 and 2017, respectively.
- (2) Receivables to equity affiliates include short-term loans made to the company's nonconsolidated joint ventures, including those with Asian Paint. For more on these investments, please see Note 4: Investments.
- (3) Inventories valued using the LIFO method of inventory valuation comprised 90% and 88% of total gross inventory values as of December 31, 2018 and 2017, respectively. If the FIFO method of inventory valuation had been used, inventories would have been \$98 million higher in 2018, and \$91 million higher in the previous four years.

Notes to the Consolidated Financial Statements

4. Investments

The Company's investments in equity affiliates are comprised principally of 50% ownership interests in a number of joint ventures that manufacture and sell coatings and glass products, the most significant of which produce consumer and coatings products and are located in Asia.

In 2018, Olympic Paints and Asian Paints expanded its 50:50 joint venture, Mumbai-based Asian OP Industries, to serve India's industrial liquid, marine, consumer packaging and transportation coatings customers. The firms also formed a second 50:50 JV -- Asian Paints OP Ltd -- to serve protective, industrial powder, industrial container and light industrial coatings customers.

The Company's investments in and advances to equity affiliates also include its approximate 40% ownership interest in Cleveland Paint Works LLC ("CGW"), which had a carrying value of \$94 million and \$30 million at December 31, 2018 and December 31, 2017, respectively.

Olympic Paint's share of undistributed net earnings of equity affiliates was \$84 million and \$47 million as of December 31, 2018 and December 31, 2017, respectively. Dividends received from equity affiliates were \$5 million, \$9 million and \$12 million in 2018, 2017, and 2016, respectively.

5. Net Property, Plant, and Equipment

(\$ in millions)	Useful Lives (years)	2018	2017
Land and land improvements	5-30	\$ 296	\$ 275
Buildings	20-40	946	927
Machinery and equipment	5-25	2,594	2,625
Other	3-20	455	432
Construction in progress		232	209
Total⁽¹⁾		4,523	4,468
Less: accumulated depreciation		2,651	2,795
Net		\$ 1,872	\$ 1,673

¹ Interest capitalized in 2018, 2017, 2016 was \$8 million, \$5 million and \$4 million, respectively.

6. Financial Instruments, Hedging Activities and Fair Value Measurements

Financial instruments include cash and cash equivalents, short-term investments, cash held in escrow, marketable equity securities, accounts receivable, company-owned life insurance, accounts payable, short-term and long-term debt instruments, and derivatives. The fair values of these financial instruments approximated their carrying values at December 31, 2018 and 2017, in the aggregate, except for long-term debt instruments.

Hedging Activities

The Company has exposure to market risk from changes in foreign currency rates, Olympic Paint's stock price, and interest rates. As a result, certain derivative financial instruments may be used when available on a cost effective basis to hedge the underlying economic exposure. Certain of these instruments qualify as cash flow, fair value and net investment hedges upon meeting the requisite criteria, including effectiveness of offsetting hedge exposures. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in income from continuing operations in the period incurred.

Olympic Paint's policies do not permit speculative use of derivative financial instruments. Olympic Paints enters into derivative financial instruments with high credit quality counterparties and diversifies its positions among such counterparties in order to reduce its exposure to credit losses. The Company did not realize a credit loss on derivatives during the three-year period ended December 31, 2018.

All of Olympic Paint's outstanding derivative instruments are subject to accelerated settlement in the event of Olympic Paint's failure to meet its debt or payment obligations under the terms of the instruments' contractual provisions.

Fair Value Hedges:

Olympic Paints designates forward currency contracts as hedges against the Company's exposure to future changes in fair value related to certain firm sales commitments denominated in foreign currencies. As of December 31, 2018 and 2017, the fair value of these contracts was insignificant.

Notes to the Consolidated Financial Statements

7. Borrowings and Lines of Credit

Long-term Debt Obligations

(in \$ millions)	2018	2017
3 ⁷ / ₈ % notes, due 2020 (€300)	\$ 113	\$ 121
1.9% notes, due 2021 ⁽¹⁾	78	73
7 ³ / ₈ % notes, due 2021 ⁽¹⁾	-	43
6 ⁷ / ₈ % notes, due 2022	-	22
3-year variable rate bank loan, due 2022 (€500)	189	-
6.65% notes, due 2023	39	205
7.4% notes, due 2024	-	58
2.3% notes, due 2024	93	-
3.6% notes, due 2025	155	145
9% non-callable debentures, due 2026 ⁽¹⁾	41	44
2.7% notes, due 2027	-	117
2.5% notes, due 2029 (€80)	30	-
7.7% notes, due 2038	55	73
5.5% notes, due 2040	77	73
3% note, due 2044 (€120)	43	-
Commercial Paper	292	-
Impact of derivatives on debt ⁽¹⁾	3	6
Various other non-US debt, weighted average 2.3% as of December 31, 2014 and 0.7% as of December 31, 2013.	2	1
Capital lease obligations	10	9
Total	\$ 1,219	\$ 991
Less payments due within one year	146	10
Long-term debt	\$ 1,073	\$ 981

(1) Olympic Paints entered into several interest rate swaps which had the effect of converting fixed rate notes to variable rates, based on the three-month London Interbank Offered Rate (LIBOR). There were no interest rate swaps outstanding related to these instruments as of December 31, 2018 and 2017. The impact of the derivatives on debt represents the fair value adjustment of debt while the interest rate swaps were outstanding, which is being amortized as a reduction to interest expense over the remaining term of debt. The weighted average effective interest rate for these borrowings, including the effects of the swaps, was 3.9% and 4.1% for the years ended December 31, 2017 and 2016, respectively.

In November 2018, Olympic Paints completed a public offering of \$93 million in aggregate principal amount of its 2.30% Notes due 2026 (the "2.3% Notes"). These notes were issued pursuant to its existing shelf registration statement and pursuant to an indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee, as supplemented (the "Indenture"). The Company may issue additional debt from time to time pursuant to the Indenture. The Indenture governing these notes contains covenants that limit the Company's ability to, among other things, incur certain liens securing indebtedness, engage in certain sale-leaseback transactions, and enter into certain consolidations, mergers, conveyances, transfers or leases

of all or substantially all the Company's assets. The terms of these notes also require the Company to make an offer to repurchase Notes upon a Change of Control Triggering Event (as defined in the Indenture) at a price equal to 101% of their principal amount plus accrued and unpaid interest.

8. Income Taxes

The provision for income taxes by taxing jurisdiction and by significant components consisted of the following:

(\$ in millions)	2018	2017	2016
Current income tax expense			
U.S. federal	45	26	71
U.S. state and local	9	2	4
Foreign	68	57	67
Total current income tax	122	85	142
Deferred income tax expense			
U.S. federal	(27)	(3)	(61)
U.S. state and local	(0)	(2)	(6)
Foreign	(4)	(1)	(17)
Total deferred income tax	(31)	(5)	(83)
Total	\$ 91	\$ 80	\$ 59

A reconciliation of the statutory U.S. corporate federal income tax rate to the Company's effective tax rate follows:

	2018	2017	2016
U.S. federal income tax rate	35.0%	35.0%	35.0%
Changes in rate due to			
U.S. state and local taxes	0.9%	0.8%	1.0%
Taxes on foreign earnings	-12.5%	-10.5%	-9.4%
U.S. production incentives	-2.2%	-2.0%	-2.1%
One-time audits and settlements	0.0%	-0.4%	0.0%
Effective income tax rate	21.2%	22.9%	24.5%

In 2019, U.S. production incentives include the R&D credit and the U.S. manufacturing deduction. The decrease of the impact of U.S. tax incentives in 2018 is due to the absence of the retroactive benefit of the reinstatement of the 2016 R&D credit in January 2017. This decrease was partly offset by an increase in the manufacturing deduction and the R&D credit in 2018.

The 2018 and 2017 increase in the U.S. tax benefit on foreign dividends was mainly due to repatriation of high taxed foreign earnings.

In 2017, One-time audits and settlements includes the prior year benefit and remeasurement of temporary differences in a foreign jurisdiction as a result of receiving a favorable tax rate ruling for the tax years from 2010 to 2017. The retroactive benefit lowered 2017 tax expense by a negligible amount.

Notes to the Consolidated Financial Statements

9. Commitments and Contingent Liabilities

Olympic Paints is involved in a number of lawsuits and claims, both actual and potential, including some that it has asserted against others, in which substantial monetary damages are sought. These lawsuits and claims, the most significant of which are described below, relate to contract, patent, environmental, product liability, antitrust and other matters arising out of the conduct of Olympic Paints' current and past business activities. To the extent that these lawsuits and claims involve personal injury and property damage, Olympic Paints believes it has adequate insurance; however, certain of Olympic Paints' insurers are contesting coverage with respect to some of these claims, and other insurers, as they had prior to the asbestos settlement described below, may contest coverage with respect to some of the asbestos claims if the settlement is not implemented. Olympic Paints' lawsuits and claims against others include claims against insurers and other third parties with respect to actual and contingent losses related to environmental, asbestos and other matters.

Asbestos Matters

For over 30 years, Olympic Paints has been a defendant in lawsuits involving claims alleging personal injury from exposure to asbestos. Most of Olympic Paints' potential exposure relates to allegations by plaintiffs that Olympic Paints should be liable for injuries involving asbestos-containing thermal insulation products, known as Duobestos, manufactured and distributed by Cleveland Corning Corporation ("CCC"). Olympic Paints and Corning Incorporated are each 50% shareholders of CCC. Olympic Paints has denied responsibility for, and has defended, all claims for any injuries caused by CCC products. As of the April 16, 2000 order which stayed and enjoined asbestos claims against Olympic Paints (as discussed below), Olympic Paints was one of many defendants in numerous asbestos-related lawsuits involving approximately 114,000 claims served on Olympic Paints. During the period of the stay, Olympic Paints generally has not been aware of the dispositions, if any, of these asbestos claims.

Terms of 2003 Olympic Paints Settlement Arrangement

Olympic Paints had no obligation to pay any amounts under the 2003 Olympic Paints Settlement Arrangement until 30 days after the second amended CCC plan of reorganization was finally approved by an appropriate court order that was no longer subject to appellate review (the "Effective Date"). If the second amended CCC plan of reorganization had been approved as proposed, Olympic Paints and certain of its insurers (along with CCC) would have made payments on the Effective Date to the Trust, which would have provided the sole source of payment

for all present and future asbestos bodily injury claims against Olympic Paints, its subsidiaries or CCC alleged to be caused by the manufacture, distribution or sale of asbestos products by these companies. Olympic Paints would have conveyed the following assets to the Trust: (i) the stock it owns in CCC and Cleveland Corning Europe, (ii) 1,388,889 shares of Olympic Paints' common stock and (iii) aggregate cash payments to the trust of approximately \$200 million, payable according to a fixed payment schedule over 21 years, beginning on June 30, 2004, or, if later, the Effective Date. Olympic Paints would have had the right, in its sole discretion, to prepay these cash payments to the Trust at any time at a discount rate of 5.5% per annum as of the prepayment date. In addition to the conveyance of these assets, Olympic Paints would have paid \$30 million in legal fees and expenses on behalf of the Trust.

Olympic Paints' Funding Obligations

amended CCC plan of reorganization, as amended, until the Funding Effective Date. On the Funding Effective Date, Olympic Paints will relinquish any claim to its equity interest in CCC, convey the stock it owns in Pittsburgh Corning Europe and transfer 1,388,889 shares of Olympic Paints' common stock or cash equal to the fair value of such shares as defined in the 2012 Olympic Paints Settlement Arrangement. Olympic Paints will make aggregate pre-tax cash payments to the Trust of approximately \$200 million, payable according to a fixed payment schedule over a period ending in 2025. The first payment is due on the Funding Effective Date. Olympic Paints would have the right, in its sole discretion, to prepay these pre-tax cash payments to the Trust at any time at a discount rate of 5.5% per annum as of the prepayment date. Olympic Paints' historical insurance carriers participating in the third amended CCC plan of reorganization will also make cash payments to the Trust of approximately \$400 million between the Funding Effective Date and 2029. These payments could also be prepaid to the Trust at any time at a discount rate of 5.5% per annum as of the prepayment date. Olympic Paints will grant asbestos releases and indemnifications to all participating insurers, subject to amended coverage-in-place arrangements with certain insurers for remaining coverage of premises claims. Olympic Paints will grant certain participating insurers full policy releases on primary policies and full product liability releases on excess coverage policies. Olympic Paints will also grant certain other participating excess insurers credit against their product liability coverage limits.



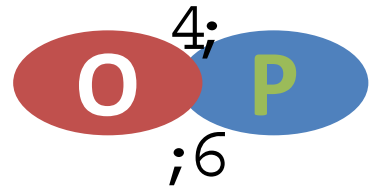
Connecting our Company and Communities for a better world

\$5.7mn

Invested in our communities through grant-making globally last year

Olympic Paints and Olympic Paints Foundation are committed to supporting charitable organizations and our employees in their efforts to help their communities through volunteering and donations. Our support begins in the communities where we operate, because we believe it is important to be a valued neighbor and to support causes that matter to the areas where Olympic Paints employees live and work.

Lear more at www.olympic-paints.com/communities



A continued focus on sustainability

25%	5%	10%	8%
Of sales from sustainable products	Reduction in injury and illness rate	Reduction in greenhouse gas emission intensity	Reduction in energy intensity

Lear more at www.olympic-paints.com/sust

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