

cash provided by operating activities, supplemented by liquidation of short-term investments, funding from unsecured notes and other borrowings, proceeds from the sale of businesses and the issuance of Common Shares were used to fund business acquisitions, capital expenditures, cash dividends and repayment of debt.

As a result of the sale of the Common Shares, notes and debentures, as well as cash flow from operations, the Company canceled a \$555 million 364-day revolving credit agreement and \$255 million of a \$555 million five-year revolving credit agreement which had been entered into in January 1994 to provide interim financing for the acquisition of DCBU. The Company is maintaining the strength of the balance sheet and has now restored it to pre-acquisition standards in less than a year with the debt to capital ratio again below 40%. The Company believes capital resources available in the form of working capital on-hand, lines of credit and funds provided by operations will more than adequately meet anticipated requirements for capital expenditures and business expansion through niche acquisitions.

The combination of DCBU with the Company's Industrial Controls and Power Distribution Operations (ICPDO) strengthened the competitive position in the Electrical and Electronic Controls segment and will provide the opportunity for significant cost savings resulting from the complementary fit of the two businesses. Substantial efficiencies are beginning to be experienced due to the combination of the two operations. The Company has a comprehensive integration plan which is focused on rationalization of product lines and manufacturing operations, integration of sales and distribution functions and reduction of administrative expenses. The plan includes plant closures over the next few years to eliminate over-capacity. To date, the Company has closed and/or announced the closure of twenty-three facilities. The Company has also sold four facilities as a result of divestiture activities. It has also begun the relocation of several product lines as a result of the rationalization plan. The cost of the consolidation program for ICPDO locations was included in the 1993 \$55 million acquisition integration charge. To date, expenditures and charges total \$20 million with the remaining \$35 million expected to occur primarily over the next three years. Remaining expenditures will be funded through cash flow from combined operations. For actions related to the acquired locations, such costs have been considered in the allocation of the purchase price.

In the normal course of business, the Company is exposed to various financial risks including interest and foreign exchange rates. The Company has developed systems to continuously measure exposures to assure that exposures are evaluated comprehensively so that appropriate and timely action can be taken to reduce risk, if necessary. Monitoring of exposures and the evaluation of risks includes approval of derivative activities on a discrete basis by senior management. Oversight and review is performed monthly by senior management. In order to minimize the impact of potential defaults, the Company specifically limits counterparty credit exposure to prudent dollar limits. The Company's derivative activities are described in greater detail under "Debt and Other Financial Instruments" in the Financial Review

To reflect current market conditions, the discount rate used to measure the projected benefit obligations for pensions and postretirement benefits other than pensions was increased to 8.50% from 7.25%. This change had the effect of decreasing the accumulated pension benefit obligation by \$140 million with an offsetting increase in the unamortized net gain. The changes in assumed rates for postretirement benefits other than pensions had the effect of decreasing the accumulated postretirement benefit obligation which offset changes in other plan provisions. The effect of the change in the discount rates on future expense for pensions and postretirement benefits other than pensions will not be material.

At December 31, 1994 and 1993, the Company had net deferred income tax assets included in current and long-term assets. Management believes it is more likely than not that these tax benefits will be realized through the reduction of future taxable income. Significant factors considered by management in determination of the probability of realization of deferred tax assets include historical operating results of the Company, expectations of future earnings and the extended period of time over which the postretirement health care liability will be paid.

The Company has manufacturing operations in Mexico, none of which are significant to overall operations. The recent devaluation of the Peso in Mexico had an immaterial adverse effect on the Company's financial position and results of operations. The Company will continue to monitor the economic situation in Mexico.

Operations of the Company involve the use, disposal and clean-up of certain substances regulated under environmental protection laws, as further discussed under "Protection of the Environment" in the Financial Review. Subject to the difficulty in estimating future environmental costs, the Company expects that any sum it may have to pay in connection with environmental matters in excess of the amounts recorded or disclosed will not have a material adverse effect on financial condition.

To enhance shareholder value and to avoid dilution of earnings per share resulting from the exercise of stock options by employees, the Company's Board of Directors authorized the purchase of up to five million Common Shares. Under the Board's authorization, the Company may purchase the shares over a five year period; however, only a maximum of 1.5 million shares can be purchased in any one year.