

**EATON CORPORATION**  
**COMPARATIVE FINANCIAL SUMMARY**

(Millions except for per share data)

	Three months ended December 31		Year ended December 31	
	2008	2007	2008	2007
<b>Continuing operations</b>				
Net sales	\$ 3,487	\$ 3,374	\$ 15,376	\$ 13,033
Income before income taxes	134	259	1,128	1,041
Income after income taxes	\$ 163	\$ 252	\$ 1,058	\$ 959
Income from discontinued operations		4	3	35
<b>Net income</b>	<u>\$ 163</u>	<u>\$ 256</u>	<u>\$ 1,058</u>	<u>\$ 994</u>
<b>Net income per Common Share assuming dilution</b>				
Continuing operations	\$ .98	\$ 1.67	\$ 6.50	\$ 6.38
Discontinued operations		.04	.02	.24
	<u>\$ .98</u>	<u>\$ 1.71</u>	<u>\$ 6.52</u>	<u>\$ 6.62</u>
Average number of Common Shares outstanding assuming dilution	166.6	150.5	162.3	150.3
<b>Net income per Common Share basic</b>				
Continuing operations	\$ .98	\$ 1.71	\$ 6.58	\$ 6.51
Discontinued operations		.03	.02	.24
	<u>\$ .98</u>	<u>\$ 1.74</u>	<u>\$ 6.60</u>	<u>\$ 6.75</u>
Average number of Common Shares outstanding basic	165.8	147.2	160.2	147.3
<b>Cash dividends paid per Common Share</b>	\$ .50	\$ .43	\$ 2.00	\$ 1.72
<b>Reconciliation of net income to operating earnings</b>				
Net income	\$ 163	\$ 256	\$ 1,058	\$ 994
Excluding acquisition integration charges (after-tax)	17	13	51	42
Operating earnings	<u>\$ 180</u>	<u>\$ 269</u>	<u>\$ 1,109</u>	<u>\$ 1,036</u>
Net income per Common Share assuming dilution	\$ .98	\$ 1.71	\$ 6.52	\$ 6.62
Per share impact of acquisition integration charges (after-tax)	.10	.08	.31	.28
Operating earnings per Common Share	<u>\$ 1.08</u>	<u>\$ 1.79</u>	<u>\$ 6.83</u>	<u>\$ 6.90</u>

See accompanying notes.

**EATON CORPORATION**  
**STATEMENTS OF CONSOLIDATED INCOME**

(Millions except for per share data)	Three months ended		Year ended	
	December 31		December 31	
	2008	2007	2008	2007
<b>Net sales</b>	\$ 3,487	\$ 3,374	\$ 15,376	\$ 13,033
Cost of products sold	2,626	2,428	11,191	9,382
Selling & administrative expense	598	574	2,513	2,139
Research & development expense	100	84	417	335
Interest expense-net	38	39	157	147
Contribution to Eaton Charitable Fund				16
Other (income) expense-net	(9)	(10)	(30)	(27)
<b>Income from continuing operations before income taxes</b>	<u>134</u>	<u>259</u>	<u>1,128</u>	<u>1,041</u>
Income taxes	(29)	7	73	82
<b>Income from continuing operations</b>	<u>163</u>	<u>252</u>	<u>1,055</u>	<u>959</u>
Income from discontinued operations		4	3	35
<b>Net income</b>	<u>\$ 163</u>	<u>\$ 256</u>	<u>\$ 1,058</u>	<u>\$ 994</u>
<b>Net income per Common Share assuming dilution</b>				
Continuing operations	\$ .98	\$ 1.67	\$ 6.50	\$ 6.38
Discontinued operations		.04	.02	.24
	<u>\$ .98</u>	<u>\$ 1.71</u>	<u>\$ 6.52</u>	<u>\$ 6.62</u>
Average number of Common Shares outstanding assuming dilution	<u>166.6</u>	<u>150.5</u>	<u>162.3</u>	<u>150.3</u>
<b>Net income per Common Share basic</b>				
Continuing operations	\$ .98	\$ 1.71	\$ 6.58	\$ 6.51
Discontinued operations		.03	.02	.24
	<u>\$ .98</u>	<u>\$ 1.74</u>	<u>\$ 6.60</u>	<u>\$ 6.75</u>
Average number of Common Shares outstanding basic	<u>165.8</u>	<u>147.2</u>	<u>160.2</u>	<u>147.3</u>
<b>Cash dividends paid per Common Share</b>	\$ .50	\$ .43	\$ 2.00	\$ 1.72

See accompanying notes.

**EATON CORPORATION**  
**BUSINESS SEGMENT INFORMATION**

(Millions)	Three months ended		Year ended	
	December 31		December 31	
	2008	2007	2008	2007
<b>Net sales</b>				
Electrical	\$ 1,736	\$ 1,296	\$ 6,920	\$ 4,759
Hydraulics	533	601	2,523	2,391
Aerospace	446	419	1,811	1,594
Truck	439	532	2,251	2,147
Automotive	333	526	1,871	2,142
	<u>\$ 3,487</u>	<u>\$ 3,374</u>	<u>\$ 15,376</u>	<u>\$ 13,033</u>
<b>Operating profit</b>				
Electrical	\$ 194	\$ 164	\$ 863	\$ 579
Hydraulics	44	70	285	265
Aerospace	76	72	283	233
Truck	41	80	315	357
Automotive	(56)	51	59	234
<b>Corporate</b>				
Amortization of intangible assets	(52)	(25)	(161)	(79)
Interest expense-net	(38)	(39)	(157)	(147)
Minority interest	(2)	(5)	(12)	(14)
Pension & other postretirement benefit expense	(32)	(41)	(141)	(164)
Stock option expense	(7)	(8)	(29)	(30)
Contribution to Eaton Charitable Fund				(16)
Other corporate expense-net	(34)	(60)	(177)	(177)
<b>Income from continuing operations before income taxes</b>	<u>134</u>	<u>259</u>	<u>1,128</u>	<u>1,041</u>
Income taxes	(29)	7	73	82
<b>Income from continuing operations</b>	<u>163</u>	<u>252</u>	<u>1,055</u>	<u>959</u>
Income from discontinued operations		4	3	35
<b>Net income</b>	<u>\$ 163</u>	<u>\$ 256</u>	<u>\$ 1,058</u>	<u>\$ 994</u>

See accompanying notes.

**EATON CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Millions)	December 31	
	2008	2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 188	\$ 142
Short-term investments	342	504
Accounts receivable	2,295	2,208
Inventories	1,554	1,483
Deferred income taxes & other current assets	416	430
	<u>4,795</u>	<u>4,767</u>
Property, plant & equipment-net	2,639	2,333
Goodwill	5,232	3,982
Other intangible assets	2,518	1,557
Deferred income taxes & other assets	1,471	791
	<u>\$ 16,655</u>	<u>\$ 13,430</u>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term debt	\$ 812	\$ 825
Current portion of long-term debt	269	160
Accounts payable	1,121	1,170
Accrued compensation	297	355
Other current liabilities	1,246	1,149
	<u>3,745</u>	<u>3,659</u>
Long-term debt	3,190	2,432
Pension liabilities	1,650	681
Other postretirement liabilities	703	772
Other long-term liabilities & deferred income taxes	1,050	714
Shareholders' equity	6,317	5,172
	<u>\$ 16,655</u>	<u>\$ 13,430</u>

See accompanying notes.

**EATON CORPORATION**  
**NOTES TO THE FOURTH QUARTER 2008 EARNINGS RELEASE**

Millions of dollars unless indicated otherwise (per share data assume dilution)

**Acquisitions of Businesses and Joint Ventures**

In 2008 and 2007, Eaton acquired certain businesses and entered into joint ventures 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 and joint ventures	Date of acquisition	Business segment	Annual sales
Integ Holding Limited <i>A U.K.-based manufacturer of screw-in cartridge valves, custom-engineered hydraulic valves and manifold systems</i>	October 2, 2008	Hydraulics	\$52 for 2007
Nittan Global Tech Co. Ltd. <i>A new joint venture to manage the global design, manufacture and supply of engine valves and valve actuation products to Japanese and Korean automobile and engine manufacturers</i>	Operational October 1, 2008	Automotive	New joint venture
Engine Valves Business of Kirloskar Oil Engines Ltd. <i>An India-based designer, manufacturer and distributor of intake and exhaust valves for diesel and gasoline engines</i>	July 31, 2008	Automotive	\$5 for 2007
PK Electronics <i>A Belgium-based distributor and service provider of single phase and three-phase uninterruptible power supply (UPS) systems</i>	July 31, 2008	Electrical	\$9 for 2007
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 December 31					
	Acquisition integration charges		Operating profit as reported		Operating profit before acquisition integration charges	
	2008	2007	2008	2007	2008	2007
Electrical	\$ 23	\$ 4	\$ 194	\$ 164	\$ 217	\$ 168
Hydraulics	2	3	44	70	46	73
Aerospace	3	12	76	72	79	84
Truck			41	80	41	80
Automotive			(56)	51	(56)	51
Corporate	(2)					
	<u>\$ 26</u>	<u>\$ 19</u>	<u>\$ 299</u>	<u>\$ 437</u>	<u>\$ 327</u>	<u>\$ 456</u>
After-tax charges	\$ 17	\$ 13				
Per Common Share	\$ .10	\$ .08				

	Year ended December 31					
	Acquisition integration charges		Operating profit as reported		Operating profit before acquisition integration charges	
	2008	2007	2008	2007	2008	2007
Electrical	\$ 47	\$ 12	\$ 863	\$ 579	\$ 910	\$ 591
Hydraulics	6	12	285	265	291	277
Aerospace	20	39	283	233	303	272
Truck			315	357	315	357
Automotive	3	1	59	234	62	235
Corporate	1					
	<u>\$ 77</u>	<u>\$ 64</u>	<u>\$ 1,805</u>	<u>\$ 1,668</u>	<u>\$ 1,881</u>	<u>\$ 1,732</u>
After-tax charges	\$ 51	\$ 42				
Per Common Share	\$ .31	\$ .28				

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

Charges in 2007 were related primarily to the integration of the following acquisitions: in the Electrical segment, the MGE small systems UPS business, Schreder-Hazemeyer, Senyuan and Powerware; in the Hydraulics segment, Synflex, Hayward and Walterscheid; and in the Aerospace segment, Argo-Tech, PerkinElmer and Cobham; and in the Automotive segment, Saturn and Tractech.

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.

#### Plant Closing Charges

On October 20, 2008, Eaton announced the closure of its automotive engine valve lifters manufacturing plant in Massa, Italy. There were 350 employees affected by the closure decision. The action was taken to better align manufacturing capacity with future industry demand and to improve the competitive position of the valve actuation business. Aggregate pretax charges associated with this closure were \$27, which were recognized in the fourth quarter of 2008, when management approved this action. These costs, which consisted of charges of \$17 for severance, \$7 for the write-down of assets and \$3 for other costs, reduced operating profit of the Automotive segment.

#### Income Taxes

The effective income tax rates for continuing operations for the fourth quarter and full year 2008 were (22.0)% and 6.4%, respectively, compared to 3.0% and 7.9% for the same periods in 2007. The income tax rate for the fourth quarter of 2008 was favorably affected by \$24 of incentives provided by the locations to which some of the Massa, Italy operations were transferred; the reinstatement in the fourth quarter of 2008 of the United States research and experimentation credit; and additional benefits from actions taken to consolidate various legal entities that began in the second quarter of 2008.

#### Discontinued Operations

In the third quarter of 2007, Eaton sold the Mirror Controls Division of the Automotive segment for \$111, resulting in a \$20 after-tax gain, or \$.12 per Common Share. The gain on the sale of this business and other operating results are reported as Discontinued operations in the Statements of Consolidated Income.

## **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.