OVERVIEW

Strong sales in 1994 resulted in the Company reporting the highest net sales, net income and net income per Common Share in its history. The strength of the year was underscored by the results of each quarter in 1994 which represented the best in the Company's history.

On January 31, 1994, the Company purchased the Distribution and Control Business Unit (DCBU) from Westinghouse Electric Corporation, the largest acquisition in the Company's history. This acquisition, as discussed under "Acquisitions and Divestitures of Businesses" in the Financial Review, substantially bolstered the prospects for the Electrical and Electronic Controls segment by providing greater product depth with world class technology and by increasing product offering and distribution opportunities. This acquisition improves the balance of sales and earnings between the Electrical and Electronic Controls segment and the historically strong Vehicle Components segment.

The strong sales increase was broadly based with record sales achieved in both the Vehicle Components and the Electrical and Electronic Controls segments. Each product class of these segments experienced double-digit growth in 1994 as compared to 1993. Net income for the year rose to $333 million in 1994. This represents a 92% increase compared to net income of $173 million in 1993 which was reduced by a $34 million after tax acquisition integration charge related to the purchase of DCBU and a $7 million extraordinary loss on the redemption of debentures. Net income per Common Share increased to $4.40 in 1994, a 78% increase over $2.47 (after the charges noted above) in 1993. Net income per Common Share increased by a lesser percentage than net income due to an additional 6.7 million Common Shares outstanding at year-end 1994.

1994 COMPARED TO 1993

Net Sales

Net sales for 1994 increased 38% to $6.1 billion from $4.4 billion in 1993. The increase in sales was a reflection of the contributions of acquired businesses, as well as the improvement in North American transportation and capital goods markets. The Company expects that in 1995 the North American economy will continue to favor transportation and capital goods markets.

Sales improvements were also recorded by virtually all of the Company's operations outside the United States due in part to export of products to meet North American market demands. The economic recovery that began in the United Kingdom in the past year spread to the European continent as additional market strength was evident in Germany, France, Italy and other continental countries as indicated by the 19% sales increase in Europe over 1993. Expectations are that the Company's European businesses will continue to benefit as the recovery continues. The purchase of DCBU also expanded the Company's presence in Latin America. The combination of this acquisition and the growth in existing operations resulted in a 48% sales increase in Latin America over 1993.

The Vehicle Components segment continued to experience significant growth as net sales increased to $2.8 billion for 1994, rising 20% over 1993's net sales of $2.4 billion. Although the increase in sales was driven by unprecedented levels of production of heavy trucks in North America, each product class in this segment reported an increase in excess of 17% in 1994 as compared to 1993. The heavy truck market set industry records, with North American factory sales of 226,000 units, a 7% increase over the previous record levels of 1979 and a 21% increase over 1993. Order backlogs for heavy trucks reached an all time high of 212,000 units at year-end 1994.

Vehicle Components segment sales also reflect higher sales of components for sport utility vehicles, minivans and light trucks which markets showed a 20% increase in North American factory sales in 1994 over 1993. These vehicles, where the Company's component sales are particularly strong, now account for nearly half of the domestic vehicle unit sales of United States based automobile manufacturers. Passenger Car Components sales in 1994 increased substantially over 1993 as the Company benefited from the 5% increase in factory sales of passenger cars in North America and also from improved market penetration. Additionally, sales of Off-Highway Vehicle Components showed marked improvement throughout the year as a result of strong demand for hydraulic components from agricultural, construction and industrial markets worldwide.

The positive outlook for the continued growth of the Vehicle Component product lines is based on increased use of heavy trucks in support of domestic manufacturing, consumer preference for minivans, light trucks and sport utility vehicles, increased production of multivalve automobile engines, and strength of the construction and agricultural markets.

The Electrical and Electronic Controls segment's net sales in 1994 rose to $3.1 billion, a 67% increase over 1993 net sales of $1.9 billion. This segment now represents more than one-half of total sales. The DCBU acquisition was the principal cause for the increase in the Industrial and Commercial Controls product class, where sales more than doubled compared to 1993. Each of the remaining product classes in this segment reported an increase in excess of 14% in 1994 as compared to 1993. These increases were a reflection of strong growth experienced in the industrial, residential and commercial markets served by this segment.

Automotive and Appliance Controls sales in 1994 increased significantly over 1993 due to improved conditions in the passenger car and light truck markets served by the Company. The current strength of the North American household appliances market in comparison to previous years and positioning with appliance manufacturers also benefited the Company. Robust sales of semiconductor equipment, included in Specialty Controls, also contributed significantly to the 1994 sales increase for this segment. Sales have risen sharply over the past two years due to increased market penetration and worldwide demand for semiconductor equipment. Market leadership permitted the Company to benefit substantially from the industry's growth to the extent that order backlogs for ion implanters are at record levels. To meet this continuing demand, a new medium current ion implanter manufacturing