

EATON CORPORATION
COMPARATIVE FINANCIAL SUMMARY

(Millions except for per share data)	Three months ended		Six months ended	
	June 30		June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Continuing operations				
Net sales	\$ 2,901	\$ 4,279	\$ 5,714	\$ 7,775
Income (loss) before income taxes	30	358	(33)	647
Income (loss) after income taxes	\$ 31	\$ 337	\$ (21)	\$ 584
Income from discontinued operations				3
Net income (loss)	<u>31</u>	<u>337</u>	<u>(21)</u>	<u>587</u>
Adjustment of net income (loss) for noncontrolling interests	(2)	(4)		(7)
Net income (loss) attributable to Eaton	<u>\$ 29</u>	<u>\$ 333</u>	<u>\$ (21)</u>	<u>\$ 580</u>
Net income (loss) per Common Share attributable to Eaton Common Shareholders				
Assuming dilution				
Continuing operations	\$.17	\$ 2.03	\$ (.13)	\$ 3.68
Discontinued operations				.01
	<u>\$.17</u>	<u>\$ 2.03</u>	<u>\$ (.13)</u>	<u>\$ 3.69</u>
Average number of Common Shares outstanding - assuming dilution	167.6	163.6	166.2	157.1
Basic				
Continuing operations	\$.17	\$ 2.07	\$ (.13)	\$ 3.74
Discontinued operations				.01
	<u>\$.17</u>	<u>\$ 2.07</u>	<u>\$ (.13)</u>	<u>\$ 3.75</u>
Average number of Common Shares outstanding - basic	166.9	161.2	166.2	154.5
Cash dividends paid per Common Share	\$.50	\$.50	\$ 1.00	\$ 1.00
Reconciliation of net income (loss) attributable to Eaton to operating earnings (loss)				
Net income (loss) attributable to Eaton	\$ 29	\$ 333	\$ (21)	\$ 580
Excluding acquisition integration charges (after-tax)	10	11	24	20
Operating earnings	<u>\$ 39</u>	<u>\$ 344</u>	<u>\$ 3</u>	<u>\$ 600</u>
Net income (loss) per Common Share attributable to Eaton Common Shareholders - assuming dilution	\$.17	\$ 2.03	\$ (.13)	\$ 3.69
Per share impact of acquisition integration charges (after-tax)	.06	.07	.14	.13
Operating earnings per Common Share	<u>\$.23</u>	<u>\$ 2.10</u>	<u>\$.01</u>	<u>\$ 3.82</u>

See accompanying notes.

EATON CORPORATION
STATEMENTS OF CONSOLIDATED INCOME

(Millions except for per share data)	Three months ended		Six months ended	
	June 30		June 30	
	2009	2008	2009	2008
Net sales	\$ 2,901	\$ 4,279	\$ 5,714	\$ 7,775
Cost of products sold	2,189	3,069	4,363	5,601
Selling & administrative expense	554	704	1,112	1,256
Research & development expense	95	111	193	200
Interest expense-net	41	44	78	82
Other (income) expense-net	(8)	(7)	1	(11)
Income (loss) from continuing operations before income taxes	<u>30</u>	<u>358</u>	<u>(33)</u>	<u>647</u>
Income taxes (benefits)	(1)	21	(12)	63
Income (loss) from continuing operations	<u>31</u>	<u>337</u>	<u>(21)</u>	<u>584</u>
Income from discontinued operations				3
Net income (loss)	<u>31</u>	<u>337</u>	<u>(21)</u>	<u>587</u>
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Average number of Common Shares outstanding - basic	166.9	161.2	166.2	154.5
Cash dividends paid per Common Share	\$.50	\$.50	\$ 1.00	\$ 1.00

See accompanying notes.

EATON CORPORATION
BUSINESS SEGMENT INFORMATION

(Millions)	Three months ended		Six months ended	
	June 30		June 30	
	2009	2008	2009	2008
Net sales				
Electrical Americas	\$ 881	\$ 1,028	\$ 1,740	\$ 1,939
Electrical Rest of World	595	911	1,139	1,304
Hydraulics	425	695	855	1,352
Aerospace	409	466	827	896
Truck	321	625	613	1,192
Automotive	270	554	540	1,092
	<u>\$ 2,901</u>	<u>\$ 4,279</u>	<u>\$ 5,714</u>	<u>\$ 7,775</u>
Operating profit (loss)				
Electrical Americas	\$ 144	\$ 158	\$ 250	\$ 300
Electrical Rest of World	16	92	10	110
Hydraulics	14	92	20	170
Aerospace	70	69	141	132
Truck	(3)	94	(37)	179
Automotive	(19)	51	(65)	97
Corporate				
Amortization of intangible assets	(42)	(42)	(84)	(67)
Interest expense-net	(41)	(44)	(78)	(82)
Pension & other postretirement benefits expense	(92)	(35)	(139)	(73)
Stock option expense	(6)	(8)	(13)	(15)
Other corporate expense-net	(11)	(69)	(38)	(104)
Income (loss) from continuing operations before income taxes	<u>30</u>	<u>358</u>	<u>(33)</u>	<u>647</u>
Income taxes (benefits)	(1)	21	(12)	63
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See accompanying notes.

EATON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Millions)	June 30, 2009	December 31 2008
ASSETS		
Current assets		
Cash	\$ 148	\$ 188
Short-term investments	433	342
Accounts receivable	2,015	2,295
Inventories	1,373	1,554
Deferred income taxes & other current assets	508	416
	4,477	4,795
Property, plant & equipment-net	2,542	2,639
Goodwill	5,376	5,232
Other intangible assets	2,481	2,518
Deferred income taxes & other assets	1,315	1,471
	\$ 16,191	\$ 16,655
LIABILITIES & EQUITY		
Current liabilities		
Short-term debt	\$ 109	\$ 812
Current portion of long-term debt	534	269
Accounts payable	923	1,121
Accrued compensation	263	297
Other current liabilities	1,230	1,246
	3,059	3,745
Long-term debt	3,399	3,190
Pension liabilities	1,411	1,650
Other postretirement liabilities	620	703
Other long-term liabilities & deferred income taxes	1,011	1,002
Eaton shareholders' equity	6,647	6,317
Noncontrolling interests	44	48
Total equity	6,691	6,365
	\$ 16,191	\$ 16,655

See accompanying notes.

EATON CORPORATION
NOTES TO THE SECOND 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 change 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 owned, directly or indirectly, by Eaton. 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 2009 and 2008, 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	Date of acquisition	Business segment	Annual sales
SEG Middle East Power Solutions & Switchboard Manufacture LLC <i>A joint venture to manufacture low voltage switchboards and control panel assemblies for use in the Middle East power generation and industrial markets</i>	July 6, 2009	Electrical Rest of World	\$10 for 2008
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 recognized as expense as incurred. A summary of these charges follows:

	Three months ended June 30					
	Acquisition integration charges		Operating profit (loss) as reported		Operating profit (loss) excluding acquisition integration charges	
	2009	2008	2009	2008	2009	2008
Electrical Americas	\$ 2	\$ 1	\$ 144	\$ 158	\$ 146	\$ 159
Electrical Rest of World	10	6	16	92	26	98
Hydraulics		1	14	92	14	93
Aerospace	3	6	70	69	73	75
Truck			(3)	94	(3)	94
Automotive		1	(19)	51	(19)	52
Corporate		2				
	<u>\$ 15</u>	<u>\$ 17</u>	<u>\$ 222</u>	<u>\$ 556</u>	<u>\$ 237</u>	<u>\$ 571</u>
After-tax charges	\$ 10	\$ 11				
Per Common Share	\$.06	\$.07				

	Six months ended June 30					
	Acquisition integration charges		Operating profit (loss) as reported		Operating profit (loss) excluding acquisition integration charges	
	2009	2008	2009	2008	2009	2008
Electrical Americas	\$ 3	\$ 1	\$ 250	\$ 300	\$ 253	\$ 301
Electrical Rest of World	26	9	10	110	36	119
Hydraulics	1	3	20	170	21	173
Aerospace	5	13	141	132	146	145
Truck			(37)	179	(37)	179
Automotive	1	2	(65)	97	(64)	99
Corporate		2				
	<u>\$ 36</u>	<u>\$ 30</u>	<u>\$ 319</u>	<u>\$ 988</u>	<u>\$ 355</u>	<u>\$ 1,016</u>
After-tax charges	\$ 24	\$ 20				
Per Common Share	\$.14	\$.13				

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: Moeller, Phoenixtec, 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 half of 2009 took further action. The reductions in 2008 and 2009 total approximately 15% of the full-time workforce. These actions resulted in the recognition of pretax charges for severance and pension and other postretirement benefits expense of \$69 in the second quarter of 2009 and \$134 in the first half of 2009. The workforce reduction charges were included in the Statements of Consolidated Income in Cost of products sold or Selling & administrative expense, as appropriate.

Pension and Other Postretirement Benefits

Due to new limitations imposed by the Pension Protection Act on pension lump sum distributions effective in 2009, Eaton's U.S. Pension Plan became restricted in the second quarter of 2009 from making 100% lump sum payments. The Plan experienced a significant increase in lump sum payments in the second quarter before the limitation went into effect, resulting in pension settlement expense of \$51 in the second quarter. This expense was included in Pension & other postretirement benefits expense in Business Segment Information.

Also, as a result of the workforce reduction in 2009, curtailment expense of \$14 related to pension and other postretirement benefits liabilities was recorded in the second quarter of 2009. This expense was included in Pension & other postretirement benefits expense in Business segment Information. Liabilities related to the U.S. pension and other postretirement benefits plans were remeasured in the second quarter of 2009 resulting in a \$283 reduction of liabilities with a corresponding reduction of Accumulated other comprehensive losses in Shareholder's equity (\$182 after-tax).

Of the total increases in pension and other postretirement benefits expenses attributable to the settlements and curtailments noted above, \$31 was a result of the workforce reduction.

Business Segment Reporting - Other Corporate Expense-net

Other corporate expense-net of \$11 for the second quarter of 2009 and \$38 for the first half of 2009 decreased from \$69 and \$104 for the same periods in 2008 primarily due to the amortization of purchase price accounting adjustments related to the fair value of inventories of businesses acquired in 2008, principally Moeller, and lower corporate expenses.

Income Taxes

During the second quarter of 2009 and the first half of 2009, income tax benefits of \$1 and \$12 were recorded (a tax benefit rate of 4.8% in the second quarter and 36.6% for the first half of 2009) compared to income tax expense of \$21 and \$63 in the second quarter of 2008 and the first half of 2008, respectively (6.0% and 9.7% effective tax rates).

Reconciliation of Financial Measures

This earnings release discloses operating earnings, operating earnings 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 on-going performance of Eaton and each business segment.