to simplify their manufacturing and reduce suppliers, we are finding opportunities to provide full assemblies rather than components alone.

These strategies – simple to describe – are complex to execute. Increasingly, we are relying on multidisciplinary teams, including customers, to bring innovative products to market which will have noticeable impact on our sales. The process helps quicken the pace of product development, improves the efficiency of manufacturing and insures greater market acceptance.

Global Expansion

We are redoubling efforts to expand in Latin America and the Pacific Rim, regions expected to have the highest growth rates for the foreseeable future. We intend to leverage the success we have enjoyed in North America and Europe to these less developed regions which require so many of the products we produce. Eaton's reputation as a market leader is essential for this strategy – since business and government decision-makers in these developing economies look for trusted names with whom to forge partnerships. These regions already account for significant Eaton business, some of it not readily apparent. If exports from our U.S. plants and sales from joint ventures are added to consolidated sales in Latin America and the Pacific Rim, total revenue from these regions in 1994 was $1.2 billion, up 76 percent in the past three years.

Acquisitions

Over the past 10 years, we have acquired 26 companies or product lines to strengthen our businesses and assure their world-class competitiveness. We have made solid progress in integrating the Westinghouse DCBU with our Cutler-Hammer business. During 1994, we closed 23 manufacturing, warehousing and distribution operations in order to eliminate excess capacity. We are consolidating product offerings and increasingly capitalizing on the product synergies we had anticipated. The projected dilution in 1994 earnings per share, originally forecast when we acquired the Westinghouse business, became, instead, a positive contribution to earnings. Successfully integrating such a large acquisition is strong evidence of the capability of our operating managers to undertake similar projects, if the value and strategic fit are right.

Two smaller acquisitions made in 1994 illustrate another facet of our acquisition strategy. In November, Eaton added Lectron Products, Inc., a manufacturer of automotive controls, and in December, we acquired a majority interest in a leading Brazilian appliance controls company, reinforcing our position in the growing Latin American market. Both illustrate the building of our automotive and appliance controls business. In 1980, it had less than $175 million in sales, mostly in the U.S. and Canada. Today, it is a global business with 33 manufacturing plants in 12 countries. Sales in 1995 are expected to be a billion dollars, more than 45 percent of which are outside North America.

Eaton's entire management is pledged to continue the profitable growth of the company, and the strategy to achieve it which is outlined in this report. That commitment is, I hope, as reassuring to you as it is to me, for I am retiring at the end of the year. Long after that date, however, my interest in Eaton's progress will continue, as will my pride in the accomplishments of our Eaton team.

We have no doubt that attaining the goal of high, sustainable earnings will translate directly into increased shareholder value. Our intent is to eliminate the discount at which Eaton shares trade below the average of the S&P 400. That change will proceed as the market perceives and then acknowledges that Eaton has, in fact, become a different and better company. We very much appreciate your continued support as we seek to enhance your investment.

William E. Butler

William E. Butler
Chairman and Chief Executive Officer

February 28, 1995