

Financing the acquisition will not reduce our ability to underwrite capital improvements or R&D and engineering for our other businesses. Expenditures for capital improvements in 1994 will be approximately \$246 million and expenditures for R&D and engineering will total approximately \$260 million. These investments will be financed from cash flow.

Our improved operating performance is summarized in the financial highlights on the inside front cover of this report. The 51 percent growth in earnings per share (before a charge related to the acquisition and an extraordinary item) was largely a function of strong sales in the North American vehicle market, fueled by a bounding U.S. economy. The improved results were achieved despite the deep and enduring European recession, which penalized both sales and earnings. North American factory sales of heavy-duty trucks totaled 188,000 units, the highest volume since 1979, the year before deregulation of the industry. As we enter 1994, backlogs approach 100,000 units, the highest in memory. Sales of engine components also continue at record levels as a result of strong sales of passenger cars and, especially, light trucks.

In mid-1993, we reconsolidated our AIL Systems subsidiary, which had been carried as a discontinued operation. The business had sales of \$192 million in 1993. Thanks largely to seasoned management and an outstanding workforce, this business continues to operate profitably despite severe cuts in the defense industry. AIL is a leader in the development of defense avionics and electronic countermeasures systems for military aircraft.



Eaton's Senior Management Council includes, from left, William E. Butler, chairman and chief executive officer; John S. Rodewig, president, chief operating officer - Vehicle Components; Stephen R. Hardis, vice chairman and chief financial and administrative officer; Gerald L. Gherlein, executive vice president and general counsel; and Alexander M. Cutler, executive vice president, chief operating officer - Controls.

The price of our shares has risen steadily since January of 1991 and the shares were split 2-for-1 in June. In recognition of the company's strong performance and excellent prospects, the dividend was increased 2 1/2 cents (or 9 percent) per share in August and now stands at 30 cents per quarter.

Shortly after the announcement of the Westinghouse acquisition, Alexander M. Cutler, formerly executive vice president - operations, was named executive vice president and chief operating officer - Controls and elected to the Board of Directors. John S. Rodewig, Eaton's president, is devoting full time to the company's Vehicle Components businesses, while continuing to oversee development of new products and manufacturing technology, pursuit of total quality leadership throughout the company and corporate purchasing. The pages which follow feature interviews with both individuals, who discuss the outlook for our Vehicle Components and Controls businesses.

Before closing this letter, I want to thank Arthur Dole III, who has been a director for 25 years. He will retire from the Board in April of 1994. We are extremely grateful for his wise counsel and guidance over this extended period and appreciate his selfless service on behalf of the company.

1993 was an extraordinary year of achievement for your company. We have seven sound businesses that are globally competitive. Our technology is healthy and is being nourished generously. We expect the current momentum of our markets to continue, and we look forward to an outstanding year in 1994 as we consolidate and build on the gains made during 1993.

William E. Butler

*William E. Butler
Chairman and Chief Executive Officer*

February 28, 1994