INVESTMENT IN LIFE INSURANCE

In 1993, the Company purchased company-owned life insurance policies insuring the lives of a portion of its active United States employees. These policies offer an attractive means of accumulating assets to meet future liabilities including the payment of employee benefits such as health care. At December 31, 1993, the investment in this life insurance, included in other assets, was $7 million, net of policy loans of $110 million. Net life insurance expense of $2 million, including interest expense of $4 million in 1993, was included in selling and administrative expense.

INCOME TAXES

Year ended December 31	*1993*	*1992*	*1991*
(Millions of dollars)			
Income before income taxes			
United States	$214	$147	$ 85
Outside the United States	48	34	16
	$262	$181	$101

Income taxes, with amounts for 1993 and 1992 derived under SFAS No. 109, are summarized below:

Year ended December 31	*1993*	*1992*	*1991*
(Millions of dollars)			
Current			
United States			
Federal	$108	$ 42	$ 64
State and local	7	5	10
Outside the United States	30	20	10
	145	67	84
Deferred			
United States			
Increase in statutory tax rate	(5)		
Other Federal	(50)	(14)	(47)
State and local	(2)	(1)	(8)
Outside the United States			
Operating loss carryforwards	(7)	(11)	
Reduction of valuation allowance for deferred tax assets	(5)		
Increase in statutory tax rate	(1)		
Other	7		(2)
	(63)	(26)	(57)
	$ 82	$ 41	$ 27

Significant components of net current and net long-term deferred income taxes derived under SFAS No. 109 are as follows:

December 31, 1993	*Current assets*	*Long-term assets*	*Long-term liabilities*
(Millions of dollars)			
Accruals and other adjustments			
Employee benefits	$ 34	$209	
Inventory	15		
Long-term contracts	16		
Restructuring	15	13	
Depreciation and amortization		(140)	
Other	12	8	
Operating loss carryforwards		50	
Valuation allowance		(45)	
Other items	15	(10)	

December 31, 1992	*Current assets*	*Long-term assets*	*Long-term liabilities*
(Millions of dollars)			
Accruals and other adjustments			
Employee benefits	$ 28	$209	$ (3)
Inventory	26		
Long-term contracts	17	(9)	
Restructuring	14		
Depreciation and amortization		(137)	(19)
Other	23	4	
Operating loss carryforwards		42	4
Valuation allowance		(20)	
Other items	12	(28)	4
	$ 120	$ 61	$(14)

The deferred income tax provision of $57 million for 1991 related primarily to long-term contracts.

At December 31, 1993 certain subsidiaries outside the United States had tax loss carryforwards aggregating $115 million. Carryforwards of $68 million have no expiration dates and the balance expire at various dates from 1995 through 2005.

A reconciliation of income taxes at the United States Federal statutory rate to the effective income tax rate, with amounts for 1993 and 1992 derived under SFAS No. 109, follows:

	1993		*1992*	*1991*
Year ended December 31	*Amount*	*Rate*	*Rate*	*Rate*
(Millions of dollars)				
Income taxes at the United States statutory rate	$92	35.0%	34.0%	34.0%
Adjustment of deferred income taxes for change in statutory tax rates	(6)	(2.3)		
State and local income taxes	4	1.5	.9	2.1
Adjustment of worldwide tax liabilities	3	1.4	(6.0)	(4.1)
Effective tax rate differential on earnings of consolidated subsidiaries and associate companies outside the United States	(5)	(2.0)	(3.9)	(2.1)
Other – net	(6)	(2.1)	(2.2)	(3.4)
	$82	31.5%	22.8%	26.5%

The adoption of SFAS No. 109 reduced 1992 income tax expense by $11 million and the effective income tax rate by 6%, in comparison to the prior accounting method.

The parent company has not provided income taxes on undistributed earnings of consolidated subsidiaries outside the United States of $332 million at December 31, 1993, since the earnings retained have been reinvested by the subsidiaries. If distributed, such remitted earnings would be subject to withholding taxes but substantially free of United States income taxes.

Worldwide income tax payments, including Federal and state income taxes in the United States, in 1993, 1992 and 1991 (in millions) were $156, $71 and $97, respectively.