

all its major markets. The acquisition of DCBU and integration with ICPDO should create permanent value by streamlining product lines, manufacturing capacity and organization structure and will enable the businesses to realize the synergies resulting from complementary product offerings, operations and technical expertise. This acquisition will reinforce the goal of improving the balance in sales and earnings between the historically strong Vehicle Components segment and the Electrical and Electronic Controls segment. Investments in the form of research and development, marketing and manufacturing programs continue in all key product lines, and plans are to continue to make niche acquisitions which will promote the Company's position in worldwide markets. 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 capital requirements for capital expenditures and business expansion through niche acquisitions. The acquisition of DCBU required the additional capital resources discussed above.

The 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 its financial condition or results of operations.

1992 COMPARED TO 1991

Net Sales

Net sales for 1992 were \$4.10 billion, up 12% from \$3.66 billion in 1991. Certain markets in North America experienced a modest recovery in 1992. However, economies in Europe, Japan and South America continued to weaken, affecting businesses in those areas, and offsetting some strength in North America.

The Vehicle Components segment net sales increased to \$2.09 billion for 1992, 16% higher than sales of \$1.81 billion recorded for 1991. North American sales of heavy and light trucks, vans and sport utility vehicles were strong throughout the year. A marked increase in heavy truck production in North America during the second half of 1992 had a significant favorable impact on this segment's results. Heavy truck production increased 30% in 1992 over prior year levels. Strategic investments also contributed to sales growth through expansion of business into new products and territories. Sales of passenger car and off-highway vehicle equipment slowed in the last half of the year, after showing increases during the first half. Overseas vehicle markets, primarily in Europe, were depressed, and weakened further in the fourth quarter.

The Electrical and Electronic Controls segment had net sales of \$1.78 billion for 1992, rising 13% from sales of \$1.58 billion in 1991. This increase reflects the acquisition of Kirsten, a European automotive controls manufacturer with 1992 sales of approximately \$120 million, and other smaller acquisitions during 1992 and 1991. Existing automotive and appliance controls businesses experienced a strong rebound in their markets, adding to the improved results. Sales from industrial and commercial controls businesses were flat, with the recovery in residential markets offset by continued contraction in military and commercial aircraft industries. Sales from specialty controls businesses

declined slightly, reflecting the continued weakening of the North American automated materials handling market, as well as significant softening of the semiconductor equipment markets in the United States and Japan.

Operating Results

Higher sales levels, benefits of recent restructurings and rigorous inventory controls produced an improved gross margin of \$967 million in 1992 (24% of sales), up from \$851 million in 1991 (23% of sales). Gross margin in 1992 was reduced by \$17 million of increased expense related to the accounting change for postretirement benefits other than pensions.

Selling and administrative expenses were held level relative to sales due to stringent cost controls, as well as the benefits of recent restructurings, with \$578 million reported in 1992 compared to \$520 million in 1991 (14% of sales in both years).

The Company's continued commitment to improvement of established product lines, and to product innovation and development in markets offering the greatest potential for growth was reflected in the increase in research and development expenses to \$151 million in 1992 from \$138 million in 1991.

The Vehicle Components segment operating profit showed a substantial increase to \$170 million for 1992 over profit of \$63 million in 1991. Profit for 1992 was reduced by \$14 million due to recognition of additional expenses for postretirement benefits other than pensions. The improved profit was largely a result of increased demand for heavy and light trucks, vans and sport utility vehicles previously described and, additionally, benefitted from recent restructurings, for which a \$22 million charge was recorded in 1991. Strict cost containment also contributed to growth in profit. Strategic investments in marketing, research and development, and manufacturing improvements should further promote sustainable growth and increases in profit as markets served by this segment strengthen.

The Electrical and Electronic Controls segment operating profit was \$85 million in 1992 compared to \$88 million in 1991. Profit for this segment for 1992 was reduced by \$11 million due to recognition of additional expenses related to the accounting change for postretirement benefits other than pensions. Profit for 1991 was reduced by a \$17 million restructuring charge recorded in the first quarter. Start-up costs for integration of Kirsten and other acquisitions depressed 1992 profits, but these investments should provide opportunities for growth and profit improvement in the future. The acquisition of Kirsten, a European automotive controls manufacturer with operations in Germany, France and Spain, is a good example of the Company's investment in growth businesses through acquisitions. Restructuring costs due to downsizing of military-related operations reduced profits. In addition, profits for 1992 were affected by depressed sales in certain businesses, as discussed above, the costs of long-range programs in marketing, research and development, and manufacturing improvement, and cost/price pressures.

Other income - net rose to \$23 million for 1992 from \$18 million for 1991, primarily due to an \$11 million pretax gain on the sale of the Company's interest in a limited partnership recorded in 1992.

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