4 COMPARED TO 1993

Net Sales Net sales increased 38% in 1994 over 1993. This increase reflected the contributions of acquired businesses, principally DCBU, as well as increased unit volume shipments in North American transportation and capital goods markets. Sales improvements were also recorded by virtually all of the Company's operations outside the United States due in part to export of products to meet North American market demands. The economic recovery that began in the United Kingdom in 1993 spread to the European continent as additional market strength was evident in Germany, France, Italy and other continental countries as indicated by the 19% sales increase in Europe over 1993. The purchase of DCBU also expanded the Company's presence in Latin America. The combination of this acquisition and the growth in existing operations resulted in a 48% sales increase in Latin America over 1993.

The Vehicle Components segment experienced significant growth as net sales increased 20% in 1994 over 1993. Although the increase in sales was driven by unprecedented levels of production of heavy-duty trucks in North America, each product class in this segment reported an increase in excess of 17% in 1994 as compared to 1993. The heavy-duty truck market set industry records, with North American factory sales of 226,000 units, a 7% increase over the previous record levels of 1979 and a 21% increase over 1993.

Vehicle Components segment sales also reflected higher sales of components for sport utility vehicles, minivans and light trucks which markets showed a 20% increase in North American factory sales in 1994 over 1993. 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 in 1994 increased substantially over 1993 as the Company benefited from the 5% increase in factory sales of passenger cars in North America and also from improved market penetration. Additionally, sales of Off-Highway Vehicle Components showed marked improvement throughout the year as a result of strong demand for hydraulic components from agricultural, construction and industrial markets worldwide.

The Electrical and Electronic Controls segment's net sales in 1994 rose 67% over 1993. The DCBU acquisition was the principal cause for the increase in the Industrial and Commercial Controls product class, where sales more than doubled compared to 1993. Also, each of the remaining product classes in this segment reported an increase in excess of 14% in 1994 as compared to 1993. These increases were a reflection of strong growth experienced in the industrial, residential and commercial markets served by this segment.

Automotive and Appliance Controls sales in 1994 increased significantly over 1993 due to improved conditions in the passenger car and light truck markets served by the Company. The strength of the North American household appliances market in comparison to previous years and positioning with appliance manufacturers also benefited the Company. Robust sales of semiconductor equipment, included in Specialty Controls, also contributed significantly to the 1994 sales increase for this segment. Sales rose sharply due to increased market penetration and worldwide demand for semiconductor equipment. Market leadership permitted the Company to benefit substantially from the industry's growth. To meet this continuing demand, a new medium current ion implanter manufacturing facility is being built in Austin, Texas. A new high energy ion implantation system was introduced in mid-year 1994, and market response, particularly in the Far East, exceeded expectations.

Operating Results Income from operations increased 80% in 1994 over 1993, which was reduced by a $55 million acquisition integration charge before income tax credits related to the purchase of DCBU. This increase reflected the higher level of sales described above, including the contributions of acquired businesses, results of continuous improvement initiatives and inventory controls, efforts to maintain and improve efficiency and productivity in the face of greatly increased marketplace demand, and benefits of recent capacity and workforce rationalizations.

Operating profit for the Vehicle Components segment was strong, rising 43% in 1994 over 1993 and reflecting a 13% return on sales (10% for 1993). Increased profits were attributable largely to improved sales levels and also were a reflection of continuing stringent cost containment efforts as well as economies achieved through organizational rationalizations of certain businesses which better positioned operations to benefit from further growth and market opportunities in global vehicle markets. In 1993, operating profit was reduced by $9 million as a result of streamlining certain Vehicle Components operations in Europe.

Operating profit for the Electrical and Electronic Controls segment significantly improved, rising 73% in 1994 over 1993 and reflecting an 8% return on sales (7% for 1993), before the effect of the $55 million acquisition integration charge. The improvement in profits resulted from higher sales volumes, including contributions from acquired businesses, emphasis placed on containing and controlling costs and realization of benefits of earlier resizings.

The increase in interest expense in 1994 over 1993 was primarily caused by a higher average borrowing level due to the issuance of debt in 1994 to partially finance the acquisition of DCBU.

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