

**Eaton Corporation**  
**Comparative Financial Summary**

(Millions except for per share data)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
<b>Continuing operations</b>				
Net sales	\$ 4,279	\$ 3,248	\$ 7,775	\$ 6,361
Income before income taxes	354	256	640	519
Income after income taxes	\$ 333	\$ 240	\$ 577	\$ 469
Income from discontinued operations		6	3	11
<b>Net income</b>	<u>\$ 333</u>	<u>\$ 246</u>	<u>\$ 580</u>	<u>\$ 480</u>
<b>Net income per Common Share assuming dilution</b>				
Continuing operations	\$ 2.03	\$ 1.60	\$ 3.68	\$ 3.12
Discontinued operations		.04	.01	.08
	<u>\$ 2.03</u>	<u>\$ 1.64</u>	<u>\$ 3.69</u>	<u>\$ 3.20</u>
Average number of Common Shares outstanding assuming dilution	163.6	150.3	157.1	150.1
<b>Net income per Common Share basic</b>				
Continuing operations	\$ 2.07	\$ 1.63	\$ 3.74	\$ 3.18
Discontinued operations		.04	.01	.08
	<u>\$ 2.07</u>	<u>\$ 1.67</u>	<u>\$ 3.75</u>	<u>\$ 3.26</u>
Average number of Common Shares outstanding basic	161.2	147.4	154.5	147.4
<b>Cash dividends paid per Common Share</b>	\$ .50	\$ .43	\$ 1.00	\$ .86
<b>Reconciliation of net income to operating earnings</b>				
<b>Net income</b>	\$ 333	\$ 246	\$ 580	\$ 480
Excluding acquisition integration charges (after-tax)	11	9	20	18
<b>Operating earnings</b>	<u>\$ 344</u>	<u>\$ 255</u>	<u>\$ 600</u>	<u>\$ 498</u>
<b>Net income per Common Share assuming dilution</b>	\$ 2.03	\$ 1.64	\$ 3.69	\$ 3.20
Per share impact of acquisition integration charges (after-tax)	.07	.06	.13	.12
<b>Operating earnings per Common Share</b>	<u>\$ 2.10</u>	<u>\$ 1.70</u>	<u>\$ 3.82</u>	<u>\$ 3.32</u>

See accompanying notes.

**Eaton Corporation**  
**Statements of Consolidated Income**

(Millions except for per share data)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
<b>Net sales</b>	\$ 4,279	\$ 3,248	\$ 7,775	\$ 6,361
Cost of products sold	3,069	2,346	5,601	4,573
Selling & administrative expense	704	528	1,256	1,035
Research & development expense	111	85	200	165
Interest expense-net	44	41	82	71
Other (income) expense-net	(3)	(8)	(4)	(2)
<b>Income from continuing operations before income taxes</b>	354	256	640	519
Income taxes	21	16	63	50
<b>Income from continuing operations</b>	333	240	577	469
Income from discontinued operations		6	3	11
<b>Net income</b>	<u>\$ 333</u>	<u>\$ 246</u>	<u>\$ 580</u>	<u>\$ 480</u>
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<b>Cash dividends paid per Common Share</b>	\$ .50	\$ .43	\$ 1.00	\$ .86

See accompanying notes.

**Eaton Corporation**  
**Business Segment Information**

(Millions)	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
<b>Net sales</b>				
Electrical	\$ 1,939	\$ 1,158	\$ 3,243	\$ 2,242
Hydraulics	695	619	1,352	1,193
Aerospace	466	407	896	757
Truck	625	498	1,192	1,074
Automotive	554	566	1,092	1,095
	<u>\$ 4,279</u>	<u>\$ 3,248</u>	<u>\$ 7,775</u>	<u>\$ 6,361</u>
<b>Operating profit</b>				
Electrical	\$ 250	\$ 139	\$ 410	\$ 259
Hydraulics	92	68	170	134
Aerospace	69	55	132	100
Truck	94	75	179	182
Automotive	51	69	97	132
<b>Corporate</b>				
Amortization of intangible assets	(42)	(19)	(67)	(35)
Interest expense-net	(44)	(41)	(82)	(71)
Minority interest	(4)	(3)	(7)	(5)
Pension & other postretirement benefit expense	(35)	(43)	(73)	(81)
Stock option expense	(8)	(7)	(15)	(14)
Other corporate expense-net	(69)	(37)	(104)	(82)
<b>Income from continuing operations before income taxes</b>	<u>354</u>	<u>256</u>	<u>640</u>	<u>519</u>
Income taxes	21	16	63	50
<b>Income from continuing operations</b>	<u>333</u>	<u>240</u>	<u>577</u>	<u>469</u>
Income from discontinued operations		6	3	11
<b>Net income</b>	<u>\$ 333</u>	<u>\$ 246</u>	<u>\$ 580</u>	<u>\$ 480</u>

See accompanying notes.

**Eaton Corporation**  
**Condensed Consolidated Balance Sheets**

(Millions)	June 30, 2008	December 31, 2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 219	\$ 142
Short-term investments	499	504
Accounts receivable	3,029	2,208
Inventories	1,844	1,483
Deferred income taxes & other current assets	472	430
	6,063	4,767
Property, plant & equipment-net	2,699	2,333
Goodwill	6,181	3,982
Other intangible assets	2,047	1,557
Deferred income taxes & other assets	933	791
	\$ 17,923	\$ 13,430
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term debt	\$ 1,341	\$ 825
Current portion of long-term debt	148	160
Accounts payable	1,468	1,170
Accrued compensation	378	355
Other current liabilities	1,340	1,149
	4,675	3,659
Long-term debt	3,155	2,432
Pension liabilities	946	681
Other postretirement liabilities	767	772
Other long-term liabilities & deferred income taxes	986	714
Shareholders' equity	7,394	5,172
	\$ 17,923	\$ 13,430

See accompanying notes.

**Eaton Corporation**  
**Notes to the Second Quarter 2008 Earnings Release**

Dollars in millions, except for per share data (per share data assume dilution)

**Acquisitions of Businesses**

In 2008 and 2007, Eaton acquired certain businesses in separate transactions. The Statements of Consolidated Income include the results of these businesses from the effective dates of acquisition. A summary of these transactions follows:

Acquired business	Date of acquisition	Business segment	Annual sales
The Moeller Group <i>A Germany-based supplier of electrical components for commercial and residential building applications, and industrial controls for industrial equipment applications</i>	April 4, 2008	Electrical	€1.02 billion for 2007
Balmen Electronic, S.L. <i>A Spain-based distributor and service provider of uninterruptible power supply (UPS) systems</i>	March 31, 2008	Electrical	\$6 for 2007
Phoenixtec Power Company Ltd. <i>A Taiwan-based manufacturer of single and three-phase uninterruptible power supply (UPS) systems</i>	February 26, 2008	Electrical	\$515 for 2007
Arrow Hose & Tubing Inc. <i>A Canada-based manufacturer of thermoplastic hose and tubing for the industrial, food and beverage, and agricultural markets</i>	November 8, 2007	Hydraulics	\$12 for 2006
MGE small systems UPS business from Schneider Electric <i>A France-based global provider of power quality solutions including uninterruptible power supply (UPS) systems, power distribution units, static transfer switches and surge suppressors</i>	October 31, 2007	Electrical	\$245 for the year ended Sept. 30, 2007
Babco Electric Group <i>A Canada-based manufacturer of specialty low- and medium-voltage switchgear and electrical housings for use in the Canadian oil and gas industry and other harsh environments</i>	October 19, 2007	Electrical	\$11 for the year ended April 30, 2007
Pulizzi Engineering <i>A U.S. manufacturer of alternating current (AC) power distribution, AC power sequencing, redundant power and remote-reboot power management systems</i>	June 19, 2007	Electrical	\$12 for 2006
Technology and related assets of SMC Electrical Products, Inc.'s industrial medium-voltage adjustable frequency drive business	May 18, 2007	Electrical	None
Fuel components division of Saturn Electronics & Engineering, Inc. <i>A U.S. designer and manufacturer of fuel containment and shutoff valves, emissions control valves and specialty actuators</i>	May 2, 2007	Automotive	\$28 for 2006

Aphel Technologies Limited <i>A U.K.-based global supplier of high density, fault-tolerant power distribution solutions for datacenters, technical offices, laboratories and retail environments</i>	April 5, 2007	Electrical	\$12 for 2006
Argo-Tech Corporation <i>A U.S.-based manufacturer of high-performance aerospace engine fuel pumps and systems, airframe fuel pumps and systems, and ground fueling systems for commercial and military aerospace markets</i>	March 16, 2007	Aerospace	\$206 for 2006
Power Protection Business of Power Products Ltd. <i>A Czech Republic distributor and service provider of Powerware® products and other uninterruptible power supply (UPS) systems</i>	February 7, 2007	Electrical	\$3 for 2006

### **Acquisition Integration Charges**

In 2008 and 2007, Eaton incurred charges related to the integration of acquired businesses. These charges, which consisted of plant consolidations and integration, were recorded as expense as incurred. A summary of these charges follows:

	Three months ended June 30					
	Acquisition integration charges		Operating profit as reported		Operating profit before acquisition integration charges	
	2008	2007	2008	2007	2008	2007
Electrical	\$ 7	\$ 2	\$ 250	\$ 139	\$ 257	\$ 141
Hydraulics	1	3	92	68	93	71
Aerospace	6	9	69	55	75	64
Truck			94	75	94	75
Automotive	1		51	69	52	69
Corporate	2					
Pretax charges	<u>\$ 17</u>	<u>\$ 14</u>	<u>\$ 556</u>	<u>\$ 406</u>	<u>\$ 571</u>	<u>\$ 420</u>
After-tax charges	\$ 11	\$ 9				
Per Common Share	\$ .07	\$ .06				

	Six months ended June 30					
	Acquisition integration charges		Operating profit as reported		Operating profit before acquisition integration charges	
	2008	2007	2008	2007	2008	2007
Electrical	\$ 10	\$ 4	\$ 410	\$ 259	\$ 420	\$ 263
Hydraulics	3	7	170	134	173	141
Aerospace	13	16	132	100	145	116
Truck			179	182	179	182
Automotive	2		97	132	99	132
Corporate	2					
Pretax charges	<u>\$ 30</u>	<u>\$ 27</u>	<u>\$ 988</u>	<u>\$ 807</u>	<u>\$ 1,016</u>	<u>\$ 834</u>
After-tax charges	\$ 20	\$ 18				
Per Common Share	\$ .13	\$ .12				

Charges in 2008 related to the integration of primarily the following acquisitions: in the Electrical segment, Moeller, Phoenixtec, the MGE small systems UPS business, and Senyuan; in the Hydraulics segment, Ronningen-Petter, Synflex and Hayward; in the Aerospace segment, Argo-Tech, PerkinElmer and Cobham; and in the Automotive segment, Saturn.

Charges in 2007 related to the integration of primarily the following acquisitions: in the Electrical segment, Senyuan and Powerware; in the Hydraulics segment, Synflex, Hayward and Walterscheid; and in the Aerospace segment, PerkinElmer and Cobham.

The acquisition integration charges were included in the Statements of Consolidated Income in Cost of products sold or Selling & administrative expense, as appropriate. In Business Segment Information, the charges reduced Operating profit of the related business segment.

#### **Income Taxes**

The effective income tax rates for continuing operations for the second quarter and the first half of 2008 were 6.1% and 9.8%, respectively, compared to 6.5% and 9.6% for the same periods in 2007. The income tax rate for the second quarter of 2008 was affected by actions taken to consolidate various legal entities, thereby reducing taxes by \$33.

#### **Financing of the Acquisitions of Phoenixtec & The Moeller Group**

In February 2008, Eaton borrowed \$250 under a 364-day \$3.0 billion revolving credit agreement to partially finance the acquisition of Phoenixtec. In April 2008, Eaton borrowed €1.33 billion under the revolving credit agreement to finance the acquisition of Moeller.

In April and May 2008, Eaton sold 18.678 million of its Common Shares in a public offering, resulting in net cash proceeds of \$1.52 billion. In May 2008, Eaton issued \$300 of 4.9% notes due in 2013 and \$450 of 5.6% notes due in 2018. The cash proceeds from the sale of the Common Shares and from the issuance of the notes were used to repay borrowings incurred to fund the acquisitions of Phoenixtec and Moeller, and to repay commercial paper issued under the backstop provided by the \$3.0 billion revolving credit agreement. Subsequently, in May 2008 Eaton elected to terminate the \$3.0 billion revolving credit agreement.

#### **Reconciliation of Financial Measures**

This earnings release discloses operating earnings, operating earnings per Common Share, and operating profit before acquisition integration charges for each business segment, each of which excludes amounts that differ from the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). A reconciliation of each of these financial measures to the most directly comparable GAAP measure is included in this earnings release in the Comparative Financial Summary or in the notes to the earnings release. Management believes that these financial measures are useful to investors because they exclude transactions of an unusual nature, allowing investors to more easily compare Eaton's financial performance period to period. Management uses this information in monitoring and evaluating the on-going performance of Eaton and each business segment.