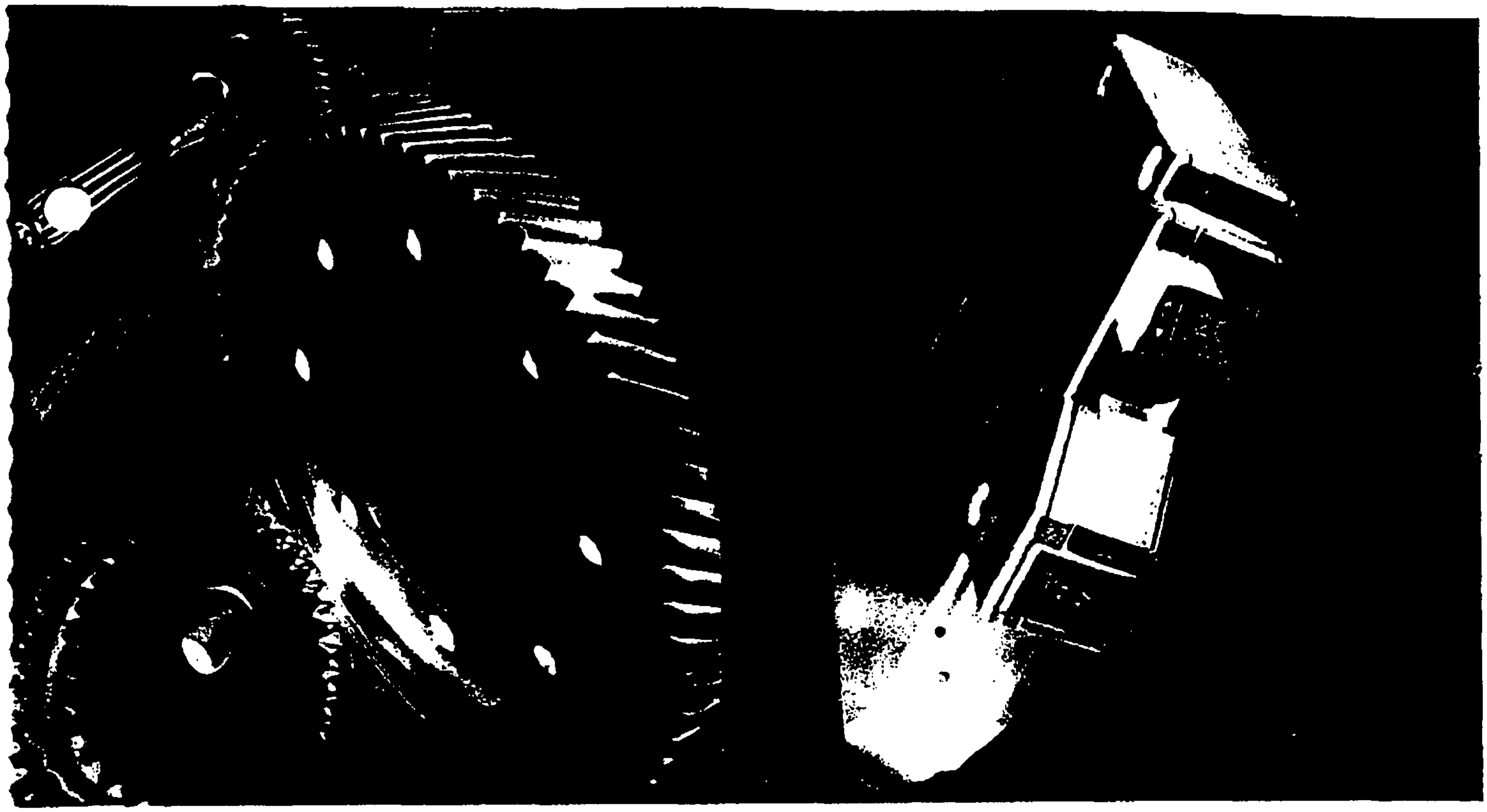

plans to invest an additional $92 million, in large part for a 110,000-square-foot customer support and demonstration center in Beverly, Massachusetts. This facility will be used to develop next-generation tions and demonstrate semiconductor equipment capabilities to customers.

In addition, during the past year, we completed other important moves. Tycor, a manufacturer of power conditioning and surge suppression devices which protect electrical loads against lightning and other power disturbances, provides strategic growth opportunities for Cutler-Hammer in a variety of markets. Likewise, Integrated Building Systems, a developer of lighting technology for commercial and industrial buildings, provides Cutler-Hammer with significant growth opportunities. Two other recent acquisitions strengthened Eaton businesses. GT Products, a manufacturer of automotive fuel system components, completes an important niche in our automotive controls product offerings. The acquisition of Rheodata, a Swiss manufacturer of hydraulic-magnetic circuit breakers, gives Eaton a source of low-cost assembly in Morocco to serve the European Community.

We learned a great deal in 1997 about the difficulties of completing major acquisitions at a time when stock prices are at record levels. There is significant competition for the better prospects; good times have reduced the cost of capital for most potential buyers. Shareholders who are selling a business have a difficult time judging fair value when stock prices rapidly leapfrog prior expectations. We were disappointed that we were not able to complete a large acquisition. But we are convinced that patience and discipline continue to be necessary. Our critical analysis led us to conclude that purchasing our own shares represented

Human nature **resists** *moving from* **the proven** *to the relatively* **unproven.**