

EATON CORPORATION
COMPARATIVE FINANCIAL SUMMARY

(Millions except for per share data)

	Three months ended March 31	
	2009	2008
Continuing operations		
Net sales	\$ 2,813	\$ 3,496
Income (loss) before income taxes	(63)	289
Income (loss) after income taxes	\$ (52)	\$ 247
Income from discontinued operations		3
Net income (loss)	(52)	250
Adjustment of net income (loss) for noncontrolling interests	2	(3)
Net income (loss) attributable to Eaton	<u>\$ (50)</u>	<u>\$ 247</u>
Net income (loss) per Common Share attributable to Eaton Common Shareholders		
Assuming dilution		
Continuing operations	\$ (0.30)	\$ 1.62
Discontinued operations		0.02
	<u>\$ (0.30)</u>	<u>\$ 1.64</u>
Average number of Common Shares outstanding - assuming dilution	166.1	150.5
Basic		
Continuing operations	\$ (0.30)	\$ 1.65
Discontinued operations		0.02
	<u>\$ (0.30)</u>	<u>\$ 1.67</u>
Average number of Common Shares outstanding - basic	166.1	147.7
Cash dividends paid per Common Share	\$.50	\$.50
Reconciliation of net income (loss) attributable to Eaton to operating earnings (loss)		
Net income (loss) attributable to Eaton	\$ (50)	\$ 247
Excluding acquisition integration charges (after-tax)	14	9
Operating earnings (loss)	<u>\$ (36)</u>	<u>\$ 256</u>
Net income (loss) per Common Share attributable to Eaton Common Shareholders - assuming dilution	\$ (0.30)	\$ 1.64
Per share impact of acquisition integration charges (after-tax)	0.08	0.06
Operating earnings (loss) per Common Share	<u>\$ (0.22)</u>	<u>\$ 1.70</u>

See accompanying notes.

EATON CORPORATION
STATEMENTS OF CONSOLIDATED INCOME

	Three months ended	
	March 31	
	2009	2008
(Millions except for per share data)		
Net sales	\$ 2,813	\$ 3,496
Cost of products sold	2,174	2,532
Selling & administrative expense	558	552
Research & development expense	98	89
Interest expense-net	37	38
Other (income) expense-net	9	(4)
Income (loss) from continuing operations before income taxes	<u>(63)</u>	<u>289</u>
Income taxes (benefits)	(11)	42
Income (loss) from continuing operations	<u>(52)</u>	<u>247</u>
Income from discontinued operations		3
Net income (loss)	<u>(52)</u>	<u>250</u>
Adjustment of net income (loss) for noncontrolling interests	2	(3)
Net income (loss) attributable to Eaton	<u><u>\$ (50)</u></u>	<u><u>\$ 247</u></u>
Net income (loss) per Common Share attributable to Eaton Common Shareholders		
Assuming dilution		
Continuing operations	\$ (0.30)	\$ 1.62
Discontinued operations		.02
	<u><u>\$ (0.30)</u></u>	<u><u>\$ 1.64</u></u>
Average number of Common Shares outstanding - assuming dilution	166.1	150.5
Basic		
Continuing operations	\$ (0.30)	\$ 1.65
Discontinued operations		.02
	<u><u>\$ (0.30)</u></u>	<u><u>\$ 1.67</u></u>
Average number of Common Shares outstanding - basic	166.1	147.7
Cash dividends paid per Common Share	\$.50	\$.50

See accompanying notes.

EATON CORPORATION
BUSINESS SEGMENT INFORMATION

(Millions)	Three months ended	
	March 31	
	2009	2008
Net sales		
Electrical Americas	\$ 859	\$ 911
Electrical Rest of World	544	393
Hydraulics	430	657
Aerospace	418	430
Truck	292	567
Automotive	270	538
	<u>\$ 2,813</u>	<u>\$ 3,496</u>
Operating profit (loss)		
Electrical Americas	\$ 106	\$ 142
Electrical Rest of World	(6)	18
Hydraulics	6	78
Aerospace	71	63
Truck	(34)	85
Automotive	(46)	46
Corporate		
Amortization of intangible assets	(42)	(25)
Interest expense-net	(37)	(38)
Pension & other postretirement benefit expense	(47)	(38)
Stock option expense	(7)	(7)
Other corporate expense-net	(27)	(35)
Income (loss) from continuing operations before income taxes	<u>(63)</u>	<u>289</u>
Income taxes (benefits)	(11)	42
Income (loss) from continuing operations	<u>(52)</u>	<u>247</u>
Income from discontinued operations		3
Net income (loss)	<u>(52)</u>	<u>250</u>
Adjustment of net income (loss) for noncontrolling interests	2	(3)
Net income (loss) attributable to Eaton	<u>\$ (50)</u>	<u>\$ 247</u>

See accompanying notes.

EATON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Millions)	March 31, 2009	December 31, 2008
ASSETS		
Current assets		
Cash	\$ 145	\$ 188
Short-term investments	289	342
Accounts receivable	2,016	2,295
Inventories	1,490	1,554
Deferred income taxes & other current assets	487	416
	4,427	4,795
Property, plant & equipment-net	2,525	2,639
Goodwill	5,213	5,232
Other intangible assets	2,426	2,518
Deferred income taxes & other assets	1,410	1,471
	\$ 16,001	\$ 16,655
LIABILITIES & EQUITY		
Current liabilities		
Short-term debt	\$ 211	\$ 812
Current portion of long-term debt	269	269
Accounts payable	969	1,121
Accrued compensation	245	297
Other current liabilities	1,236	1,246
	2,930	3,745
Long-term debt	3,707	3,190
Pension liabilities	1,612	1,650
Other postretirement liabilities	702	703
Other long-term liabilities & deferred income taxes	943	1,002
Eaton shareholders' equity	6,065	6,317
Noncontrolling interests	42	48
Total equity	6,107	6,365
	\$ 16,001	\$ 16,655

See accompanying notes.

EATON CORPORATION
NOTES TO THE FIRST QUARTER 2009 EARNINGS RELEASE

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

Business Segment Reporting

In the first quarter of 2009, Eaton changed its business segment financial reporting structure. The Electrical segment was divided into Electrical Americas and Electrical Rest of World. The Hydraulics, Aerospace, Truck and Automotive segments continue as individual reporting segments. Accordingly, business segment information for prior years has been restated to conform to the current year's presentation. The changes to the business segments did not affect net income for any of the periods presented.

Adoption of New Accounting Standard - Noncontrolling Interests in Consolidated Financial Statements

In the first quarter of 2009, Eaton adopted Statement of Financial Accounting Standards (SFAS) No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51". This Standard clarifies accounting and reporting for noncontrolling interests, sometimes called a minority interest, which is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent company. As result of the adoption of this Standard, the Statements of Consolidated Income and the Consolidated Balance Sheets were reclassified to report separately noncontrolling interests. The adoption of this Standard did not have a material effect on Eaton's results of operations or consolidated financial position.

Acquisitions of Businesses

In 2008, Eaton acquired certain businesses and entered into a joint venture 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
Integ Holding Limited <i>The parent company of Integrated Hydraulics Ltd., 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 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. In addition, during the second half of 2008, several related manufacturing joint ventures were established.</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 and three-phase uninterruptible power supply (UPS) systems</i>	July 31, 2008	Electrical Rest of World	\$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 Rest of World	€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 Rest of World	\$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 Rest of World	\$515 for 2007

Acquisition Integration Charges

In 2009 and 2008, 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 March 31					
	Acquisition integration charges		Operating profit (loss) as reported		Operating profit (loss) excluding acquisition integration charges	
	2009	2008	2009	2008	2009	2008
Electrical Americas	\$ 1	\$	\$ 106	\$ 142	\$ 107	\$ 142
Electrical Rest of World	16	3	(6)	18	10	21
Hydraulics	1	2	6	78	7	80
Aerospace	2	7	71	63	73	70
Truck			(34)	85	(34)	85
Automotive	1	1	(46)	46	(45)	47
	<u>\$ 21</u>	<u>\$ 13</u>	<u>\$ 97</u>	<u>\$ 432</u>	<u>\$ 118</u>	<u>\$ 445</u>
After-tax charges	\$ 14	\$ 9				
Per Common Share	\$.08	\$.06				

Charges in 2009 were related primarily to the integration of the following acquisitions: Integrated Hydraulics, Kirloskar, Moeller, Phoenixtec and Argo-Tech. Charges in 2008 were related primarily to the integration of the following acquisitions: the MGE small systems UPS business, Argo-Tech, Synflex, 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.

Workforce Reduction Charges

Eaton took significant actions in 2008 to reduce the workforce in anticipation of the severe economic downturn, and in the first quarter of 2009 took further action. The reductions in 2008 and 2009 total approximately 10% of the full-time workforce. Pretax charges recorded in the first quarter of 2009 for these actions were \$65.

Income Taxes

During the first quarter of 2009, income tax benefits of \$11 were recorded (17.1% effective tax rate) compared to income tax expense of \$42 in the first quarter of 2008 (14.4% effective tax rate).

Long-term Debt

In March 2009, Eaton borrowed \$550 through the sale of \$250 of 5.95% Notes due 2014 and \$300 of 6.95% Notes due 2019. The cash proceeds from the sale of the Notes were used to repay outstanding commercial paper.

Reconciliation of Financial Measures

This earnings release discloses operating earnings (loss), operating earnings (loss) per Common Share, and operating profit (loss) 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 ongoing performance of Eaton and each business segment.