

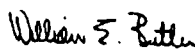
We have prepared the accompanying consolidated financial statements and related information included herein for each of the three years in the period ended December 31, 1994. The primary responsibility for the integrity of the financial information included in this annual report rests with management. Such information was prepared in accordance with generally accepted accounting principles appropriate in the circumstances, based on our best estimates and judgments and giving due consideration to materiality. The opinion of Ernst & Young LLP, the Company's independent auditors, on those financial statements is included herein.

Eaton maintains internal accounting control systems which provide reasonable assurance that assets are safeguarded from loss or unauthorized use and which produce reliable accounting records for preparation of financial information. There are limits inherent in all systems of internal accounting control based on the recognition that the cost of such systems should not exceed the benefits to be derived. We believe the Company's systems provide this appropriate balance.

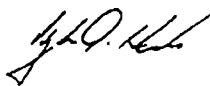
The systems and controls and compliance therewith are reviewed by an extensive program of internal audits and by our independent auditors. Their activities are coordinated to obtain maximum audit coverage with a minimum of duplicate effort and cost. The independent auditors receive copies of all reports issued by the internal auditors at the same time they are released to management and have access to all internal audit work papers.

The Company maintains high standards when selecting, training and developing personnel, to ensure that management's objectives of maintaining strong, effective internal accounting controls and unbiased, uniform reporting standards are attained. We believe our policies and procedures provide reasonable assurance that operations are conducted in conformity with law and with our Company's commitment to a high standard of business conduct.

The Board of Directors pursues its responsibility for the quality of the Company's financial reporting primarily through its Audit Committee which is composed of four outside directors. The Audit Committee meets regularly with management, the internal auditors and independent auditors to ensure that they are meeting their responsibilities and to discuss matters concerning internal accounting control systems, accounting and financial reporting. The internal auditors and independent auditors have full and free access to senior management and the Audit Committee.



William E. Butler
Chairman and Chief
Executive Officer



Stephen R. Hardis
Vice Chairman and
Chief Financial and
Administrative Officer



Ronald L. Leach
Vice President -
Accounting

January 27, 1995

*To the Shareholders
Eaton Corporation*

We have audited the consolidated balance sheets of Eaton Corporation as of December 31, 1994 and 1993, and the related statements of consolidated income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1994, appearing on pages 20 to 32. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eaton Corporation at December 31, 1994 and 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As described under "Accounting Changes" on page 25 in the Financial Review, in 1992 the Company changed its methods of accounting for postretirement benefits other than pensions and for income taxes.

Ernst & Young LLP

Cleveland, Ohio
January 27, 1995