

Sustainability is fundamental to Eaton's values-based business model. It guides and inspires how we live and work, how we design products and how we manage our people and operations. More than a responsibility, we believe sustainability is pivotal to our future success, helping us to drive the power management innovations our customers need and that the world increasingly demands.

Rooted in Eaton's corporate philosophy of "Doing Business Right," our commitment to sustainability goes beyond environmental stewardship to include promoting the health, safety and development of our employees and improving the communities in which we work. Eaton has also been recognized for our uncompromising business ethics that guide every decision we make around the world.

During 2008, we continued to improve our performance across a broad range of sustainability metrics. We include many of these measures in our Eaton Business Excellence facility assessments, reinforcing to our global businesses and people that true excellence can only be attained by meeting today's needs and goals without compromising tomorrow's.



on target

Eaton received the prestigious CALSTART Blue Sky™ Award in 2008 for our pioneering work in the development and commercialization of hybrid electric and hybrid hydraulic power systems for commercial vehicles.





**WHO'S DEPENDING ON YOU?** Our Hydraulics and Aerospace businesses hit the right emotional chord with a global safety awareness program that reminded employees that family and friends depend on them to work injury-free. The successful program helped improve the safety performance of those businesses by 59 percent over the past three years.

### One company, one commitment

As Eaton expands, we apply the same high standard for sustainable practices and performance worldwide, helping us to accelerate our growth in developing economies by earning the respect of the people in those regions.

In China, for example — where we organized a widely attended sustainability seminar co-sponsored by the *China WTO Tribune* of the Ministry of Commerce — Eaton received four awards in 2008 for our sustainability and corporate responsibility leadership, including the “2008 China Excellent Corporate Citizen” award presented by the Corporate Citizen Committee of China Association of Social Workers. During the year, we also earned these recognitions and honors:

- No. 2 on *Corporate Responsibility Officer* magazine's list of “100 Best Corporate Citizens” and No. 1 on the publication's list of “Best Corporate Citizens” in our industry sector.
- CALSTART Blue Sky™ Award for innovation and advancement in sustainable transportation technology.
- Named among “World's Most Ethical Companies” by the Ethisphere Institute.
- “Employer of Choice Award” from the Minority Corporate Counsel Association and “Best in Class” for senior management diversity according to the Greater Cleveland Partnership's Commission on Economic Inclusion.

During 2008, we hired ERM Certification and Verification Services to perform an independent audit of key Eaton sites across the world to confirm and improve the accuracy and reliability of our data.

For the year, we made progress in virtually every area of EHS performance we measure, but we recognize we still have work to do. Key metrics and achievements included:

**Greenhouse gas (GHG) emissions.** We reduced our global energy consumption for the second straight year, lowering our GHG emissions by 5.7 percent on an absolute basis, and 7.2 percent, indexed for sales. Since 2006, we have reduced the total amount of carbon dioxide generated by our operations from 933,000 metric tons to 840,000 metric tons. Indexed for sales, we dramatically lowered our GHG emissions by 14.3 percent over that period, keeping us on track to meet or surpass our Business Roundtable Climate RESOLVE pledge of reducing our GHG emissions by 18 percent, indexed for sales, by 2012.

Working with Summit Energy, an independent energy management company, we continue to audit the performance of our facilities, and to work with our businesses to implement cost-effective energy reduction programs — from training employees to upgrading equipment, lighting systems and environmental controls — on a plant-by-plant basis.

The Carbon Disclosure Project (CDP) ranked Eaton No. 2 among all S&P 500 manufacturing companies for carbon disclosure, and No. 1 among the diversified industrials that responded to the CDP6 global survey.

### Environmental, health and safety excellence

Eaton is committed to achieving world-class environment, health and safety (EHS) performance. We carefully measure and evaluate our progress using our global Management System of Environment, Safety and Health (MESH).

Eaton's Electrical business contributes significantly to these efforts, employing our own energy-saving systems and solutions. During the year, our Electrical team continued to advance Eaton's Vision Project by testing new technologies and renewable energy resources





**HELPING GREEN BUILDINGS FLOURISH.** During 2008, our Electrical business launched a new Business Sustainability Center that offers customers turnkey solutions for achieving their sustainability goals. This includes providing comprehensive energy-efficiency assessments of existing facilities and consulting support for new building design and construction.

in a real-world environment, as we aim to create a “carbon neutral” manufacturing facility. We share these ideas and insights with other companies through our membership in the Continental Automated Buildings Association (CABA) and other means.

**Waste and water management.** During 2008, Eaton generated 0.6 percent more waste than the previous year, which equated to a 3.2 percent decline, indexed for sales. Significantly, we also recycled 26 percent more of our waste, improved our product packaging (employing more recycled content) and issued corporate guidelines for purchasing eco-friendly materials and supplies. During the year, we contracted with Allegiant Global to help us improve our waste management practices. We aim to reduce waste generation in 2009 by at least 1 percent, indexed for sales.

Although Eaton is not a large consumer of water compared to many industrial companies, we strive to minimize our impact as much as possible. For the year, we reduced water consumption by 7.2 percent in total and 10.7 percent, indexed for sales. Our goal is to reduce our water use in 2009 by an additional 1 percent, indexed for sales.

**Employee health and safety.** We continued to improve our employee health and safety performance during 2008, reducing the number of work-related injuries or illnesses at our facilities (Total Recordable Case Rate) by 14 percent, and reducing the number of injuries or

### Embracing sustainability worldwide

Across our business lines and around the world, Eaton people have embraced sustainability and are applying their ingenuity to improve our efficiency and performance in many ways:

- By strategically consolidating several older European manufacturing sites into a more productive, energy-efficient facility in Bielsko-Biala, Poland, our Automotive business increased its sales in the region by 25 percent with only a 6 percent gain in GHG emissions.
- Our Electrical business applies a “live it, provide it” philosophy to all of its activities. This included using more than a dozen of its own energy-saving products in the expansion of its new headquarters building near Pittsburgh, Pennsylvania. Opened in August, more than 75 percent of the building’s power is green energy purchased with wind credits, and 75 percent of its construction waste was recycled. The facility is a registered Leadership in Energy and Environmental Design (LEED) building. We anticipate earning LEED certification with a Silver rating in 2009.
- Approximately 18,000 to 20,000 Eaton employees from our Hydraulics and Aerospace businesses worldwide participated in a joint “Who’s Depending on You?” safety program, contributing to a significant decline in their Days Away Case Rate from 1.5 to .61 over the past three years.

Employing many of Eaton’s own “green building” solutions, the design of our expanded Electrical headquarters is projected to reduce greenhouse gas emissions at the facility by more than two million pounds per year over conventional technologies.

illnesses that required one or more days away from work (Days Away Case Rate) by 6 percent. While both of these results fell short of our 25 percent reduction goals, we’re proud of our progress, and are committed to continuously improving our performance.

- Our Truck plant in Valinhos, Brazil, shares its eco-conscious philosophy and practices with the local community through social programs, such as its “Drop of Oil” program that has helped teach more than 700 area students the vital importance of responsible waste disposal.



As a member of the Business Roundtable's Climate RESOLVE initiative, Eaton pledged to reduce GHG emissions by 18 percent, indexed for sales, between 2006 and 2012. In just two years, we've achieved 79 percent of that goal.

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**GREENHOUSE GAS EMISSIONS**

Adjusted for sales



2006: 89 metric tons of CO<sub>2</sub> per million dollars of sales



2007: 82 metric tons of CO<sub>2</sub> per million dollars of sales



2008: 76 metric tons of CO<sub>2</sub> per million dollars of sales

For more information about Eaton's sustainability programs and progress, please visit: [www.eaton.com/sustainability](http://www.eaton.com/sustainability)

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Consistent with our World Resources Institute-based carbon mapping process, the 2006 baseline and 2007 site lists were modified to reflect the 2008 site inventory.

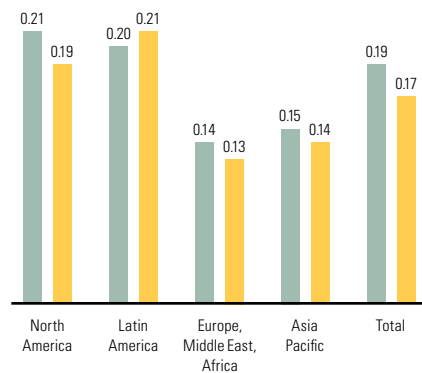


Energy, waste, water and safety data are collected and reported through use of company processes that are designed to produce reliable information. These processes include manual steps that may introduce some variations in reported data. The company is proceeding to minimize these variations through rigorous process improvement efforts.

### ENERGY CONSUMPTION BY REGION

Million kWh per million dollars of sales

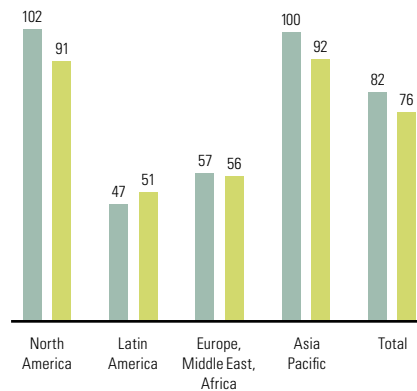
Indexed Energy 2007 Indexed Energy 2008



### CO<sub>2</sub> GENERATED BY REGION

Metric tons of CO<sub>2</sub> per million dollars of sales

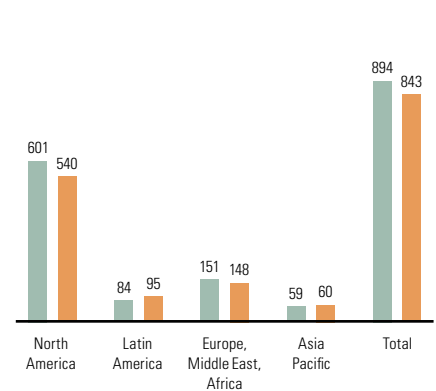
Indexed GHG 2007 Indexed GHG 2008



### CO<sub>2</sub> GENERATED BY REGION

Thousand metric tons of CO<sub>2</sub> per year

CO<sub>2</sub> 2007 CO<sub>2</sub> 2008

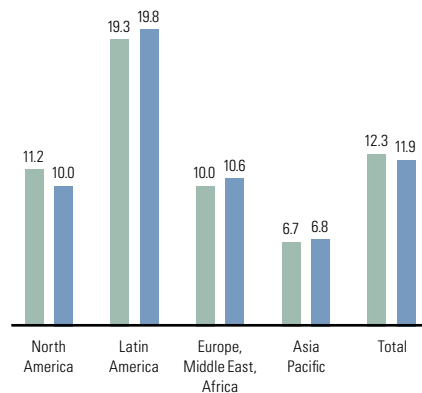


Energy Consumption Data reported represent a majority of Eaton's energy consumption at manufacturing plants worldwide. Of the sites reporting, 11% were located in Asia Pacific; 25% in Europe, the Middle East and Africa; 14% in Latin America; and 49% in North America. Emission rates are generated using World Resources Institute-recommended CO<sub>2</sub> 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.

### WASTE GENERATION BY REGION

Kilograms of waste per \$1,000 of sales

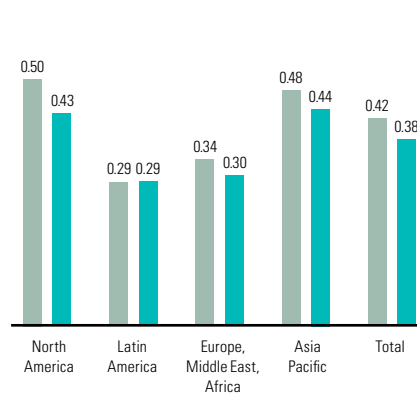
Indexed Waste 2007 Indexed Waste 2008



### WATER CONSUMED BY REGION

Cubic meters of water per \$1,000 of sales

Indexed Water 2007 Indexed Water 2008

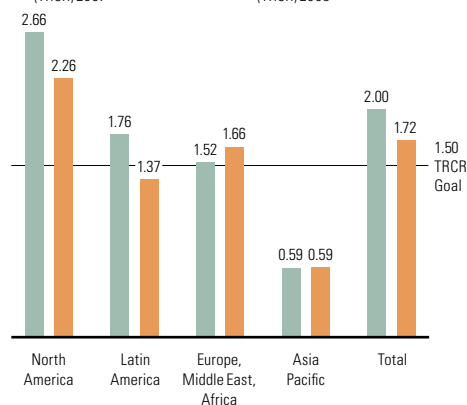


Waste Generation Data reported represent a majority of Eaton's waste generation at manufacturing plants worldwide. Of the sites reporting, 16% were in Asia Pacific; 23% in Europe, the Middle East and Africa; 17% in Latin America; and 44% in North America. Water Consumption Data reported represent a majority of Eaton's water consumption at manufacturing plants worldwide. Of the sites reporting, 16% were in Asia Pacific; 23% in Europe, the Middle East and Africa; 17% in Latin America; and 44% in North America.

### HEALTH AND SAFETY PERFORMANCE RATES

Rate per 100 employees

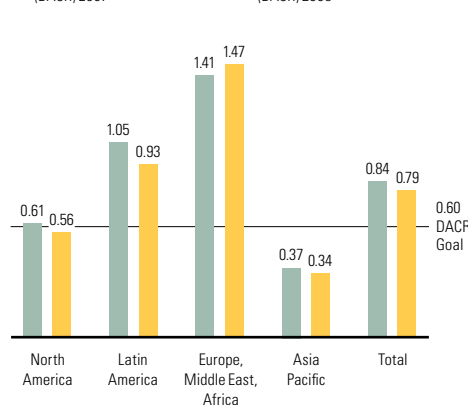
Total Recordable Case Rate (TRCR) 2007 Total Recordable Case Rate (TRCR) 2008



### HEALTH AND SAFETY PERFORMANCE RATES

Rate per 100 employees

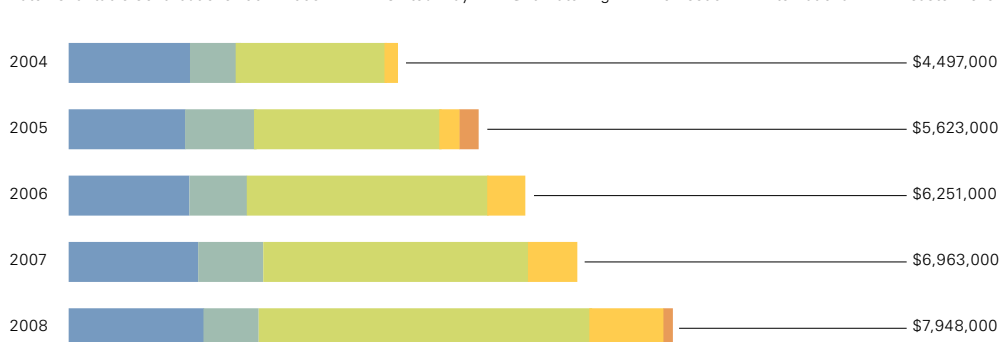
Days Away Case Rate (DACR) 2007 Days Away Case Rate (DACR) 2008



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 Charitable Contributions 2004–2008



**AS WE GROW, SO DOES GIVING.** Over the past five years, Eaton has increased its contributions to charitable causes and community involvement programs by more than 75 percent, totaling nearly \$8 million in 2008.

### Inspiring green products and solutions

Eaton's sustainability leadership extends naturally to our power management products and services. Our technologies reduce energy consumption in buildings, improve the reliability and efficiency of renewable energy sources, reduce fuel consumption and emissions in aircraft, trucks and cars, and contribute in countless other ways to increasing both our customers' sustainability and profitability.

To continue to drive these innovations, we've launched the Eaton Green Leaf program to recognize Eaton products or solutions that deliver exceptional environmental benefits to customers. Following a rigorous evaluation, we awarded 10 Eaton Green Leaf labels in 2008 to products that included our hybrid electric vehicle solutions, Pow-R-Command™ Lighting Controls, SF<sub>6</sub>-free medium-voltage switchgear (containing no sulfur hexafluoride), and the high-pressure hydraulic system designed for the Airbus A380. (For more information visit [eaton.com/greensolutions](http://eaton.com/greensolutions).)

### Caring for our communities

At Eaton, community involvement goes far beyond mere goodwill. It is essential to building thriving and sustainable businesses. That's why we work hard to become an integral part of the communities in which we live and work. From Searcy, Arkansas, to Shenzhen, China, the people who work in our global facilities decide which local organizations and causes to support through Eaton community involvement activities. This

including \$729,702 in corporate matches through our retiree and employee matching gift program. Contributions to groups outside of North America grew by 55 percent, reflecting Eaton's continued global expansion. Eaton employees generously donated \$3.5 million to 73 local United Way campaigns during the year. We added \$1.8 million in corporate matches, for a total United Way contribution of \$5.3 million.

To reinforce the importance of community involvement, we evaluate each of our facility's local activities through our Eaton Business Excellence assessment. We also reward the outstanding individual achievements of Eaton employees through our annual Stover Volunteerism awards. Among the hundreds of employee-driven programs that Eaton helped to fund in 2008:

- In San Jose, Costa Rica, our employees have adopted Porfirio Brenes Primary School, which serves approximately 1,200 children from low-income families in the area. Local employees volunteer regularly at the school, and Eaton is investing in physical improvements to the facility to make it a better learning environment.
- In Monfalcone, Italy, we support Fondazione ANT Italia O.N.L.U.S. (ANT), an organization of volunteer doctors and nurses who provide hospice care to cancer patients in their homes. Last year, local employees raised more than \$3,000 for ANT through pledge drives and raffles, which Eaton augmented with a \$25,000 grant.

Eaton contributed nearly \$300,000 — about half from employees — to the Red Cross Society of China and its affiliates to support relief work and humanitarian efforts following the massive earthquake that struck China's Sichuan Province in May 2008.

approach inspires greater employee participation and volunteerism, because our people can directly see — and take pride in — the results of their own decisions and actions.

During 2008, we contributed nearly \$8 million to support these community involvement activities,

- In Jackson, Mississippi, we're helping to fund the construction of The Mississippi Children's Museum and volunteering our time to support local educational fairs to inspire youngsters throughout the region to broaden their horizons through fun and engaging learning activities.





**PUTTING OUR MONEY WHERE OUR HEARTS ARE.** Eaton's diverse community involvement activities in India include providing support for a home for impoverished women and children near our facility in Pune. Our company and people have also contributed generously to victims of the Bihar floods.

### Enriching the work environment

Eaton is a values-based company that respects the unique individual differences of every employee and values the diverse viewpoints and perspectives that lead to creativity and innovation. Our core values of integrity, trust, respect, dignity and honesty are the foundation of everything we do — and the essence of what makes Eaton admired by employees, customers, shareholders and communities.

For the second straight year, Eaton was named one of the "World's Most Ethical Companies" by the Ethisphere Institute, which recognized our corporate dedication to "Doing Business Right" — an unwavering commitment to the highest ethical practices and standards of behavior. We support this commitment through our Global Ethics office, which provides training and support to help managers and employees at all levels of our company make the right decisions when faced with ethical issues. Additionally, we operate the Office of the Ombuds, an independent, neutral and confidential resource to help employees identify and resolve work-related issues and problems. During 2008, we opened a new Ombuds office in Shanghai, China, to support our growing business in the Asia Pacific region.

Eaton operates on a platform of common policies, practices and processes, helping us to leverage our strengths and perform as one integrated operating company. This platform —

During 2008, we updated the Eaton Philosophy to reflect the changing nature of our business and our growth around the world. This included revising our Eaton Philosophy Work Practices (EPWP), a comprehensive set of more than 70 specific guidelines used to evaluate the performance of our individual facilities across a number of criteria — from employee communication to work practices. EPWP assessments are a crucial consideration in the Eaton Business Excellence evaluation process, in which each of our major operating facilities participates every two to three years.

Eaton supports continuous learning through a wide variety of learning resources that are available "just in time, just enough, just for you." These resources include Eaton University, the Eaton University Library, self-directed e-learning programs, live and virtual events, instructor-led programs and Communities of Practice.

During the year, we expanded the Eaton University Library, increasing utilization by more than 70 percent, and introduced new middle-manager learning programs to enhance our organizational capabilities. We also expanded our Communities of Practice (now more than 40 throughout the company) to facilitate information sharing, and launched EBS Navigator, an interactive tool that assists users in finding appropriate Eaton Business System solutions for their business challenges.

More than 98 percent of our global workforce participated in our annual employee survey during 2008, in which four out of five employees reported they were proud to be part of the Eaton team.

known as the Eaton Business System — includes "The Eaton Philosophy: Excellence Through People," which outlines the mutual responsibilities of our businesses and employees for creating an engaging high-performance environment.