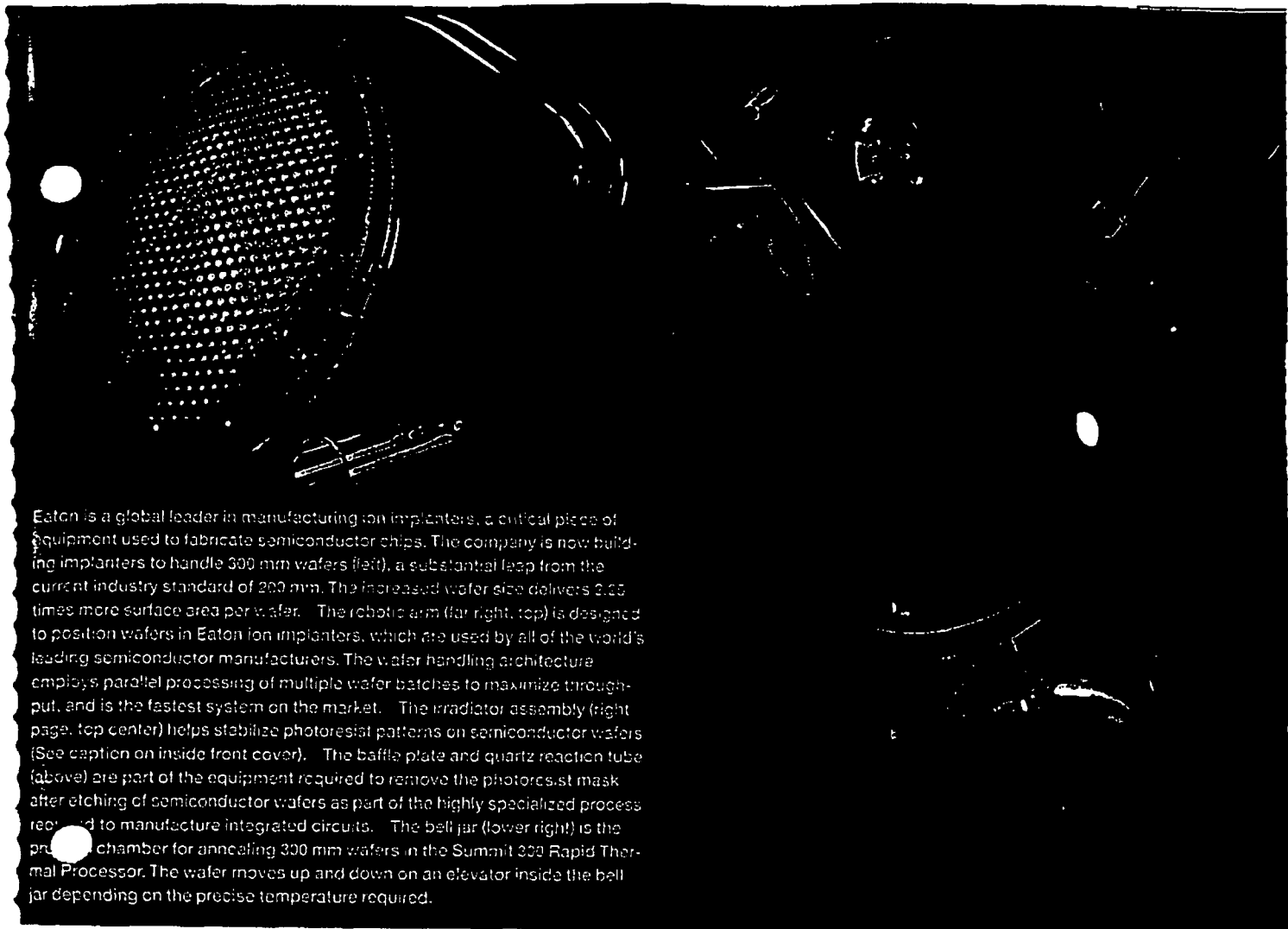




Eaton is a global leader in manufacturing ion implanters, a critical piece of equipment used to fabricate semiconductor chips. The company is now building implanters to handle 300 mm wafers (left), a substantial leap from the current industry standard of 200 mm. The increased wafer size delivers 2.25 times more surface area per wafer. The robotic arm (far right, top) is designed to position wafers in Eaton ion implanters, which are used by all of the world's leading semiconductor manufacturers. The wafer handling architecture employs parallel processing of multiple wafer batches to maximize throughput, and is the fastest system on the market. The irradiator assembly (right page, top center) helps stabilize photoresist patterns on semiconductor wafers (See caption on inside front cover). The baffle plate and quartz reaction tube (above) are part of the equipment required to remove the photoresist mask after etching of semiconductor wafers as part of the highly specialized process required to manufacture integrated circuits. The bell jar (lower right) is the processing chamber for annealing 300 mm wafers in the Summit 300 Rapid Thermal Processor. The wafer moves up and down on an elevator inside the bell jar depending on the precise temperature required.

to become *more* and *less risk averse.*

Poland 1. Acquired a manufacturing operation near Krakow to begin supplying Fiat and other East European customers with automotive engine valves. 2. Began construction on a new plant in Gdansk to manufacture automotive controls.

Argentina 1. Acquired 75 percent of the business previously operated by Electro Integral Sudamericana S.A. (EISSA), an Argentine electrical supplier. The new company will manufacture and distribute Cutler-Hammer electrical equipment.

Accelerating the pace at which we profitably introduce new products is another pivotal element in our growth strategy. In order to facilitate this effort, research and development spending increased

by \$52 million or 19 percent in 1997. Research and development spending as measured as a percentage of sales increased on a year-to-year basis from 3.8 percent to 4.2 percent. Within these totals, the amount spent on new product work increased from a little over 10 percent of the total in 1995 to at least 40 percent during the year.

Many of Eaton's products, as illustrated with the photographs accompanying this letter, are mainstream industrial components. Two points should be made about these offerings. The first is that growth opportunities for these types of products are burgeoning in countries now experiencing rapid industrialization, such as China and Brazil.