Eaton has committed itself to some reaching goals for the next five years. At its heart, our strategic thinking represents a conscious challenge to some of the stereotypes that exist about so-called mature industrial companies. We feel that we enjoy some very fertile opportunities for healthy growth in areas that capitalize upon proven Eaton strengths.

**Our vision is to help our customers take full advantage of the technological revolution now occurring in our markets.** The simultaneous decrease in cost and increase in function and reliability of electronic technology have created significant opportunities for us to enhance the capability of the products and components we produce. We are particularly well-positioned to capitalize on these opportunities in order to increase both the differentiation and value of our products and help our customers in their intensely competitive markets.

Further, several significant new product initiatives will extend traditional product boundaries. The dramatic success of our Semiconductor Equipment Operation is a stellar example of the benefits we see in utilizing Eaton's total strengths to capitalize on emerging opportunities. This annual report features some of these products and Eaton's technological capabilities.

Developing countries moving rapidly to industrialize their economies represent excellent growth opportunities for us. In many cases, demand in these international markets now makes it economic for us to consider world-class indigenous manufacturing in our fixed-asset-intensive businesses. The strength of our product franchises often makes Eaton a preferred supplier and partner. We have spent a great deal of time in the past few years evaluating opportunities and have strengthened our organization to support global growth. We are well underway in some important initiatives to execute start-up programs.

**Our specific growth targets are to see Eaton's worldwide sales (including those of our affiliates) reach a minimum of $10 billion by the year 2000.** More importantly, we expect to see Eaton develop into a company capable of self-renewing earnings growth of at least 10 percent annually through the economic cycle. We will help fund the investments required to complement these plans by executing our on-going business turnaround plans and through the successful undertaking of some fundamental new productivity initiatives.

This means that the challenge to management today is fundamentally different from the one we faced in the early 1980's. At that time, when our thinking was very much affected by the threat of new global competition in our principal North American markets, our priority was to restructure and resize the Corporation so that we could continue to self-finance operations despite these major external challenges. We now feel that management's principal challenge is to more fully exploit the opportunities that exist within our exceptionally strong businesses. In the 1980's, we met our objective of becoming a superior company, as measured in terms of returns on capital and equity. Now we have dedicated ourselves to also achieving higher sustainable earnings growth. These goals build upon our new strengths.

This letter would not be complete without recognizing the extraordinary contributions and leadership of Bill Butler, who retired at the end of 1995. During Bill's tenure as Chairman and Chief Executive Officer, Eaton's sales nearly doubled, fueled in part by the Westinghouse DCBU acquisition, and profits reached record levels. As importantly, Bill's humanistic management style has enriched Eaton's management team and strengthened our sense of cultural identity. For his nearly 39 years of service, we extend to Bill our best wishes in his well-earned retirement.

We would also like to recognize the contributions of John Rodewig, President and Chief Operating Officer of Vehicle Components, and a Director of the Corporation, who retired at the end of 1995. In nearly 40 years of service, John brought to our management his engineering expertise and first-hand knowledge of European operations, but he may be best remembered as the champion of total quality leadership at Eaton.

**As a final note, we are always sensitive to our obligation to create value for the owners of this business.** In that spirit, in 1995 our quarterly dividend was increased 33 percent, from 30 cents to 40 cents per share. Leveraging long-term earnings growth — significantly outperforming those markets with which we are traditionally associated — should ultimately result in a revaluation of the intrinsic worth of our company's stock.

It is frustrating to have to accept the time apparently required by equity markets to recognize the fundamental changes that have already been achieved within Eaton. We will continue to do all we can to explain our results and to detail our plans. In the final analysis, we know that the key will be our actual performance. Quite candidly, we cannot pace our strategies and actions to the preferences and comfort levels of short-term investors. They have legitimate, but different, needs. Our plans are tied to the criteria of longer-term investors who share our excitement about the explosive potential within this strong and unique enterprise.

Sincerely,

Stephen R. Hardis
Chairman and Chief Executive Officer