OVERVIEW

The Company experienced an extraordinary year of achievement in 1993.

Income after income taxes for the year increased to $214 million in 1993 before the recognition of a $34 million acquisition integration charge and a $7 million extraordinary loss on the redemption of debentures. This represents a 53% increase compared to income of $140 million in 1992 (before the cumulative effect of 1992 accounting changes). Earnings per Common Share, before the special charges, rose to $3.06 in 1993, a 51% increase over $2.03 (before the impact of accounting changes) in 1992.

On January 31, 1994, the Company acquired Westinghouse Electric Corporation's Distribution and Control Business Unit (DCBU), and in December of 1993 recorded a $55 million charge ($34 million after income tax credits, or $.49 per Common Share) for the integration of the Company's Industrial Control and Power Distribution Operations (ICPDO) with DCBU to form the Cutler-Hammer business unit. This acquisition provides greater product depth with world class technology and substantially increases product offering and distribution opportunities.

During March and December 1993, the Company called for redemption a total of $163 million of debentures. The loss on the redemptions was accounted for as an extraordinary item in each of those periods. In June, a two-for-one common stock-split was distributed, effected in the form of a 100% stock dividend, and the quarterly dividend on Common Shares was increased by 2-1/2 cents (9%) to 30 cents per share, the third dividend increase in seven years.

In June, the Company reconsolidated the net assets and operating results of its remaining discontinued operations. Prior years have been restated to include those results.

1993 COMPARED TO 1992

Net Sales

Net sales in 1993 increased by 7% to $4.40 billion, over $4.10 billion in 1992. The increase occurred principally in the United States and was largely due to a strengthened North American market for heavy and light trucks, vans and sport utility vehicles, responding to a U.S. economic recovery. The improvement in North America more than offset the effects of the continued deep European recession. In North America, certain markets, which had been sluggish through most of 1993, showed sales improvements in the fourth quarter.

The Vehicle Components segment net sales increased to $2.36 billion for 1993, rising 13% over 1992 sales of $2.09 billion. This improvement was largely due to significant growth in sales of truck components, following the best factory sales of heavy trucks in North America since 1979. The passenger car and light truck markets also showed improvement in 1993. Off-highway equipment markets, which had been down for several years, improved considerably. Strong sales growth in North America was partially offset by reduced sales in Europe where vehicle markets remain weak.

The Electrical and Electronic Controls segment showed a net sales increase of 4% in 1993 to $1.85 billion compared to $1.78 billion in 1992. This increase was largely due to increased sales in the areas of industrial and commercial controls and specialty controls. Strong North American markets for automotive and appliance controls were offset by declining European markets due to the economic recession and the negative impact of foreign currency exchange rate fluctuations. Rising demand for portable tools, factory equipment and residential housing drove the increase in sales of industrial and commercial controls. Sales of the Company's industrial and power distribution equipment, which tend to lag any North American economic recovery, rose sharply in the fourth quarter. The semiconductor equipment business, included in specialty controls, experienced strong results throughout the year, with a 19% improvement in sales for 1993 over 1992.

Operating Results

Gross margin increased to $1.12 billion (25.4% of sales) in 1993, rising from $967 million (23.6% of sales) in 1992, due to significant sales growth as well as benefits achieved through ongoing cost containment and productivity improvements. This improvement in margin was achieved in spite of a $9 million charge, included in cost of products sold in 1993, for the restructuring of certain vehicle components operations in Europe.

Selling and administrative expenses showed an increase of 2% in 1993 compared to 1992, with expense of $591 million in 1993 and $578 million in 1992. This level of increase is a clear indication of the results of cost control and restructuring efforts, which is further evidenced by their relationship to net sales, 13% in 1993 compared to 14% in 1992.

Research and development expenses for 1993 were $154 million, rising from $151 million in 1992. This level of expenditure reflects the continued commitment to achieving expressed corporate targets in product innovation and enhancements and to maintaining leading-edge technology.

The Vehicle Components segment operating profit rose to $247 million (10% of sales) for 1993, a substantial improvement over $170 million (8% of sales) for 1992 despite a $9 million restructuring charge recorded in 1993 for restructuring certain European operations. This improvement was largely a result of the improved market in North America for heavy and light trucks, vans and sport utility vehicles. Other factors contributing to increased profits were continuing stringent cost containment efforts and the economies achieved through restructuring certain businesses, which have better positioned operations to benefit from further growth in vehicle markets.

The Electrical and Electronic Controls segment operating profit significantly improved, before the effect of the $55 million acquisition integration charge, rising 62% to $138 million in 1993 (7% of sales) from $85 million (5% of sales) in 1992. This improved segment profit picture is partially due to the sales growth experienced in certain controls markets, but is also a clear reflection of the continuing emphasis placed on containing and controlling costs and the realization of anticipated benefits of earlier restructuring efforts. The depressed European economy negatively impacted the controls businesses, particularly automotive and appliance controls. Profit for this segment was also reduced by a $55 million pretax charge recorded in December 1993 for the integration of ICPDO product lines and operations with DCBU to form the new Cutler-Hammer business unit. The DCBU acquisition will bring a more even balance in sales and earnings between the Electrical and Electronic Controls segment and the historically strong Vehicle Components segment.