PROTECTION OF THE ENVIRONMENT

The Company has been named a potentially responsible party (PRP) under the Federal Superfund law at a number of waste disposal sites. Although this law technically imposes joint and several liability upon each PRP at each site, the extent of the Company's required financial contribution to the cleanup of these sites is expected to be limited based on the number and financial strength of the other named PRP's and the volumes of waste involved which might be attributable to the Company. The Company is also involved in remedial response and voluntary environmental cleanup expenditures at a number of other sites which are not the subject of any Superfund law proceeding, including certain currently-owned or formerly-owned plants.

Environmental exposures associated with the DCBU acquisition are limited by the purchase agreement with Westinghouse Electric Corporation. With respect to environmental conditions existing prior to the acquisition, Westinghouse agreed to retain certain responsibilities, to share the cost of others and to indemnify the Company for costs to the extent they exceed $3.5 million annually. The obligation to share costs extends for ten years.

Although difficult to quantify, management estimates that there is a reasonable possibility that the remediation and other costs associated with all of these sites may range up to $74 million, and that such costs would be incurred over a period of several years. The Company accrues for these costs when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. At December 31, 1994 and 1993, the balance sheet included an accrual for estimated remediation and other environmental costs (in millions) of approximately $48 and $18, respectively. The accrual for environmental costs at year-end 1994 includes $13 million for environmental exposures associated with DCBU which was recorded as part of the allocation of the purchase price of DCBU. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. Subject to the difficulty in estimating future environmental costs, the Company expects that any sum it may be required to pay in connection with environmental matters in excess of the amounts recorded or disclosed above will not have a material adverse effect on financial condition or results of operations.

The Company continues to modify, on an ongoing, regular basis, certain processes in order to reduce the impact on the environment. Efforts in this regard include the removal of many underground storage tanks and the reduction or elimination of certain chemicals and wastes in operations.

LEASE COMMITMENTS

Future minimum rental commitments as of December 31, 1994, under noncancelable operating leases, which expire at various dates and in most cases contain renewal options, are as follows (in millions): 1995, $42; 1996, $31; 1997, $24; 1998, $15; 1999, $12; and after 1999, $97.

Rental expense in 1994, 1993 and 1992 (in millions) was $65, $43 and $45, respectively.

SHAREHOLDERS' EQUITY

At the 1994 Annual Meeting, shareholders adopted amended Articles of Incorporation which increased the number of authorized Common Shares from 150 million to 300 million. At December 31, 1994, 5.4 million Common Shares were reserved for exercise and grant of stock options. At the end of 1994, there were 14,834 holders of record of Common Shares. Additionally, 21,286 employees were shareholders through participation in the Share Purchase and Investment Plan.

In private placements, the Company sold 1.3 million Common Shares in December 1993 for aggregate net proceeds of $62 million, and sold an additional 800,000 Common Shares in January 1994 for aggregate net proceeds of $38 million. The proceeds from these private placements were used primarily to fund the redemption in January 1994 of $89 million of 8.5% debentures.

In March 1994, in order to partially refinance the acquisition of DCBU, the Company sold 3.8 million Common Shares to the public for aggregate net proceeds of $214 million.

In November 1994, the Company issued 1.6 million Common Shares in a pooling-of-interests with Lectron Products, Inc.

In May 1993, the Company's share purchase rights were redeemed at a price of 3-1/3 cents for each right, for a total payment of $2 million.

The Company sponsors a Share Purchase and Investment Plan (SPIP) for United States operations under which eligible participating employees may choose to contribute up to 15% of their base pay to the SPIP. The Company matches employee contributions up to 6% of a participant's base pay as limited by United States income tax regulations. The matching contribution ranges from 25% to 100% of a participant's contribution and is invested in the Company's Common Shares. The matching contribution percentage is determined each quarter, based on net income per Common Share.

In 1989, the Company prefunded, through 1999, a portion of anticipated matching contributions to the SPIP by creating an Employee Stock Ownership Plan (ESOP) under the SPIP and selling 5 million Common Shares for $150 million to the ESOP. The shares held by the ESOP have not yet been allocated to employee accounts and are included in shareholders' equity as "Unallocated ESOP Shares" and the notes payable of the ESOP are included in long-term debt. Shares in the ESOP are released at historical cost and allocated to the employee accounts based on the ratio of the annual principal payment on the notes payable compared to the original principal amount of the notes payable. Cash dividends paid on shares in the ESOP are charged against retained earnings and, along with Company contributions, are used to repay the principal and interest due on the notes payable. ESOP shares are considered as outstanding for purposes of computing net income per Common Share. Shares in the ESOP at the end of 1994 and 1993 (in millions) were 2.7 and 3.4, respectively. Compensation expense related to the SPIP match, including the effect of shares released by the ESOP at historical cost, (in millions) was $15 in 1994, $11 in 1993 and $7 in 1992.