1993 COMPARED TO 1992

Net Sales

Net sales for 1993 increased by 7% to $4.4 billion from $4.1 billion in 1992. The increase occurred principally in the United States and was largely due to a strengthened North American market for heavy and light trucks, vans and sport utility vehicles, responding to a United States economic recovery. The improvement in North America more than offset effects of the continued deep European recession. In North America, certain markets, which had been sluggish through most of 1993, showed sales improvements in the fourth quarter.

Vehicle Components segment net sales increased to $2.4 billion for 1993, rising 13% over 1992 sales of $2.1 billion. The improvement was largely due to significant growth in sales of truck components, following the best year for factory sales of heavy trucks in North America since 1979. Passenger car and light truck markets also showed improvement in 1993. Off-highway equipment markets, which had been down for several years, improved considerably. Strong sales growth in North America was partially offset by reduced sales in Europe where vehicle markets remain weak.

The Electrical and Electronic Controls segment showed a net sales increase of 4% in 1993 to $1.9 billion compared to $1.8 billion in 1992. The improvement was largely due to increased sales of industrial and commercial controls and specialty controls. Strong North American markets for automotive and appliance controls were largely offset, however, by continued weakness in corresponding European markets due to economic recession and the negative impact of foreign currency exchange rate fluctuations. Rising demand for portable tools, factory equipment and residential housing drove the increase in sales of industrial and commercial controls. Sales of industrial and power distribution equipment, which tend to lag any North American economic recovery, rose sharply in the fourth quarter. The semiconductor equipment business, included in specialty controls, experienced strong results throughout the year, with a 19% improvement in sales for 1993 over 1992.

Operating Results

Income from operations increased 33% to $317 million in 1993 over $238 million in 1992. This increase was due to significant sales growth as well as benefits achieved through ongoing cost containment and productivity improvements. This improvement was achieved in spite of a $55 million acquisition integration charge related to the purchase of DCBU and a $9 million charge, included in cost of products sold in 1993, for streamlining certain vehicle components operations in Europe.

The Vehicle Components segment operating profit rose to $247 million (10% of sales) for 1993, a substantial improvement over $170 million (8% of sales) for 1992 despite a $9 million charge recorded in 1993 for streamlining certain European operations. The improvement was largely a result of improved markets in North America for heavy and light trucks, vans and sport utility vehicles. Other factors contributing to increased profits were continuing stringent cost containment efforts and economies achieved through capacity and workforce rationalizations of certain businesses, which better positioned operations to benefit from further growth in vehicle markets.

The Electrical and Electronic Controls segment operating profit significantly improved, before the effect of the $55 million acquisition integration charge, rising 62% to $138 million in 1993 (7% of sales) from $85 million (5% of sales) in 1992. The improved segment profit picture was partially due to sales growth experienced in certain controls markets, but was also a clear reflection of continuing emphasis placed on containing and controlling costs and realization of anticipated benefits of earlier capacity and workforce rationalization efforts. The depressed European economy negatively impacted controls businesses, particularly automotive and appliance controls. Profit for this segment was reduced by a $55 million pretax charge recorded in December 1993 for integration of ICPDO product lines and operations with DCBU to form the new Cutler-Hammer business unit.

Interest expense declined to $75 million for 1993, the lowest level since 1986, from $89 million for 1992 largely due to the reduction of higher interest rate debt, lower debt levels during 1993 and increased capitalized interest.

Other income – net was $12 million in 1993, down from $23 million in 1992, largely due to the $11 million pretax gain on the sale of an interest in a limited partnership in 1992.

An analysis of changes in income taxes and the effective income tax rate is presented under "Income Taxes" in the Financial Review.

In 1992, new accounting standards for postretirement benefits other than pensions and for income taxes were adopted, which together reduced net income by $268 million due to the recognition of the cumulative effect for prior years.