

TREAD LIGHTLY



Eaton's commitment to sustainability goes far beyond a mere program. It's woven into the fabric of our culture.

For the past four years, we've combined our annual and sustainability reports for a simple reason: We believe financial performance and social responsibility go hand in hand.

During 2009, we didn't waver from that belief—or our commitment to sustainability leadership—despite the challenges posed by the weak global economy. In fact, we believe that under almost any scenario the demand for improved power management, our core capability, will grow as escalating energy demands and carbon regulations increase the cost to power our homes, businesses and communities.

Eaton is well positioned to answer that demand—not simply because we engage in sustainable practices, but because we are building a culture in which sustainability permeates everything we do as a company. All our operations, worldwide,

share the same standards and values embedded in the Eaton Business System. We're also guided by the same sustainable ideals:

- Design power management products and services that increase our customers' energy efficiency.
- Reduce the environmental impact of our operations and products.
- Develop and share innovative business practices that contribute to a more sustainable society.
- Demonstrate the highest standards for ethical business practices everywhere we operate.
- Make our communities and workplaces better places to live, work and thrive.



Through our products, practices and people, Eaton is helping to create a more sustainable world.



In 2009 we nearly doubled our portfolio of Eaton Green Solutions—products that have proven through rigorous evaluation to deliver exceptional, industry-leading environmental benefits to customers, consumers and our communities.



Our new Eaton Sustainable Community Web site brings to life many of our most sustainable products in everyday applications: www.Eaton.com/sc

We strive to be transparent in all of these activities, setting measurable objectives and sharing our progress and challenges in this annual report, on our sustainability Web site (www.eaton.com/sustainability) and in other media. This year we've added to our Web site a table that conforms to and cross-references Global Reporting Initiative (GRI) reporting guidelines and performance indicators. We also plan to expand the number of GRI performance indicators we report over time.

To further enhance our transparency, we share our data with Business Roundtable and the Carbon Disclosure Project (CDP). For two consecutive years, Eaton has earned commendations for our professional disclosure practices from the CDP, which ranked us No. 2 among S&P 500 industrial companies in its 2009 Carbon Disclosure Leadership Index.

We're Honored to Be So Honored

Eaton's comprehensive commitment to sustainability continues to differentiate our company and products in all of the businesses we operate, and has helped us to compete for and win prominent government stimulus and recovery projects. We've also won numerous honors and awards, including these recognitions in 2009:

- Ranked in the top 10 percent of the inaugural *Newsweek* ranking of "The Greenest Big Companies in America."
- One of five companies selected by *Barron's* for its "Green Dream Team."
- Honored among Ethisphere Institute's "World's Most Ethical Companies" for the third consecutive year.
- Ranked among *Corporate Responsibility Officer* magazine's "100 Best Corporate Citizens."
- Cited in China's *Business Watch* magazine's Green Company Top 50 and Fast Company Top 100.

We're also honored to be recognized as a sustainability leader among a group of only six diversified industrial companies in

the SAM 2010 Sustainability Yearbook, published by Sustainable Asset Management (SAM) and PricewaterhouseCoopers.

Reducing Environmental Impact, Improving Safety

We continue to strengthen our efforts to reduce Eaton's environmental footprint and enhance our workplaces through our structured, global Management System for Environment, Safety and Health (MESH).

During 2009, we increased focus on our Industrial Sector facilities in North America—among our largest consumers of energy—and expanded our EHS training, site assessments and project evaluations in Europe. Through year-end, we had identified and funded 109 energy-saving projects in Europe alone, reducing our annual greenhouse gas emissions at those facilities by a projected 10,500 metric tons.

Eaton ranked in the top 10 percent of *Newsweek* magazine's first-ever "Greenest Big Companies in America."

We also launched a "Green IT" initiative, aimed at increasing the energy efficiency of our information technology infrastructure, as well as improving its materials and resource efficiency, and waste and supplier management. From mid-2008 through 2009, the program enabled us to remove 667 servers from our IT environment, reducing our annual power consumption by more than 4.4 million kilowatt-hours, and decreasing our annual carbon dioxide emissions by 2,685 metric tons.

On an absolute basis, we improved our performance across each of our key EHS metrics in 2009, reducing our:

- Greenhouse gas emissions (GHG) by 21.8 percent.
- Waste generation by 24.2 percent.

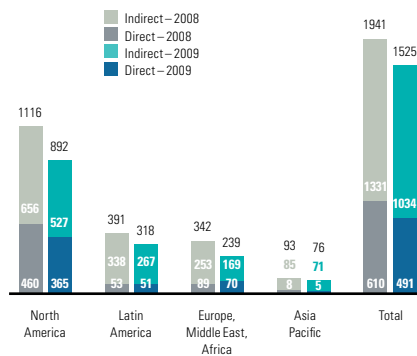
(Continued on page 21)

ENERGY CONSUMPTION

We decreased our energy consumption by 21.4 percent in 2009 compared to 2008, reducing our total energy use by 415 million kilowatt-hours. Indexed to sales, our energy consumption rose by 8.0 percent.

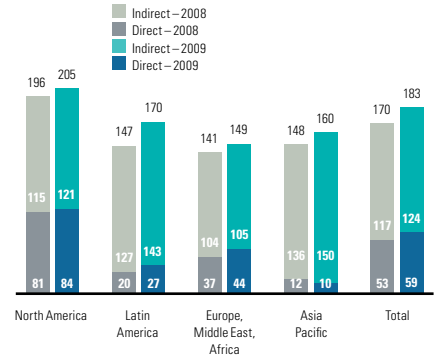
ENERGY USED BY REGION

Million kilowatt-hours



INDEXED ENERGY USED BY REGION

Kilowatt-hours per \$1000 of net sales



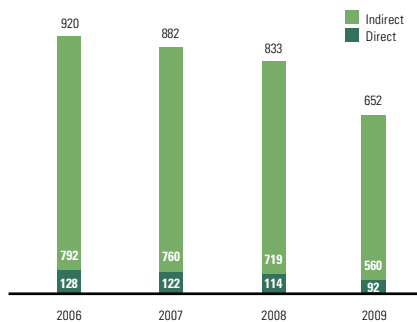
Energy Consumption Data reported represent a majority of Eaton's energy consumption at manufacturing plants worldwide. Of the sites reporting, 13% were located in Asia Pacific; 23% in Europe, the Middle East and Africa; 15% in Latin America; and 49% in North America. When we compare 2009 to 2008, sales from the manufacturing plants used to create Eaton's energy profile decreased by 27.2 percent.

CO₂ GENERATION

Since 2006, we have reduced the total amount of carbon dioxide generated by our operations from 920,000 metric tons to 652,000 metric tons. Indexed to sales, we lowered our GHG emissions by 7.6 percent over the period, keeping us on track to meet our Business Roundtable pledge of reducing indexed GHG by 18 percent through 2012.

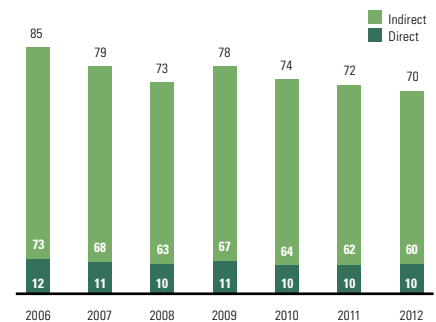
CARBON DIOXIDE GENERATED

Thousand metric tons of CO₂ per year



PROJECTED INDEXED CARBON DIOXIDE

Metric tons of CO₂ per million dollars of net sales

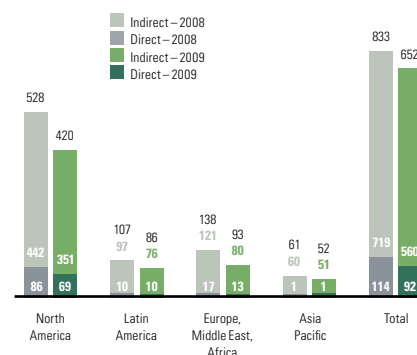


Emission rates are generated using World Resources Institute-recommended CO₂ conversion factors, which account for the variations by region. These conversion factors are based on typical energy generation methods, such as those using fossil fuels or other means.

In 2009, we decreased our GHG generation by 21.8 percent compared to the prior year, reducing GHG emissions from 833,000 to 652,000 metric tons, a decrease of 181,000 metric tons. Indexed to sales, our GHG generation increased by 7.5 percent.

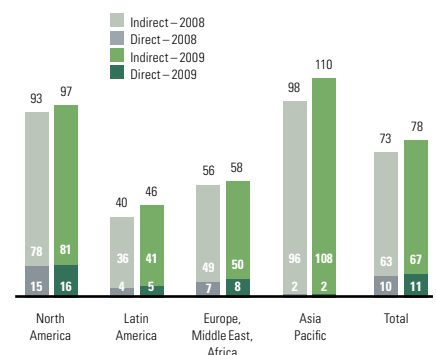
CARBON DIOXIDE GENERATED BY REGION

Thousand metric tons



INDEXED CARBON DIOXIDE BY REGION

Metric tons of CO₂ per million dollars of net sales

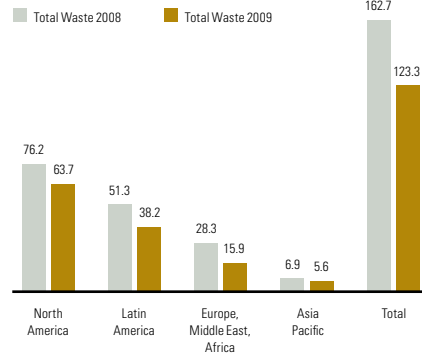


Emission rates are generated using World Resources Institute-recommended CO₂ conversion factors, which account for the variations by region. These conversion factors are based on typical energy generation methods, such as those using fossil fuels or other means. When we compare 2009 to 2008, sales from the manufacturing plants used to create Eaton's carbon dioxide profile decreased by 27.2 percent.

WASTE GENERATION

We reduced our waste generation by 24.2 percent from 162,665 metric tons in 2008 to 123,302 metric tons in 2009, a total reduction of 39,363 metric tons. Indexed to sales, our waste generation increased by 4.4 percent.

WASTE GENERATED BY REGION
Thousand metric tons of waste



INDEXED WASTE GENERATED BY REGION
Metric tons of waste per million of net sales

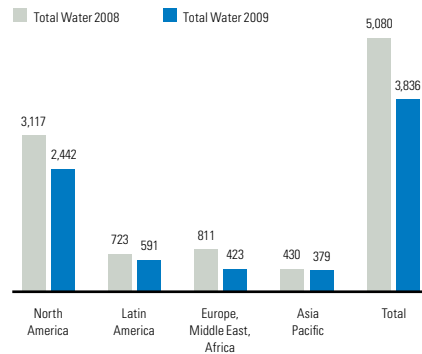


Waste Generation Data reported represent a majority of Eaton's waste generation at manufacturing plants worldwide. Of the sites reporting, 15% were in Asia Pacific; 24% in Europe, the Middle East and Africa; 17% in Latin America; and 44% in North America. When we compare 2009 to 2008, sales from the manufacturing plants used to create Eaton's waste profile decreased by 27.4 percent.

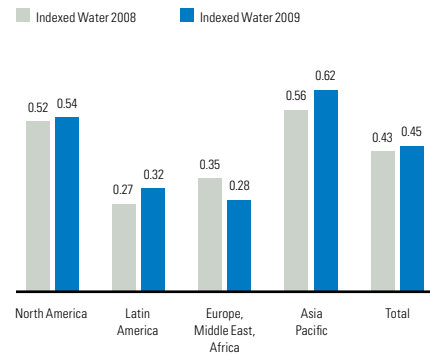
WATER CONSUMPTION

We decreased our water consumption by 24.5 percent in 2009 compared to 2008. Eaton does not consume large volumes of water. Therefore, the majority of the decrease relates to reduced production volumes. Indexed to sales, our water consumption increased by 4.0 percent.

WATER CONSUMED BY REGION
Thousand cubic meters of water



INDEXED WATER CONSUMED BY REGION
Cubic meters of water per \$1,000 of net sales

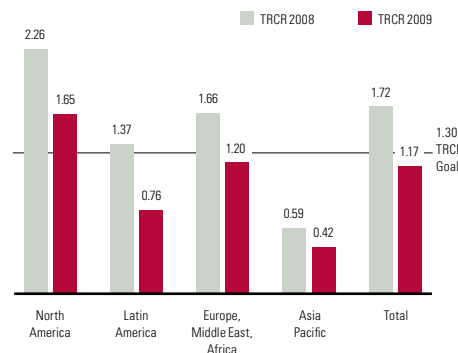


Water Consumption Data reported represent a majority of Eaton's water consumption at manufacturing plants worldwide. Of the sites reporting, 14% were in Asia Pacific; 24% in Europe, the Middle East and Africa; 18% in Latin America; and 44% in North America. When we compare 2009 to 2008, sales from the manufacturing plants used to create Eaton's water profile decreased by 27.4 percent.

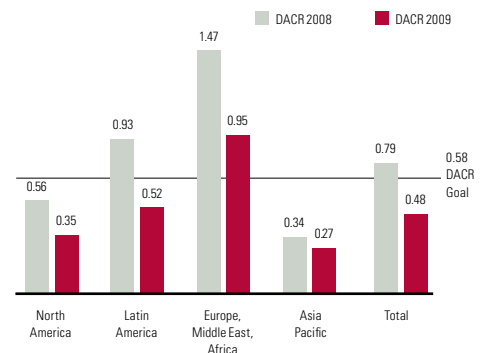
HEALTH AND SAFETY

We outperformed our targets for both Total Recordable Cases and Days Away Cases, common safety measures. Our performance showed a Days Away Case Rate of 0.48 versus a goal of 0.58 and 1.17 for the Total Recordable Case Rate versus a goal of 1.30.

TOTAL RECORDABLE CASE RATES (TRCR)
Rate per 100 employees



DAYS AWAY CASE RATES (DACR)
Rate per 100 employees



Health and Safety Recordable Cases are work-related injuries or illnesses as defined by the U.S. Occupational Safety and Health Administration (OSHA). Days Away Cases are injuries or illnesses involving one or more days away from work as defined by OSHA.



Eaton's Innovation Center won an R&D 100 Award in 2009 for developing a new thermomagnetic processing technology that could replace traditional heat-treatment processes—a major source of industrial energy consumption—and enable the development of stronger, lighter, higher-performance products.

- Water consumption by 24.5 percent.
- Work-related injuries or illnesses by 32.0 percent; and work-related injuries or illnesses that required one or more days away from work by 39.2 percent. We experienced one fatality.

When indexed to sales, however, these gains were erased by our significant decline in revenues. Applying this common indexing method, our GHG emissions increased by 7.5 percent during the year; waste generation increased by 4.4 percent; and water consumption increased by 4.0 percent. (See detailed comparisons of our EHS performance on both an absolute and indexed basis on pages 19 and 20.)

Despite this impact, we have still reduced our annual GHG emissions by 7.6 percent, indexed to sales, since our benchmark year of 2006. We maintain our pledge to reduce our GHG emissions by 18 percent, indexed to sales, by 2012, as a member of Business Roundtable's Climate RESOLVE initiative.

Our 2010 goals (indexed to sales and expressed as a comparison to 2009 results, except for safety data):

- Reduce GHG emissions by 6 percent.
- Reduce waste generation by 3 percent.
- Reduce water consumption by 3 percent.
- Improve our Total Recordable Case Rate to 1.0 and improve our Days Away Case Rate to 0.2.

For quarterly updates on our EHS performance, please visit www.eaton.com/sustainability. There, you can also find additional metrics beyond those featured in this printed report, including how we're reducing the environmental impact of Eaton's fleet auto program.

Building a More Sustainable Supply Chain

During 2009, we enhanced our supplier qualification process to expand our sustainability commitment beyond our factory walls

to our supply base. Through this improved process, we are able to measure and score how well our critical suppliers conform to EHS management systems, aligning these companies more closely to Eaton's own sustainability values and goals. We continue to work with suppliers to reduce waste through recycling in the areas of metals, packaging and industrial chemicals.

In early 2010, we joined the Department of Energy's Save Energy Now LEADER program, pledging to reduce our energy use by 25 percent, indexed to sales, between 2006 and 2016.

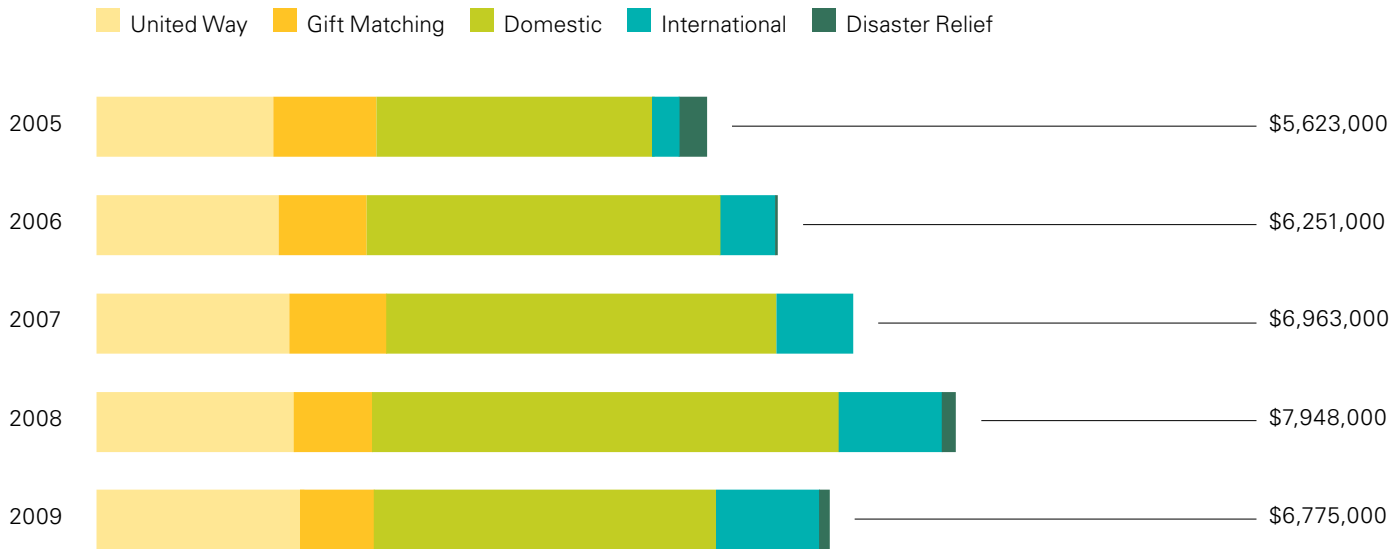
Eaton's commercial terms and conditions require our suppliers to adhere to a Supplier Code of Conduct that reflects Eaton's values and goals. In 2009, we automated this process to simplify it for suppliers and to better measure compliance.

Transforming our Vision Project into a Reality

Initiated in 2006, Eaton's Vision Project aims to continuously test and advance new ideas in energy management and drive the development of a "carbon-neutral" manufacturing facility. Focused initially on a single Electrical business plant in Sumter, South Carolina, we've broadened the Vision Project's scope to include manufacturing facilities from a variety of Eaton businesses around the world—using different manufacturing processes—to create a virtual laboratory for sustainability ideas.

Based on lessons learned to date from successful Vision Project initiatives, we are formalizing a strategic, companywide

Eaton Charitable Contributions



energy management plan, which we aim to initiate during the first half of 2010. We also plan to set minimum energy management requirements for all of our facilities, which we will augment as we test and evaluate new energy-saving technologies and renewable energy resources.

Eaton's new Energy Solutions Business—which provides comprehensive energy management solutions, including energy audits and turnkey system installation and support—will also apply lessons learned from our Vision Project to help customers improve the energy efficiency of their facilities, and further expand our "best practices" knowledge base.

Eaton donated \$100,000 to the American Red Cross International Relief Fund in January 2010 to support earthquake-relief efforts in the Republic of Haiti. We also support the United Way Worldwide Disaster Relief Fund with a one-to-one match of employee donations.

Eaton's Ethics Resonate with Integrity-Minded Customers

Eaton's brand signature is punctuated by the phrase "Powering Business Worldwide." But our brand ethos—the spirit of our culture—can best be summarized as "doing business right." Eaton people operate by the same ethical principles everywhere. In a time in which public trust in corporations and other institutions has been tested, the value of Eaton's uncompromising integrity has never been higher.

Increasingly, that value can be measured directly, as customers seek companies that match their own high ethical standards and behaviors. The United Nations, for example, included ethical values among its evaluation criteria when the organization selected Eaton to provide 30,000 uninterruptible power systems for UN offices around the world.

Our Global Ethics and Compliance office provides effective ethics education, training and programs to ensure that Eaton's ethics and values are consistently integrated into our global business practices. We also offer a 24-hour Ethics and Financial Integrity help line for obtaining ethics assistance and advice or to report misconduct. During 2009, we strengthened these programs by hiring full-time ethics representatives for our Asia-Pacific and EMEA (Europe, Middle East and Africa) regions, and by launching a worldwide anti-corruption policy to ensure all Eaton employees, officers and directors comply with anti-corruption laws in all countries where we do business.

A Global Approach to Local Community Involvement

Over the past decade, Eaton has rapidly evolved to become a true global company, with engineering, manufacturing and service locations all over the world, and sales outside of the U.S. that now exceed 55 percent of our total revenues.

We're proud that as we've grown, so has Eaton's reputation as a respected corporate citizen and community-builder. During 2009, for example, the Shanghai government awarded Jim McGill, president of our Asia-Pacific region (and now Eaton's executive vice president and chief human resources officer) its prestigious Magnolia Award for significant contributions to the city's economy, international relations and sustainable development.

Eaton's commitment to being a positive force in the communities in which we live and work has been key to this success. To foster this value, we include community involvement as a criterion in our Eaton Business Excellence facility assessments. Our



Eaton employees from five states participated in the Make-A-Wish Foundation of Michigan's Wish-A-Mile 300-mile bicycle tour in 2009, our 20th year of participation. Our team contributed a record \$137,695 to the event, which raises money to make wishes come true for children with life-threatening medical conditions.

charitable contribution program supports the organizations that our local employees choose, based on the needs of their own communities. Last year, we provided funding to hundreds of compassionate causes, including:

- In Pune, India, Eaton employees partnered with Maher, a social service agency, to launch SEEK, a new community program to help destitute and abused children in rural India to develop crucial life skills. More than 40 local Eaton employees dedicated their Sunday afternoons to volunteer in the program.
- In South Molton, England, we help to support The Samaritans, an organization that provides confidential help to people in the U.K. and Ireland who suffer from emotional distress. A volunteer for The Samaritans for six years, Eaton employee Tracy Ashford earned an Eaton Stover Volunteerism Award for Community Service in 2009.
- In Warwick, Rhode Island, our local Eaton facility has supported the Rhode Island Mentoring Partnership for 17 years, providing funding to the organization and paid time off to employees who serve as mentors to at-risk, low-income elementary, middle school and high school students.

Eaton's charitable contributions, which are based on a rolling average of our annual profits, declined by 14.8 percent to \$6.8 million in 2009. This included \$673,600 in corporate matches through our retiree and employee matching gift program. Eaton employees donated \$3.5 million to 84 local United Way campaigns during the year. We added \$1.9 million in corporate matches, for a total United Way contribution of \$5.4 million.

Fostering an Open and Enriching Workplace

To stay connected to the opinions and perspectives of Eaton people across the globe, we conduct an annual employee survey at every facility worldwide. More than 97 percent of our global workforce participated in our 2009 survey, providing helpful

guidance for improving our operations—on a local, regional and corporate level.

This “open” philosophy extends to our Office of the Ombuds, an independent, neutral, confidential and off-the-record resource to help employees identify and resolve work-related issues and problems. During the year, we expanded our Ombuds service to more than 11,000 Eaton employees at more than 100 sites in China, Hong Kong and Taiwan. In addition, we are evaluating further rollouts in Asia and Europe.

During 2009, we formed a Customer Advisory Board to solicit unfiltered feedback about how we can continuously improve our sustainability processes and reporting.

We continue to invest in education and training programs to support our growth and build a more enriching and engaging workplace. During 2009, these efforts included expanding our eLearning offerings—making world-class training programs more accessible to employees—and launching new workshops and programs to help front-line and middle managers improve their leadership skills. Expanded course offerings helped drive a record 107,000 enrollments in Eaton University eLearning and instructor-led courses in 2009. Participation in our knowledge-sharing Communities of Practice grew by more than 400 percent to more than 8,200 employees by year-end.