with its primary competitors in North America. Westinghouse's well-known strength in power distribution is an ideal complement to Eaton's traditional prowess in industrial control products, marketed under the Cutler-Hammer name.

As the theme of this report indicates, there are two other qualities besides market leadership that are important to the future of the company – balance and growth:

: The pursuit of balance in earnings has motivated acquisition strategy since the 1960s. Progress has been real, but slow, due in part to the high expectations we have for every business on which Eaton chooses to build. The Westinghouse acquisition will give Eaton better breadth of earnings sources and balance among a larger number of end markets. The economic cycle passes through our vehicle components businesses and our controls businesses at overlapping but somewhat different times. This moderates the effects on sales and earnings, and makes Eaton a more balanced investment.

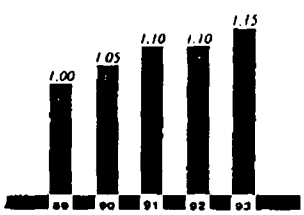
: Growth is more than a requirement for financial returns; it fuels the investment essential to maintain a competitive posture in world markets. The DCBU acquisition, like all Eaton acquisitions made in the last decade, fortifies and enlarges a primary business. We plan to continue to seek growth through acquisitions that improve our ability to serve our customers. At the same time, we're making significant progress in improving our rate of growth from new technology by bringing more products to market in a shorter time.

Our challenge now – and it is a substantial one – is to integrate the Westinghouse business into our existing operations and to recognize and attain maximum benefit from the synergies which can create substantial additional shareholder value. Our ability to do so is enhanced, in part, by the investments we have made in the last decade to improve corporate infrastructure, in order to gain efficiency [illegible] productivity throughout the [illegible]

Since 1984, we have invested nearly $1.7 billion in capital improvements, almost all of which has been for equipment to make our operations the most efficient in the world. During that same period, we invested $2.3 bi[illegible] R&D and engineering.

Our average return on equity in the decade was 16.2 percent, placing us within the top quartile of U.S. manufacturing firms, despite the difficult recession that significantly pared earnings during the early 90s. Most of our businesses serve mature markets, and we have gain[illegible] insight into managing these businesses to maximize profitability. This experience gives us confidence that we can combine the DCBU with our existing industrial control and power distribution business and achieve financial economies that will accelerate the payback of th[illegible]vestment we have made.

The company's strong cash flow – especially from its Vehicle Components businesses – has been the single most important factor in our ability to build market leadership and to finance the Westinghouse acquisition. [illegible] the purchase included $170 mi[illegible]sh on hand and $930 million o[illegible] term commercial paper. We plan to reduce this short-term debt through equity and long-term debt financings in 1994. We are confident that our strong cash flow, reinforced by the projected results of the combined businesses, will a[illegible]ment of the incremental debt w[illegible]ears



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