The accounts receivable and inventory turnover rates as well as accounts receivable days sales outstanding and days of inventory on-hand in 1996 were consistent with 1995. The CAPCO acquisition, as discussed under 'Acquisitions and Divestitures of Businesses' in the Financial Review, was the principal cause of the increase in excess of cost over net assets of businesses acquired from the prior year-end. As discussed under 'Debt and Other Financial Instruments' in the Financial Review, the Company has a $500 million five-year revolving credit agreement.

Reflecting the Company's ongoing investment program under long-range goals to achieve improvements in product quality, manufacturing productivity and business growth, capital expenditures for 1996 were the second highest in the Company's history. Over the past five years, the Company has spent nearly $1.5 billion in capital expenditures intended to increase productivity, reduce costs and, selectively, to add capacity. In order to enhance product quality through technology improvements and to help achieve long-term growth prospects, capital spending in 1997 is anticipated to continue at near record levels.

Management believes it is more likely than not that deferred income tax assets as of December 31, 1996 will be realized through the reduction of future taxable income. Significant factors considered by management in the determination of the probability of realization of deferred tax assets include historical operating results, expectations of future earnings and the extended period of time over which the postretirement health care liability will be paid.

The Company is subject to various inherent financial risks attributable to operating in a global economy. Derivative financial instruments are utilized to manage exposures in interest and foreign exchange markets. The Company has developed systems to measure and assure that these 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. Monthly, senior management performs an oversight and review of exposures and derivative activities. The Company diversifies the counterparties used in these transactions in order to minimize the impact of any potential credit loss in the event of nonperformance by the counterparties. Although derivatives are an integral part of the Company's risk management programs, their incremental effect on financial condition and results of operations is not material. Derivative activities are described in greater detail under 'Debt and Other Financial Instruments' in the Financial Review.

Operations of the Company involve the use and disposal of certain substances regulated under environmental protection laws. The Company continues to modify, on an ongoing, regular basis, certain processes in order to reduce the impact on the environment, including the reduction or elimination of certain chemicals used in and wastes generated from operations. The Company's liabilities related to environmental matters are further discussed under 'Protection of the Environment' in the Financial Review.

Cash dividends paid in 1996 were a record and represented 36% of net income. Per share dividends in 1996 rose 7% from the previous year, following a 25% increase from the year before. The Company has paid dividends on Common Shares annually since 1923.

To avoid dilution of earnings per share resulting from the exercise of stock options, the Board of Directors authorized, in 1995, the purchase of up to five million outstanding Common Shares. Under the Board's authorization, the Company may purchase these shares over a five year period with a maximum of 1.5 million shares to be purchased in any one year. During 1996, 1.1 million shares were repurchased for an aggregate purchase price of $63 million, or an average price of $57 per share. Since the initiation of the program, 1.9 million shares have been repurchased at an average price of $54 per share.

The Company continues to generate substantial cash from operations, despite record investments in research and development, which continues to provide the primary source of funds to finance operating needs. The Company's emphasis on asset management generated record operating cash flow in 1996, compared with the previous record in 1995. Cash flow from operations, supplemented by commercial paper borrowings, was used to fund business acquisitions, capital expenditures, repayment of debt, the record level of cash dividends, and repurchase of Common Shares.

Forward-Looking Statements

The Company has included in this Annual Report expectations of the outlook for 1997 and cost reduction strategies and their anticipated results. Actual results could differ materially from these expectations, since they are forward-looking statements which inherently are subject to risks and uncertainties. Important factors which could cause actual results to differ from the 1997 expectations include: continuity of business relationships with and purchases by major customers, product mix, competitive pressure on sales and pricing, increases in material and other production costs which cannot be recouped in product pricing, difficulties in introducing new products as well as global economic and market conditions. Important assumptions that could cause actual cost reduction strategy results to differ from the estimates provided include achieving estimated staff reductions while maintaining work flow in the functional areas effected and the transition to consolidated manufacturing and administrative processes within anticipated time frames at anticipated costs.

1995 Compared to 1994

Net Sales Net sales in 1995 rose 13% over 1994. The improvement in sales was broadly based and primarily attributable to higher unit volumes in both the Electrical and Electronic Controls and the Vehicle Components segments. During 1995, the Company benefited from the diversity of its product lines as well as from its global markets. In 1995,