han in 1995 on these major growth programs. In the months and years ahead, the Company believes the fruits of these investments will be demonstrated in an accelerated flow of new products that builds upon and extends Eaton's existing strong franchise of businesses.

Income from operations in 1996 was also markedly affected by $50 million of restructuring charges that are intended to enable Eaton's 1997 performance to meet the expectations of management and owners. These restructuring charges principally relate to work force reductions. Several business units took these charges in order to bring the Company's performance back to targeted levels.

Operating profit for the Electrical and Electronic Controls segment continued to be strong, improving 8% in 1996 over 1995. Operating profit was reduced by restructuring charges of $16 million. The improvement in operating profit was primarily attributable to improved sales volumes and added contributions from recently acquired businesses. In addition, the Company is back on track to achieving the performance expected from the 1994 acquisition of Westinghouse's Distribution and Control Business Unit.

Operating profit for the Vehicle Components segment decreased 31% in 1996 from 1995. Excluding the effects of CAPCO, 1996 operating profit was $302 million, decreasing 27% from 1995. Operating results in this segment varied sharply by business unit and geographic region. Despite these disappointing results, most of the business units included in this segment demonstrated excellent performance through- 1996. The reduction in operating profit was primarily attributable to lower sales volumes of Truck Components. This segment's operating results were below the Company's expectations given its earlier projection for a 22% downturn in the North American heavy-duty truck market in 1996 from 1995.

Vehicle Components operating profit for 1996 also was reduced by $34 million of restructuring charges, including $15 million to continue the restructuring of the North American axle/brake business unit, for the purpose of bringing these business units to acceptable levels of profitability. Of these restructuring charges, $19 million was recorded in the fourth quarter of 1996 principally relating to the segment's Latin American and European operations.

The Company has been clear about its disappointment in the operating results of the Truck Components business unit in 1996, and about the actions the Company is taking to return it to traditional levels of performance. The Company is convinced that the $30 million invested this year in Truck Components restructuring will pay significant dividends in 1997.

Sustaining superior financial performance while pursuing opportunities for higher sustainable growth, the necessary ingredients for genuinely superior long-term performance, has been challenging. The Company is making progress in both dimensions of performance and is making the adjustments necessary to ensure long-term success. The Company is determined to get its financial results back on track in 1997. The Company will not take the short-term expedient of mortgaging Eaton's future by cing spending on major growth programs designed to increase the pany's sustainable growth rate in the years ahead.

The Company remains committed to outperforming expectations based on the cyclical levels of Eaton's traditional markets. Eaton's owners were patient in 1996 as the Company addressed unanticipated problems, while staying focused on the actions required to generate genuinely superior long-term performance. The Company realizes 1997 is a critical year.

The Company's long-term goal of building sustainable earnings growth throughout the economic cycle emphasizes the development of new products, increased expansion into global markets, and acquisition of businesses and product lines to complement the Company's existing operations.

To enhance Eaton's existing product portfolio as well as to develop the products of tomorrow, the Company spent a record amount in 1996 on research and development. Over the past five years, the Company has spent more than $1 billion on research and development with significant increases in the past three years.

The Company continues to be active in pursuing growth in the world's developing markets, especially in Latin America and the Pacific Region. Recent examples of this expansion are the acquisition of CAPCO, a Brazilian light- and medium-duty transmission and transaxle components manufacturer, the formation of a 75%-owned joint venture with Suzhou Electrical Apparatus Group Company in the People's Republic of China, the acquisition of a South African medium- and heavy-duty truck transmission manufacturer, the purchase of an additional minority interest in one of the Company's majority-owned Latin American operations, and the purchase of the remaining minority interests in two of the Company's Spanish operations.

As exemplified by the results of CAPCO and all of the Company's Latin American operations, the short-term cost of pursuing growth in these volatile markets has been high. The Company has confirmed that the opportunities to manufacture and sell Eaton products around the world are extraordinary, and the Company is committed to taking full advantage of these opportunities. Developments in the worldwide motor vehicle industry, in which manufacturers are increasingly seeking suppliers capable of partnering on a worldwide basis, made CAPCO a strategic acquisition.

An analysis of changes in income taxes and the effective income tax rate is presented under 'Income Taxes' in the Financial Review.

Changes in Financial Condition

The Company remains in a strong financial position and has the capital resources available in the form of working capital, lines of credit and funds provided by operations for continued reinvestment in existing operations, strategic acquisitions and managing the capital structure. Net working capital was $787 million at year-end 1996 compared to $822 million at year-end 1995 and the current ratio was 1.6 compared to 1.7 at those dates, respectively.