

Don Barnes, left, and Art Sandoval, assemble servo piston pumps at Eaton's plant in Hutchinson, Kansas. The pumps are



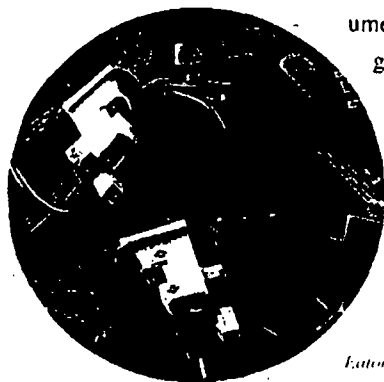
critical components in hydrostatic transmissions that propel such products as skid steer loaders, industrial sweepers and scrubbers, commercial lawn mowers and other equipment requiring from 1 to 80 horsepower.

MARKET LEADERSHIP

Operational excellence in today's fiercely competitive global arena demands market leadership that permits the economies of scale, product breadth and command of strategic imperatives to compete effectively.

By 1993, all but one of Eaton's businesses had achieved market leadership. The one exception — the industrial control and power distribution business marketed under the Cutler-Hammer name — overcame that hurdle in 1994 with the \$1 billion acquisition of Westinghouse product lines (discussed more fully under "Growth through Acquisitions" on pages 16 through 19). Today, Cutler-Hammer, with nearly \$1.5 billion in sales, has the size and product offerings to compete on a global basis.

Market leadership means that certain costs, such as product and market development, can be spread over larger sales to improve profit margins. It means better prices from suppliers through larger volume purchases. It means having a greater ability to build strategically for the future despite the vagaries of the marketplace. Each of Eaton's businesses now enjoys these substantial advantages.



Eaton and Black & Decker work closely on the design and manufacture of switches for power tools. Eaton manufactures more than 20 million power tool switches

Eaton's return on common equity in 1994 was 22.8 percent, only the third time since 1950 that this figure has risen above 20 percent. Over the past two years, net cash provided by Eaton's operating activities approached \$1 billion. These funds are funneled into activities that sustain and build market leadership.

Boosting Factory Efficiency

Over the past 10 years, Eaton has invested more than \$1.8 billion in capital improvements, including nearly \$270 million in 1994. Much of this amount has been devoted to increasing operating efficiency at the company's 150 factories around the world. As demand for our products has surged since 1991, investments in modernization have paid off handsomely.

By the end of 1994, Eaton plants had earned more than 800 customer quality citations and certifications. Nearly 40 percent of Eaton's plants have already qualified for the international quality standard, ISO 9000, and many others will do so in 1995. In 1994, Eaton's plant in Salisbury, Maryland, which manufactures hydraulic-magnetic circuit breakers, was cited for its crucial support when a division of AT&T won both the Malcolm Baldrige Award, the U.S. national quality award, and the Deming Prize, Japan's national quality award.