Cleveland, Ohio
February 11, 1960

To Our Shareholders:

The presentation of this Annual Report provides a welcome opportunity to bring our shareholders up to date on the operations of Eaton Manufacturing Company.

Sales and Earnings

Your Company's sales and earnings during 1959 rose to the highest levels in its history, thus marking a rapid recovery from the effects of the 1957-58 national recession.

Net sales amounted to $287,332,079, representing an increase of 45.2 per cent over the previous year's $197,836,672. Net income totaled $17,268,807, or the equivalent of $3.60 a share on each of the 4,795,424 common shares outstanding on December 31, 1959. This was more than double the $7,955,767 reported for 1958, which was equal to $1.73 a share on the shares outstanding at the end of 1958, after adjustment to reflect the two-for-one stock split of September 30, 1959.

Financial Position

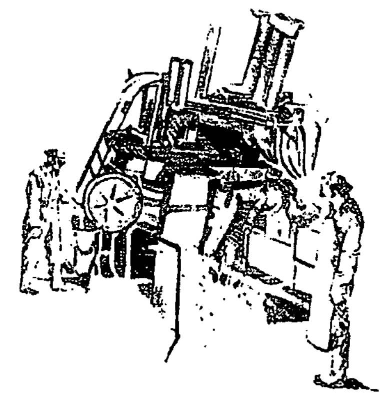
We entered the current year entirely free of debt, having paid off $1,500,000 of bank loans and $2,075,000 of long-term debt which were on our books a year earlier. The latter amount was the remaining portion of a debt owed by Fuller Manufacturing Company when we acquired this subsidiary.

Net working capital increased by $9,951,711 and net worth showed a gain of $14,035,149. Total current assets at the 1959 year end, including cash and marketable securities of $16,238,777, amounted to $89,676,345, and current liabilities totaled $35,458,980.

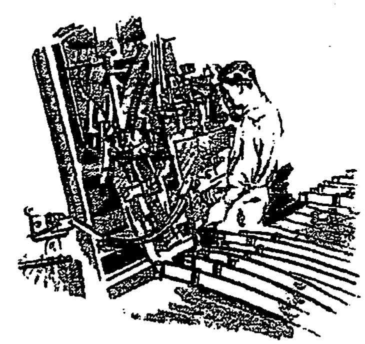
Dividends and Stock Split

The year 1959 marked the 21st consecutive one in which the Company has distributed at least one cash dividend in each quarter. In the final quarter of the past year we paid two dividends, one of them being a year end extra of 25 cents. This extra, together with the increased dividend payments in the third and fourth quarters, brought total dividends paid in 1959 to $1.90 a share on the present stock, or the equivalent of $3.80 a share on the old shares prior to the two-for-one split. In 1958, we paid $3.00 a share on the old shares.

The Board of Directors on January 22, 1960 declared a regular quarterly cash dividend of 45 cents a share, payable on February 25, 1960 to shareholders of record at the close of business on February 3.



Electric furnace melting alloy steel for Engine Tappets.



Forming Chassis Leaf Springs.

In re: All Asbestos Litigation Filed by Simmons Cooper, Circuit Court, Third Judicial District, Madison Cty., IL; 11/17/05.