

The North American economy favored the transportation and capital goods markets served by the Company which was the principal reason for the 11% sales increase in North America in 1995 over 1994. The European economic recovery that began in 1994 continued in 1995 and coupled with the IKU Group acquisition resulted in a 26% sales increase in that region in 1995 over 1994. In 1995, despite the continued recession in Japan, sales in the Pacific Region rose 32% over 1994, due in part to the Emwest electrical switchgear and controls business acquisition. In Latin America, economic weakness in Mexico, Brazil and Argentina during 1995 caused an 11% sales decline in 1995 over 1994. The weakness in Mexico, Brazil and Argentina was partially offset by sales from the Mallory Controles Ltda. acquisition.

Electrical and Electronic Controls segment experienced significant growth as sales increased 17% in 1995 over 1994, which nearly doubled the sales of just two years ago.

An increase in industrial and nonresidential construction, partially offset by decreases in both residential construction and sales to the United States Government, resulted in Industrial and Commercial Controls sales rising 9% in 1995 over 1994. The 27% increase in sales of Automotive and Appliance Controls in 1995 over 1994 was due in part to the acquisitions of Lectron Products, Inc., Mallory Controles Ltda. and the IKU Group as well as increased penetration on several new automotive platforms.

Worldwide demand for the Company's semiconductor capital equipment continued to be extraordinarily strong in 1995. Sales of the Company's Ion Implanters in 1995 were at an all-time high, rising 80% over 1994, which more than doubled the sales of just two years ago. This demand was the primary contributor to Specialty Controls' 31% sales increase in 1995 over 1994. Sales of the joint venture related to this business, which are not included in the Company's consolidated sales, also benefited significantly from this increased demand, rising 61% over 1994. During 1995, the Company was experiencing surging markets as well as market share gains throughout its entire ion implanter product line.

Vehicle Components segment sales increased 9% in 1995 over 1994. Truck Components sales rose 9% in 1995 over 1994. The North American market for heavy-duty trucks set industry records in 1995, with Class 8 truck sales reaching 245,000 units, 9% above the previous record set in 1994. However, the soft landing of the United States economy in the second half of 1995 negatively impacted sales of heavy-duty trucks in the fourth quarter of 1995. Fourth quarter 1995 heavy-duty truck production declined 6% in response to the sharp drop in orders. Slow growth in industrial output from the first quarter of 1995 affected truck tonnage hauled; as a result, the rush to add fleet capacity, which was at a frenzied pace in 1994 and early 1995, slowed during the second half of 1995. In the third quarter of 1995, though production and retail sales of heavy-duty trucks remained high, net orders were negative as canceled orders exceeded new incoming orders. In the fourth quarter of 1995, orders rebounded somewhat but remained well below the level experienced earlier in the year.

The Vehicle Components segment also reflected higher sales of components for sport utility vehicles, minivans and light trucks in 1995. North American factory sales in 1995 were comparable with strong 1994 sales. These vehicles, where the Company's component sales are particularly strong, accounted for nearly half of the domestic vehicle unit sales of United States based automobile manufacturers. Passenger Car Components sales rose 9% in 1995 over 1994 despite a 2% decline in North American production of passenger cars and a modest 4% rise in Europe. Sales benefited from the continued trend to multivalve engines and particular strength in Europe. The continued demand for hydraulic components from the agricultural, construction and industrial markets enabled Off-Highway Vehicle Components sales to remain strong, showing an 11% increase in 1995 over 1994.

Operating Results Income from operations increased 16% in 1995 over 1994, reflecting a 9% return on sales for both years. This increase was primarily a result of the higher sales volumes described above, as well as the impact of the Company's continued emphasis on cost reduction efforts and productivity improvement programs. These improvements enabled the Company to maintain its margins while pricing products competitively in value-driven world markets.

Operating profit for the Electrical and Electronic Controls segment was strong, improving 20% in 1995 over 1994 and reflecting an 8% return on sales for both years. The improvement in profits was primarily attributable to improved sales volumes, but also included added contributions from acquired businesses, continued stringent cost containment efforts and the realization of benefits from earlier resizings. On the negative side, transitional plant integration difficulties, effects of two September 1995 hurricanes in Puerto Rico and unanticipated program launch costs on several new automotive platforms reduced margins in the last half of 1995. Investments in systems and infrastructure for the Company's semiconductor equipment operations also reduced margins in 1995.

Operating profit for the Vehicle Components segment was strong, improving 17% in 1995 over 1994 and reflecting a 13% return on sales for both years. While the improvement in profits was primarily attributable to improved sales volumes, other contributing factors included ongoing cost reduction efforts and productivity improvement programs, and economies achieved through organizational rationalizations of certain businesses which have better positioned operations to benefit from further growth and market opportunities in global vehicle markets. One such example was the demand in Europe for the Company's new heavy-duty synchronized transmission which exceeded expectations.

Increased income from associate companies, a payment received related to a dividend from a foreign subsidiary and reduced foreign currency exchange losses primarily caused the increase in Other income—net in 1995 over 1994.

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