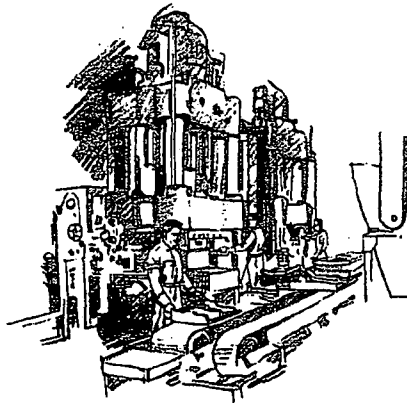
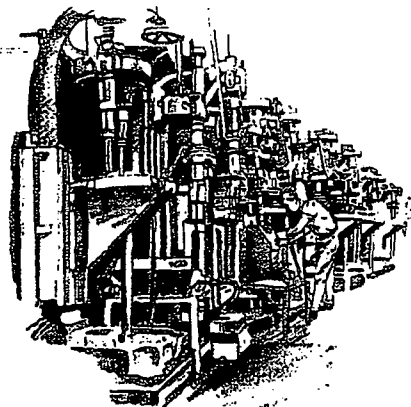


LETTER TO SHAREHOLDERS



Molding plastic parts for Automotive Heaters and Air-Conditioners.



Drilling flanges on Eaton Inductalloy Axle Shafts.

The split in our shares became effective September 30, 1959, and distribution was made to shareholders of one additional share for each share held on that date. The Board of Directors felt that the splitting of the Company's shares would broaden its market by attracting more widespread ownership. This has been substantiated by the steady increase in the number of Eaton shareholders since the split was announced on July 24, 1959. At the close of 1959, we had 17,389 shareholders, an increase of 5.6% over the total on the earlier date.

Review of Operations

The sharp improvement in our operating results reflected the steady forward strides in business, a better product mix, greater penetration into some of our existing markets, and, above all, the excellent teamwork that prevails at Eaton.

The 116-day steel strike which began on July 15, 1959, created more difficult operating conditions for the Company late in the year and resulted in higher operating costs. Prior to the strike, we had accumulated sufficient quantities of steel from our suppliers to last well beyond the normal 45-day supply. Thus, we were able to continue production at a high level until early in November when steel shortages and inventory dislocations began to affect our customers and we were forced to reduce many schedules. Since resumption of work at the steel mills, our operations have been improving, but it will be some time before all steel inventories are in balance and full recovery achieved.

It will be of interest to our shareholders that Eaton's products are sold to over 50 different industries, among them being the truck, passenger car, machine tool and industrial machinery, electrical equipment, farm machinery, aircraft, bearing, material handling, railroad, and construction and road building equipment industries. The truck industry is our largest single customer and was the source of 47% of our dollar sales in 1959. About 26% of our total volume for the past year went to passenger car manufacturers, while the remaining 27% went to all the other industries we serve.

Plant and Equipment

Our plants, machinery and equipment are in excellent condition. The Company expended \$6,711,851 in 1959 for plant additions and new equipment, or about the same amount we charged to operations for depreciation of facilities. In 1958 we spent \$5,153,736 on capital improvements.

The bulk of 1959 capital expenditures was on new equipment and machinery for the purpose of expanding productive capacity to meet increased demand for a number of products, improving the quality of our products, and attaining further increases in efficiency and economy of operations.