

EATON CORPORATION
COMPARATIVE FINANCIAL SUMMARY

(Millions except for per share data)

	Three months ended December 31		Year ended December 31	
	2009	2008	2009	2008
Continuing operations				
Net sales	\$ 3,131	\$ 3,487	\$ 11,873	\$ 15,376
Income before income taxes	170	136	303	1,140
Income after income taxes	\$ 212	\$ 165	\$ 385	\$ 1,067
Income from discontinued operations				3
Net income	<u>212</u>	<u>165</u>	<u>385</u>	<u>1,070</u>
Adjustment of net income for noncontrolling interests	(1)	(2)	(2)	(12)
Net income attributable to common shareholders	<u>\$ 211</u>	<u>\$ 163</u>	<u>\$ 383</u>	<u>\$ 1,058</u>
Net income per common share - diluted				
Continuing operations	\$ 1.25	\$.98	\$ 2.27	\$ 6.50
Discontinued operations				.02
Total	<u>\$ 1.25</u>	<u>\$.98</u>	<u>\$ 2.27</u>	<u>\$ 6.52</u>
Average number of common shares outstanding - diluted	168.8	166.6	167.9	162.3
Net income per common share - basic				
Continuing operations	\$ 1.27	\$.98	\$ 2.31	\$ 6.58
Discontinued operations				.02
Total	<u>\$ 1.27</u>	<u>\$.98</u>	<u>\$ 2.31</u>	<u>\$ 6.60</u>
Average number of common shares outstanding - basic	166.7	165.8	166.4	160.2
Cash dividends paid per common share	\$.50	\$.50	\$ 2.00	\$ 2.00
Reconciliation of net income attributable to common shareholders to operating earnings				
Net income attributable to common shareholders	\$ 211	\$ 163	\$ 383	\$ 1,058
Excluding acquisition integration charges (after-tax)	18	17	54	51
Operating earnings	<u>\$ 229</u>	<u>\$ 180</u>	<u>\$ 437</u>	<u>\$ 1,109</u>
Net income per common share - diluted	\$ 1.25	\$.98	\$ 2.27	\$ 6.52
Per share impact of acquisition integration charges (after-tax)	.10	.10	.32	.31
Operating earnings per common share	<u>\$ 1.35</u>	<u>\$ 1.08</u>	<u>\$ 2.59</u>	<u>\$ 6.83</u>

See accompanying notes.

EATON CORPORATION
STATEMENTS OF CONSOLIDATED INCOME

(Millions except for per share data)

	Three months ended December 31		Year ended December 31	
	2009	2008	2009	2008
Net sales	\$ 3,131	\$ 3,487	\$ 11,873	\$ 15,376
Cost of products sold	2,241	2,626	8,782	11,191
Selling & administrative expense	587	598	2,252	2,513
Research & development expense	103	100	395	417
Interest expense-net	34	38	150	157
Other (income) expense-net	(4)	(11)	(9)	(42)
Income from continuing operations before income taxes	170	136	303	1,140
Income tax expense (benefit)	(42)	(29)	(82)	73
Income from continuing operations	212	165	385	1,067
Income from discontinued operations				3
Net income	212	165	385	1,070
Adjustment of net income for noncontrolling interests	(1)	(2)	(2)	(12)
Net income attributable to common shareholders	<u>\$ 211</u>	<u>\$ 163</u>	<u>\$ 383</u>	<u>\$ 1,058</u>
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Discontinued operations				.02
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Average number of common shares outstanding - basic	166.7	165.8	166.4	160.2
Cash dividends paid per common share	\$.50	\$.50	\$ 2.00	\$ 2.00

See accompanying notes.

EATON CORPORATION
BUSINESS SEGMENT INFORMATION

(Millions)	Three months ended December 31		Year ended December 31	
	2009	2008	2009	2008
Net sales				
Electrical Americas	\$ 827	\$ 1,029	\$ 3,410	\$ 4,016
Electrical Rest of World	698	707	2,483	2,904
Hydraulics	419	533	1,692	2,523
Aerospace	381	446	1,602	1,811
Truck	443	439	1,457	2,251
Automotive	363	333	1,229	1,871
Total net sales	<u>\$ 3,131</u>	<u>\$ 3,487</u>	<u>\$ 11,873</u>	<u>\$ 15,376</u>
Segment operating profit (loss)				
Electrical Americas	\$ 126	\$ 163	\$ 518	\$ 630
Electrical Rest of World	52	31	107	233
Hydraulics	13	44	51	285
Aerospace	47	76	245	283
Truck	51	41	39	315
Automotive	32	(56)	(10)	59
Corporate				
Amortization of intangible assets	(44)	(52)	(170)	(161)
Interest expense-net	(34)	(38)	(150)	(157)
Pension & other postretirement benefits expense	(37)	(32)	(212)	(141)
Stock option expense	(8)	(7)	(28)	(29)
Other corporate expense-net	(28)	(34)	(87)	(177)
Income from continuing operations before income taxes	<u>170</u>	<u>136</u>	<u>303</u>	<u>1,140</u>
Income tax expense (benefit)	(42)	(29)	(82)	73
Income from continuing operations	<u>212</u>	<u>165</u>	<u>385</u>	<u>1,067</u>
Income from discontinued operations				3
Net income	<u>212</u>	<u>165</u>	<u>385</u>	<u>1,070</u>
Adjustment of net income for noncontrolling interests	(1)	(2)	(2)	(12)
Net income attributable to common shareholders	<u>\$ 211</u>	<u>\$ 163</u>	<u>\$ 383</u>	<u>\$ 1,058</u>

See accompanying notes.

EATON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Millions)	December 31,	
	2009	2008
Current assets		
Cash	\$ 340	\$ 188
Short-term investments	433	342
Accounts receivable	1,899	2,295
Inventories	1,326	1,554
Deferred income taxes & other current assets	526	416
Total current assets	<u>4,524</u>	<u>4,795</u>
Property, plant & equipment-net	2,445	2,639
Goodwill	5,435	5,232
Other intangible assets	2,441	2,518
Deferred income taxes & other assets	1,437	1,471
Total assets	<u>\$ 16,282</u>	<u>\$ 16,655</u>
Current liabilities		
Short-term debt	\$ 113	\$ 812
Current portion of long-term debt	5	269
Accounts payable	1,057	1,121
Accrued compensation	256	297
Other current liabilities	1,258	1,246
Total current liabilities	<u>2,689</u>	<u>3,745</u>
Long-term debt	3,349	3,190
Pension liabilities	1,586	1,650
Other postretirement benefits liabilities	754	703
Other long-term liabilities & deferred income taxes	1,086	1,002
Equity		
Eaton shareholders' equity	6,777	6,317
Noncontrolling interests	41	48
Total equity	<u>6,818</u>	<u>6,365</u>
Total liabilities & equity	<u>\$ 16,282</u>	<u>\$ 16,655</u>

See accompanying notes.

EATON CORPORATION
NOTES TO THE FOURTH QUARTER 2009 EARNINGS RELEASE

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

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
<p>Micro Innovation Holding AG</p> <p><i>A Switzerland-based manufacturer of human machine interfaces, programmable logic controllers and input/output devices. Eaton acquired 50% of the shares to increase its ownership from 50% to 100%.</i></p>	September 1, 2009	Electrical Rest of World	\$33 for 2008
<p>SEG Middle East Power Solutions & Switchboard Manufacture LLC</p> <p><i>A 49%-owned joint venture to manufacture low voltage switchboards and control panel assemblies for use in the Middle East power generation and industrial markets</i></p>	July 2, 2009	Electrical Rest of World	\$10 for 2008
<p>Integ Holding Limited</p> <p><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></p>	October 2, 2008	Hydraulics	\$52 for 2007
<p>Nittan Global Tech Co. Ltd.</p> <p><i>A 49%-owned 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></p>	Operational October 1, 2008	Automotive	Joint Venture
<p>Engine Valves Business of Kirloskar Oil Engines Ltd.</p> <p><i>An India-based designer, manufacturer and distributor of intake and exhaust valves for diesel and gasoline engines</i></p>	July 31, 2008	Automotive	\$5 for 2007
<p>PK Electronics</p> <p><i>A Belgium-based distributor and service provider of single phase and three-phase uninterruptible power supply (UPS) systems</i></p>	July 31, 2008	Electrical Rest of World	\$9 for 2007
<p>The Moeller Group</p> <p><i>A Germany-based supplier of electrical components for commercial and residential building applications and industrial controls for industrial equipment applications</i></p>	April 4, 2008	Electrical Rest of World	€1.02 billion for 2007
<p>Balmen Electronic, S.L.</p> <p><i>A Spain-based distributor and service provider of uninterruptible power supply (UPS) systems</i></p>	March 31, 2008	Electrical Rest of World	\$6 for 2007

Phoenixtec Power Company Ltd.
A Taiwan-based manufacturer of single and three-phase uninterruptible power supply (UPS) systems

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 December 31					
	Acquisition integration charges		Operating profit (loss) as reported		Operating profit (loss) excluding acquisition integration charges	
	2009	2008	2009	2008	2009	2008
Electrical Americas		\$ 2	\$ 126	\$ 163	\$ 126	\$ 165
Electrical Rest of World	\$ 22	21	52	31	74	52
Hydraulics		2	13	44	13	46
Aerospace	3	3	47	76	50	79
Truck			51	41	51	41
Automotive			32	(56)	32	(56)
Corporate	2	(2)				
	<u>\$ 27</u>	<u>\$ 26</u>	<u>\$ 321</u>	<u>\$ 299</u>	<u>\$ 346</u>	<u>\$ 327</u>
After-tax charges	\$ 18	\$ 17				
Per common share	\$.10	\$.10				

	Year ended December 31					
	Acquisition integration charges		Operating profit (loss) as reported		Operating profit (loss) excluding acquisition integration charges	
	2009	2008	2009	2008	2009	2008
Electrical Americas	\$ 4	\$ 4	\$ 518	\$ 630	\$ 522	\$ 634
Electrical Rest of World	60	43	107	233	167	276
Hydraulics	3	6	51	285	54	291
Aerospace	12	20	245	283	257	303
Truck			39	315	39	315
Automotive	1	3	(10)	59	(9)	62
Corporate	2	1				
	<u>\$ 82</u>	<u>\$ 77</u>	<u>\$ 950</u>	<u>\$ 1,805</u>	<u>\$ 1,030</u>	<u>\$ 1,881</u>
After-tax charges	\$ 54	\$ 51				
Per common share	\$.32	\$.31				

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: Kirloskar, Moeller, Phoenixtec, the MGE small systems UPS business, Saturn, Argo-Tech, Ronningen-Petter, Synflex, PerkinElmer and Cobham. These charges were primarily 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 2009 and 2008 to reduce the workforce in response to the severe economic downturn. The reductions total approximately 17% of the full-time workforce. These actions resulted in the recognition of pretax charges for severance and pension and other postretirement benefits expense of \$26 for the fourth quarter of 2009 and \$182 for the full year of 2009. These pretax charges included \$31 related to pension and other postretirement benefits expenses attributable to the settlements and curtailments recognized in the second quarter of 2009, as described below. These charges were primarily 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.

Pension and Other Postretirement Benefits

Due to limitations imposed by the Pension Protection Act on pension lump sum distributions, Eaton's U.S. Qualified Pension Plan became restricted in the second quarter of 2009 from making 100% lump sum payments. As a result, the plan experienced a significant increase in lump sum payments before the limitation went into effect, resulting in pension settlement expense of \$51 recognized in the second quarter of 2009. Pension settlement expense for the full year of 2009 was \$83, which includes the \$51 recognized in the second quarter.

As a result of the workforce reduction in 2009, curtailment expense of \$14 related to U.S. pension and other postretirement benefits plans was recognized in the second quarter of 2009. The curtailment expense included recognition of the change in the projected benefit obligation or accumulated postretirement benefit obligation, as well as recognition of a portion of the unrecognized prior service cost. Curtailment expense for the full year of 2009 was \$17, which includes the \$14 recognized in the second quarter.

These charges were primarily included in the Statements of Consolidated Income in Cost of products sold or Selling & administrative expense, as appropriate. In Business Segment Information, the charges were included in Pension & other postretirement benefits expense.

As a result of the curtailment related to the U.S. pension and other postretirement benefit plans, liabilities related to these plans were remeasured in the second quarter of 2009. The curtailment and remeasurement resulted in a \$283 reduction of liabilities (\$205 for pensions and \$78 for other postretirement benefits plans) with a corresponding increase in Eaton shareholders' equity (\$182 after-tax, consisting of \$134 for pensions and \$48 for other postretirement benefits).

Business Segment Reporting - Other Corporate Expense-net

Other corporate expense-net of \$87 for the full year of 2009 decreased from \$177 for 2008 primarily due to the amortization in the second quarter of 2008 of purchase price accounting adjustments related to the fair value of inventories of businesses acquired in 2008, principally Moeller, and lower corporate expenses in 2009.

Plant Closing Charges

In the fourth quarter of 2008, pretax charges of \$27 were recognized related to the closure of the automotive engine valve lifters manufacturing plant in Massa, Italy. 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. These charges were primarily included in the Statements of Consolidated Income in Cost of products sold.

Income Taxes

During the fourth quarter and full year of 2009, income tax benefits of \$42 and \$82 were recognized (a tax benefit rate of 24.6% for the fourth quarter and 27.2% for the full year of 2009) compared to income tax benefits of \$29 for the fourth quarter of 2008 and income tax expense of \$73 for the full year of 2008, respectively (a tax benefit rate of 21.7% for the fourth quarter and an effective tax rate of 6.4% for the full year). The income tax rate for the fourth quarter of 2009 was favorably affected by tax benefits from U.S. Federal, U.S. state and local, and certain foreign deferred tax assets where it is more likely than not that the deferred tax asset will be realized.

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.