TO OUR SHAREHOLDERS:

Eaton's strength, historically, has come from market leadership, primarily from the Vehicle Components side of our business. In order to gain greater balance in our earnings and make Eaton less susceptible to cyclical dips in the auto and truck markets, we have committed considerable resources over the past decade to elevate our various Controls businesses to leadership levels.

The completion earlier this year of our $1.1 billion acquisition of Westinghouse Electric Corporation's Distribution and Control Business Unit (DCBU) vastly enhances Eaton's ability to meet its strategic goals. Our presence in the industrial control and power distribution market is now three times larger than it was when I communicated with you on these pages a year ago.

GROWTH | LEADERSHIP | BALANCE

In large measure, credit for the strong position that Eaton enjoys today is due to the dedication, determination and vision of my predecessors, Jim Stover and Del de Windt. Early in the 1980s, Eaton's management team recognized the structural changes taking place in the world economy as a result of intense global competition. Although our own markets were not under attack from foreign competitors at that time, many of our customers, most notably the U.S. passenger car manufacturers, were losing ground to Japanese and European competitors. It was clear that this indirect threat endangered the future of a bedrock part of Eaton's business. Worse, we feared it might balloon into direct assault from global competitors on virtually all of our own markets.

In response, we restructured, fortified and reinvigorated our best businesses, concentrated production in our most efficient facilities, and sold off those operations which did not contribute to long-term competitiveness. The result was seven operations to carry Eaton into the 21st century, serving markets for vehicle components and electrical and electronic controls:

- Truck Components,
- Engine Components,
- Hydraulics & General Products,
- Automotive & Appliance Controls,
- Commercial & Military Controls,
- Industrial Control & Power Distribution,
- Semiconductor Equipment.

To strengthen these seven operations, we have spent nearly $600 million over the past 10 years on a series of acquisitions. By 1993, we had achieved market leadership in most of these primary businesses, with the exception of our Industrial Control and Power Distribution operation. The purchase of the Westinghouse business provides vital economies of scale needed to compete effectively, and puts Eaton on a par