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Other corporate expense-net
358

42
%

252

11
%

227

Total corporate expense
$
965

36
%

$
707

6
%

$
664

Total Corporate expense increased 36% in 2012 to $965 from $707 in 2011 due to a 42% increase in Other corporate expense-net primarily related to transaction and other costs associated with the acquisition of Cooper, a 76% increase in Interest expense-net primarily related to financing activities associated with the acquisition of Cooper, and a 14% increase in Pension and other postretirement benefits expense primarily related to changes in the discount rate. The inventory step-up adjustment of $42 in 2012 is related to purchase price accounting adjustments associated with the acquisition of Cooper. Total Corporate expense increased 6% in 2011 to $707 from $664 in 2010 due to an 18% increase in Pension and other postretirement benefits expense primarily related to changes in the discount rate and asset return assumptions, a 11% increase in Other corporate expense-net due to an adjustment to the LIFO reserve and higher general corporate expense as Eaton continued to add resources to support its growth, and a 5% increase in Amortization of intangible assets resulting from acquisitions of businesses.

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## 2013 FORWARD-LOOKING PERSPECTIVE

As of early February, Eaton anticipates that its end markets for 2013 will grow 2% to 3%. Eaton anticipates that core sales in 2013 will grow by approximately $900 compared to 2012. The incremental sales in 2013 from recent acquisitions of businesses are expected to total $6 billion. Overall, Eaton anticipates its Net sales in 2013 will grow by 42% compared to 2012. End market growth by segment in 2013 is expected to be as follows:

- Electrical Products: 3%
- Electrical Systems and Services: 4%
- Hydraulics: (4%)
- Aerospace: 2%
- Vehicle: 2%

## LIQUIDITY, CAPITAL RESOURCES AND CHANGES IN FINANCIAL CONDITION

### Financial Condition and Liquidity

Eaton’s objective is to finance its business through operating cash flow and an appropriate mix of equity and long-term and short-term debt. By diversifying its debt maturity structure, Eaton reduces liquidity risk. The Company maintains access to the commercial paper markets through revolving credit facilities. During June 2012 the Company refinanced a $500, three-year revolving credit facility and a $500, five-year revolving credit facility with a $750 three-year revolving credit facility that expires in 2015 and a $750, five-year revolving credit facility that expires in 2017, respectively. The Company also maintains a $500 revolving credit facility that expires in 2016. The 2012 refinancings increased long-term revolving credit facilities to $2,000 from $1,500. These facilities support Eaton’s commercial paper borrowings. There were no borrowings outstanding under these revolving credit facilities at December 31, 2012. Eaton's non-United States operations also had available short-term lines of credit of approximately $2,099 at December 31, 2012. Over the course of a year, cash, short-term investments and short-term debt may fluctuate in order to manage global liquidity. Eaton believes it has the operating flexibility, cash flow, cash and short-term investment balances, and access to capital markets in excess of the liquidity necessary to meet future operating needs of the business as well as scheduled payments of long-term debt.

During June 2012 the Company received proceeds totaling $600 from the private issuance of notes and during November 2012 Eaton received proceeds totaling $6,522 to finance the cash portion of the acquisition of Cooper. Financing activities related to acquiring Cooper were comprised of the issuance of senior notes totaling $4,900 and borrowing $1,669 on a $6.75 billion capacity bridge facility. At December 31, 2012, $669 remained outstanding on the bridge facility borrowing and on February 1, 2013, Eaton repaid the outstanding balance. On November 30, 2012 and January 8, 2013, Eaton Corporation and Cooper, respectively, each issued guarantees on all material outstanding debt of the other.

For additional information on financing transactions and debt, see Note 5 to the Consolidated Financial Statements.

Eaton’s credit facilities and indentures governing certain long-term debt contain various covenants, the violation of which would limit or preclude the use of the credit facilities for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the indentures. At Eaton’s present credit rating level, the most restrictive financial covenant provides that the ratio of secured debt (or lease payments due under a sale and leaseback transaction) to adjusted consolidated net worth (or consolidated net tangible assets, in each case as defined in the relevant credit agreement or indenture) may not exceed 10%. In each case, the ratio was substantially below the required threshold. In addition, Eaton is in compliance with each of its debt covenants for all periods presented.

### Undistributed Assets of Non-U.S. Subsidiaries

At December 31, 2012, approximately 84% of the Company's consolidated cash and short-term investments resided in non-U.S. locations. These funds are considered permanently reinvested to be used to expand operations either organically or through acquisitions outside the U.S. The largest growth areas that are expected to require capital are in developing markets. The Company's U.S. operations generate cash flow sufficient to satisfy U.S. operating requirements and service its debt. The Company does not intend to repatriate any significant amounts of cash to the U.S. in the foreseeable future.

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Changes in Financial Position

During 2012, Eaton's net assets increased $7,617 to $15,086 at December 31, 2012 from $7,469 at December 31, 2011 primarily due to the acquisition of Cooper which had a substantial impact on Eaton's Consolidated Balance Sheet. Increases in Goodwill, Other intangible assets and Net property, plant and equipment totaling $8,859, $4,587 and $1,275, respectively, were the primary factors driving higher net assets in 2012. These increases were partially offset by higher obligations primarily associated with higher debt levels and deferred tax liabilities, both of which were also due to the acquisition of Cooper. Long-term debt levels increased $6,396 to $9,762 at December 31, 2012 from $3,366 at December 31, 2011 due to the financing activities noted above and long-term debt totaling $1,100 assumed by Eaton in the acquisition of Cooper. Additionally, deferred tax liabilities increased $1,582 to $2,024 at December 31, 2012 from $442 at December 31, 2011 primarily associated with the deferred tax impacts of purchase price accounting adjustments made to Cooper's opening balance sheet. For additional information related to the acquisition of Cooper, see Note 2 to the Consolidated Financial Statements.

Sources and Uses of Cash Flow

Operating Cash Flow

Net cash provided by operating activities was $1,664 in 2012, an increase of $416 compared to $1,248 in 2011. Operating cash flows in 2012 were primarily impacted by lower working capital requirements compared to 2011 and the absence of contributions to other postretirement benefits plans totaling $154 that were made in 2011, partially offset by lower net income in 2012.

Net cash provided by operating activities was $1,248 in 2011, a decrease of $34 compared to $1,282 in 2010. Operating cash flows in 2011 were primarily impacted by higher net income in 2011, which was more than offset by increased contributions to defined benefits plans, particularly contributions of $154 to other post retirement benefits plans that were not contributed in 2010, an higher working capital requirements compared to 2010.

Investing Cash Flow

Net cash used in investing activities was $6,972 in 2012, an increase of $6,172 compared to $800 in 2011. The increase in 2012 was principally due to usage of $6,936 related to the acquisitions of businesses, the largest of which was Cooper, partially offset by cash proceeds of $603 from the sale of short-term investments compared to sales of $103 in 2011. Capital expenditures were $593 in 2012 compared to $568 in 2011. Eaton expects approximately $700 in capital expenditures in 2013.

Net cash used in investing activities decreased $212 to $800 in 2011 as compared to $1,012 in 2010. The decrease was principally due to cash proceeds of $103 from the sale of short-term investments compared to purchases of $392 in 2010, partially offset by higher capital expenditures in 2011, both of which were related to higher liquidity requirements as the Company returned to growth from the depressed levels of 2009. Investing cash flow usage included $325 related to the acquisitions of businesses, the largest of which were Internormen Technology Group, E. Begerow GmbH & Co. KG, and ACTOM Low Voltage.

For additional information on business acquisitions see to Note 2 to the Consolidated Financial Statements.

Financing Cash Flow

Net cash provided by financing activities was $5,480 in 2012, an increase of $5,861 compared to a use of cash of $381 in 2011. Substantially all of the increase in 2012 was due to proceeds totaling $7,156 from the issuance of $4,900 senior notes, a $1,669 borrowing on the $6.75 billion capacity bridge facility, and the private issuance of $600 notes, which are more fully described above. Offsetting these increases were repayments on the bridge facility totaling $1,000 and cash dividends paid totaling $512.

Net cash used in financing activities was $381 in 2011, an increase of $120 compared to a use of cash of $261 in 2010. The increase was primarily due to share repurchases of $343 in 2011 and an increase of $99 in cash dividends paid in 2011 to Eaton ordinary shareholders, partially offset by proceeds received from a $300 debt issuance completed by Eaton during 2011. Higher cash dividends paid was due to an increase in the quarterly cash dividend paid per ordinary share from $1.08 to $1.36 per share, which was announced during the first quarter of 2011.

Net-Debt-to-Capital Ratio

The net-debt-to-capital ratio was 39.2% at December 31, 2012 compared to 26.5% at December 31, 2011. The increase reflected the combined effect during 2012 of the $7,060 increase in total debt and the $7,617 increase in

Eaton shareholders' equity, all of which are primarily related to the acquisition of Cooper.

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Credit Ratings

Eaton's debt has been assigned the following credit ratings:

| Credit Rating Agency (long- /short-term rating) | Rating | Outlook |
| --- | --- | --- |
| Standard & Poor's | A-/A-2 | Negative outlook |
| Moody's | Baa1/P-2 | Negative outlook |
| Fitch | BBB+/F2 | Negative outlook |

Defined Benefits Plans

Pension Plans

During 2012, the fair value of plan assets in the Company’s employee pension plans increased $1,202 to $3,855 at December 31, 2012. The increase in plan assets was primarily due to better than expected return on assets, contributions in excess of benefit payments and the acquisition of Cooper. At December 31, 2012, the net unfunded position of $1,968 in pension liabilities consisted of $1,016 in the U.S. qualified pension plans, $883 in plans that have no minimum funding requirements and $140 in all other plans that require minimum funding, partially offset by $71 in plans that are overfunded.

Funding requirements are a major consideration in making contributions to Eaton’s pension plans. With respect to the Company’s pension plans worldwide, the Company intends to contribute annually not less than the minimum required by applicable law and regulations. In 2012, $413 was contributed to the pension plans. The Company contributed $176 to the U.S. Qualified Pension Plan in early 2013 and anticipates making an additional $127 of contributions to certain other pension plans during 2013. The funded status of the Company’s pension plans at the end of 2013, and future contributions, will depend primarily on the actual return on assets during the year and the discount rate used to calculate certain benefits at the end of the year. Depending on these factors, and the resulting funded status of the pension plans, the level of future contributions could be materially higher or lower than in 2012.

Off-Balance Sheet Arrangements

Eaton does not have off-balance sheet arrangements or financings with unconsolidated entities or other persons. In the ordinary course of business, the Company leases certain real properties and equipment, as described in Note 7 to the Consolidated Financial Statements.

## CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States requires management to make certain estimates and assumptions that may involve the exercise of significant judgment. For any estimate or assumption used, there may be other reasonable estimates or assumptions that may have been used. However, based on facts and circumstances inherent in developing estimates and assumptions, management believes it is unlikely that applying other such estimates and assumptions would have caused materially different amounts to have been reported. Actual results may differ from these estimates.

Revenue Recognition

Sales of products are recognized when a sales agreement is in place, products have been shipped to unaffiliated customers and title has transferred in accordance with shipping terms, the selling price is fixed and determinable and collectability is reasonably assured, all significant related acts of performance have been completed, and no other significant uncertainties exist. Shipping and handling costs billed to customers are included in Net sales and the related costs in Cost of products sold. Although the majority of the sales agreements contain standard terms and conditions, there are also agreements that contain multiple elements or non-standard terms and conditions. As a result, judgment is required to determine the appropriate accounting, including whether the deliverables specified in these agreements should be treated as separate units of accounting for sales recognition purposes, and, if so, how the sales price should be allocated among the elements and when to recognize sales for each element. For delivered elements, sales are recognized only when the delivered elements have standalone value, fair values of undelivered elements are known, there are no uncertainties regarding customer acceptance and there are no customer-negotiated refund or return rights affecting the sales recognized for delivered elements. Sales for service contracts are generally recognized as the services are provided.

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Eaton records reductions to revenue for customer and distributor incentives, primarily comprised of rebates, at the time of the initial sale. Rebates are estimated based on sales terms, historical experience, trend analysis and projected market conditions in the various markets served. The rebate programs offered vary across businesses due to the numerous markets Eaton serves, but the most common incentives relate to amounts paid or credited to customers for achieving defined volume levels or other objectives.

Impairment of Goodwill and Other Long-Lived Assets

Goodwill and indefinite life intangible assets are evaluated annually for impairment as of July 1 using either a quantitative or qualitative analysis. The Company performs a quantitative analysis using a discounted cash flow model and other valuation techniques, but may elect to perform a qualitative analysis. A qualitative analysis is performed by assessing certain trends and factors, including projected market outlook and growth rates, forecasted and actual sales and operating profit margins, discount rates, industry data and other relevant qualitative factors. These trends and factors are compared to, and based on, the assumptions used in the most recent quantitative assessment. Additionally, goodwill and indefinite life intangible assets are evaluated for impairment whenever events or circumstances indicate there may be a possible permanent loss of value.

Goodwill is tested for impairment at the reporting unit level, which is equivalent to Eaton's operating segments, and based on the net assets for each segment, including goodwill and intangible assets. Goodwill is assigned to each operating segment, as this represents the lowest level that constitutes a business and for which discrete financial information is available and is the level which management regularly reviews the operating results.

Goodwill impairment testing for 2012 and 2011 was performed by assessing certain qualitative trends and factors, as described above. These trends and factors were compared to, and based on, the assumptions used in the quantitative assessment performed in 2010. For 2012 and 2011, it is more likely than not that the fair value of Eaton's reporting units substantially exceeded the respective carrying amount.

Indefinite life intangible assets primarily consist of trademarks. The fair value of these assets are determined using a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability. For 2012 and 2011, the fair value of indefinite lived intangible assets substantially exceeded the respective carrying value.

For additional information about goodwill and other intangible assets, see Note 4 to the Consolidated Financial Statements.

Long-lived assets, goodwill and indefinite life intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Events or circumstances that may result in an impairment review include operations reporting losses, a significant adverse change in the use of an asset, the planned disposal or sale of the asset, a significant adverse change in the business climate or legal factors related to the asset, or a significant decrease in the estimated fair value of an asset. Upon indications of impairment, assets and liabilities are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The asset group would be considered impaired when the estimated future net undiscounted cash flows generated by the asset group are less than its carrying value. In instances where the carrying amount of the asset group exceeded the undiscounted cash flows, the fair value of the asset group would be determined and an impairment loss would be recognized based on the amount by which the carrying value of the asset group exceeds its fair value. Determining asset groups and underlying cash flows requires the use of significant judgment.

Recoverability of Deferred Income Tax Assets

Eaton is subject to the income tax laws in the jurisdictions in which it operates. In order to determine the income tax provision for financial statement purposes, Eaton must make significant estimates and judgments about its business operations in these jurisdictions. These estimates and judgments are also used in determining the deferred income tax assets and liabilities that have been recognized for differences between the financial statement and income tax basis of assets and liabilities, and income tax loss carryforwards and income tax credit carryforwards.

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Management evaluates the realizability of deferred income tax assets for each jurisdiction in which it operates. If the Company experiences cumulative pretax income in a particular jurisdiction in a three-year period including the current and prior two years, management normally concludes that the deferred income tax assets will more likely than not be realizable and no valuation allowance is recognized, unless known or planned operating developments would lead management to conclude otherwise. However, if the Company experiences cumulative pretax losses in a particular jurisdiction in a three-year period including the current and prior two years, management then considers a series of factors in the determination of whether the deferred income tax assets can be realized. These factors include historical operating results, known or planned operating developments, the period of time over which certain temporary differences will reverse, consideration of the utilization of certain deferred income tax liabilities, tax law carryback capability in a particular country, prudent and feasible tax planning strategies, and estimates of future earnings and taxable income using the same assumptions as the Company's goodwill and other impairment testing. After evaluation of these factors, if the deferred income tax assets are expected to be realized within the tax carryforward period allowed for that specific country, management would conclude that no valuation allowance would be required. To the extent that the deferred income tax assets exceed the amount that is expected to be realized within the tax carryforward period for a particular jurisdiction, management would establish a valuation allowance. For additional information about income taxes, see Note 8 to the Consolidated Financial Statements.

Pension and Other Postretirement Benefits Plans

The measurement of liabilities related to pension plans and other postretirement benefits plans is based on several assumptions including interest rates, expected return on plan assets, rate of compensation increases, and health care cost trend rates. Actual plan asset performance will either reduce or increase losses included in accumulated other comprehensive loss, which ultimately affects net income.

The discount rate for United States plans was determined by discounting the expected future benefit payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date and solving for the single rate that generated the same benefit obligation. Only corporate bonds with a rating of Aa or higher by either Moody's Investor Services or Standard & Poors were included. Callable bonds and certain other non-comparable bonds were eliminated. Finally, a subset of bonds was selected by grouping the universe of bonds by duration and retaining 50% of the bonds that had the highest yields.

The discount rates for non-United States plans were determined by region and are based on high quality long-term corporate and government bonds. Consideration has been given to the duration of the liabilities in each plan when selecting the bonds to be used in determining the discount rate.

Key assumptions used to calculate pension and other postretirement benefits expense are adjusted at each year-end. A 1-percentage point change in the assumed rate of return on pension plan assets is estimated to have approximately a $38 effect on pension expense. Likewise, a 1-percentage point change in the discount rate is estimated to have approximately a $63 effect on pension expense. A 1-percentage point change in the assumed rate of return on other postretirement benefits assets is estimated to have approximately a $1 effect on other postretirement benefits expense. A 1-percentage point change in the discount rate is estimated to have approximately a $4 effect on expense for other postretirement benefits plans. Additional information related to changes in key assumptions used to recognize expense for other postretirement benefits plans is found in Note 6 to the Consolidated Financial Statements.

Environmental Contingencies

As a result of past operations, Eaton is involved in remedial response and voluntary environmental remediation at a number of sites, including certain of its currently-owned or formerly-owned plants. The Company has also been named a potentially responsible party under the United States federal Superfund law at a number of disposal sites.

A number of factors affect the cost of environmental remediation, including the number of parties involved at a particular site, the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations, and the continuing advancement of remediation technology. Taking these factors into account, Eaton has estimated the costs of remediation, which will be incurred over a period of years. The Company accrues an amount on an undiscounted basis, consistent with the estimates of these costs, when it is probable that a liability has been incurred. At December 31, 2012 and 2011, $125 and $62 was accrued for these costs.

Based upon Eaton's analysis and subject to the difficulty in estimating these future costs, the Company expects that any sum it may be required to pay in connection with environmental matters is not reasonably possible to exceed the recorded liability by an amount that would have a material effect on its financial position, results of operations or cash flows.

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MARKET RISK DISCLOSURE

On a regular basis, Eaton monitors third-party depository institutions that hold its cash and short-term investments, primarily for safety of principal and secondarily for maximizing yield on those funds. The Company diversifies its cash and short-term investments among counterparties to minimize exposure to any one of these entities. Eaton also monitors the creditworthiness of its customers and suppliers to mitigate any adverse impact.

Eaton uses derivative instruments to manage exposure to volatility in raw material costs, currency and interest rates on certain debt instruments. Derivative financial instruments used by the Company are straightforward and non-leveraged. The counterparties to these instruments are financial institutions with strong credit ratings. Eaton maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit rating of these institutions. See Note 12 to the Consolidated Financial Statements for additional information about hedges and derivative financial instruments.

Eaton's ability to access the commercial paper market, and the related cost of these borrowings, is based on the strength of its credit rating and overall market conditions. The Company has not experienced any material limitations in its ability to access these sources of liquidity. At December 31, 2012, Eaton had $2,000 of long-term revolving credit facilities with banks in support of its commercial paper program. It has no direct borrowings outstanding under these credit facilities. Eaton's non-United States operations also had available short-term lines of credit of approximately $2,099 at December 31, 2012.

Interest rate risk can be measured by calculating the short-term earnings impact that would result from adverse changes in interest rates. This exposure results from short-term debt, which includes commercial paper at a floating interest rate, long-term debt that has been swapped to floating rates, and money market investments that have not been swapped to fixed rates. Based upon the balances of investments and floating rate debt at year end 2012, a 100 basis-point increase in short-term interest rates would have increased the Company's net, pretax interest expense by $15.

Eaton also measures interest rate risk by estimating the net amount by which the fair value of the Company's financial liabilities would change as a result of movements in interest rates. Based on Eaton's best estimate for a hypothetical, 100 basis point decrease in interest rates at December 31, 2012, the market value of the Company's debt and interest rate swap portfolio, in aggregate, would increase by $779.

Currency risk is the risk of economic losses due to adverse changes in exchange rates. The Company mitigates currency risk by funding some investments in certain markets through local currency financings. Non-United States dollar debt was $148 at December 31, 2012. To augment Eaton's non-United States dollar debt portfolio, the Company also enters into forward exchange contracts and currency swaps from time to time to mitigate the risk of economic loss in its investments. At December 31, 2012, the aggregate balance of such contracts was $599. Eaton also monitors exposure to transactions denominated in currencies other than the functional currency of each country in which the Company operates, and regularly enters into forward contracts to mitigate that exposure. In the aggregate, Eaton's portfolio of forward contracts related to such transactions was not material to its Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS

A summary of contractual obligations as of December 31, 2012 follows:

| | 2013 | 2014 to 2015 | 2016 to 2017 | After 2017 | Total |
|---|---|---|---|---|---|
| Long-term debt [1] | $314 | $1,576 | $1,812 | $6,084 | $9,786 |
| Interest expense related to long-term debt | 371 | 683 | 607 | 2,653 | 4,314 |
| Reduction of interest expense from interest rate swap agreements related to long-term debt | (34) | (54) | (35) | (69) | (192) |
| Operating leases | 174 | 238 | 132 | 85 | 629 |
| Purchase obligations | 849 | 95 | 78 | 86 | 1,108 |
| Other long-term obligations | 309 | 12 | 13 | 74 | 408 |
| Total | $1,983 | $2,550 | $2,607 | $8,913 | $16,053 |

[1] Long-term debt excludes deferred gains and losses on derivatives related to debt, adjustments to fair market value, and premiums and discounts on long-term debentures.

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Interest expense related to long-term debt is based on the fixed interest rate, or other applicable interest rate, related to the debt instrument. The reduction of interest expense due to interest rate swap agreements related to long-term debt is based on the difference in the fixed interest rate the Company receives from the swap, compared to the floating interest rate the Company pays on the swap. Purchase obligations are entered into with various vendors in the normal course of business. These amounts include commitments for purchases of raw materials, outstanding non-cancelable purchase orders, releases under blanket purchase orders and commitments under ongoing service arrangements. Other long-term obligations principally include anticipated contributions of $303 to pension plans in 2013 and $101 of deferred compensation earned under various plans for which the participants have elected to receive disbursement at a later date.

The table above does not include future expected pension benefit payments or expected other postretirement benefits payments. Information related to the amounts of these future payments is described in Note 6 to the Consolidated Financial Statements. The table above also excludes the liability for unrecognized income tax benefits, since the Company cannot predict with reasonable certainty the timing of cash settlements with the respective taxing authorities. At December 31, 2012, the gross liability for unrecognized income tax benefits totaled $280 and interest and penalties were $34.

FORWARD-LOOKING STATEMENTS

This Annual Report to Shareholders contains forward-looking statements concerning Eaton's full year 2013 sales, the performance in 2013 of its worldwide end markets, and Eaton's 2013 growth in relation to end markets, among other matters. These statements may discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to Eaton, based on current beliefs of management as well as assumptions made by, and information currently available to, management. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “guidance,” “intend,” “may,” “possible,” “potential,” “predict,” “project” or other similar words, phrases or expressions. These statements should be used with caution and are subject to various risks and uncertainties, many of which are outside Eaton’s control. The following factors could cause actual results to differ materially from those in the forward-looking statements: unanticipated changes in the markets for the Company’s business segments; unanticipated downturns in business relationships with customers or their purchases from us; the availability of credit to customers and suppliers; competitive pressures on sales and pricing; increases in the cost of material and other production costs, or unexpected costs that cannot be recouped in product pricing; the introduction of competing technologies; unexpected technical or marketing difficulties; unexpected claims, charges, litigation or dispute resolutions; strikes or other labor unrest; the impact of acquisitions and divestitures; unanticipated difficulties integrating acquisitions; new laws and governmental regulations; interest rate changes; tax rate changes or exposure to additional income tax liability; stock market and currency fluctuations; and unanticipated deterioration of economic and financial conditions in the United States and around the world. Eaton does not assume any obligation to update these forward-looking statements.

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QUARTERLY DATA (unaudited)

| (In millions except per share data) | Quarter ended in 2012 | | | | Quarter ended in 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec. 31 | Sept. 30 | June 30 | Mar. 31 | Dec. 31 | Sept. 30 | June 30 | Mar. 31 |
| Net sales | $4,333 | $3,950 | $4,068 | $3,960 | $4,033 | $4,123 | $4,090 | $3,803 |
| Gross profit | 1,201 | 1,203 | 1,253 | 1,206 | 1,216 | 1,223 | 1,228 | 1,121 |
| Percent of net sales | 27.7 % | 30.5 % | 30.8 % | 30.5 % | 30.2 % | 29.7 % | 30.0 % | 29.5 % |
| Income before income taxes | 88 | 376 | 419 | 368 | 390 | 432 | 396 | 335 |
| Net income | $180 | $347 | $382 | $311 | $361 | $367 | $338 | $286 |
| Adjustment for net (income) loss for noncontrolling interests | (1 ) | (2 ) | — | — | 1 | (2 ) | (2 ) | 1 |
| Net income attributable to Eaton ordinary shareholders | $179 | $345 | $382 | $311 | $362 | $365 | $336 | $287 |
| Net income per ordinary share | | | | | | | | |
| Diluted | $0.46 | $1.02 | $1.12 | $0.91 | $1.07 | $1.07 | $0.97 | $0.83 |
| Basic | 0.47 | 1.02 | 1.13 | 0.93 | 1.08 | 1.07 | 0.99 | 0.84 |
| Cash dividends declared per ordinary share | $— | $0.76 | $0.38 | $0.38 | $0.34 | $0.34 | $0.34 | $0.34 |
| Market price per ordinary share | | | | | | | | |
| High | $54.75 | $49.18 | $50.29 | $53.06 | $47.44 | $53.23 | $56.42 | $56.49 |
| Low | 44.36 | 36.38 | 36.94 | 44.73 | 33.09 | 33.97 | 45.79 | 48.57 |

Earnings per share for the four quarters in a year may not equal full year earnings per share.

Significant non-recurring adjustments included in Income before income taxes are as follows:

| | Quarter ended in 2012 | | | | Quarter ended in 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec. 31 | Sept. 30 | June 30 | Mar. 31 | Dec. 31 | Sept. 30 | June 30 | Mar. 31 |
| Acquisition integration charges | $24 | $8 | $9 | $3 | $5 | $4 | $2 | $3 |
| Transaction costs | 152 | 19 | 7 | — | — | — | — | — |

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TEN-YEAR CONSOLIDATED FINANCIAL SUMMARY (unaudited)

| (In millions except for per share data) | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| Continuing operations | | | | | | | | | | |
| Net sales | $16,311 | $16,049 | $13,715 | $11,873 | $15,376 | $13,033 | $12,232 | $10,874 | $9,547 | $7,796 |
| Income before income taxes | 1,251 | 1,553 | 1,036 | 303 | 1,140 | 1,055 | 979 | 969 | 756 | 475 |
| Income after income taxes | $1,220 | $1,352 | $937 | $385 | $1,067 | $973 | $907 | $788 | $633 | $368 |
| Income from discontinued operations | — | — | — | — | 3 | 35 | 53 | 22 | 22 | 30 |
| Net income | 1,220 | 1,352 | 937 | 385 | 1,070 | 1,008 | 960 | 810 | 655 | 398 |
| Less net income for noncontrolling interests | (3) | (2) | (8) | (2) | (12) | (14) | (10) | (5) | (7) | (12) |
| Net income attributable to Eaton ordinary shareholders | $1,217 | $1,350 | $929 | $383 | $1,058 | $994 | $950 | $805 | $648 | $386 |
| | | | | | | | | | | |
| Net income per ordinary share - diluted | | | | | | | | | | |
| Continuing operations | $3.46 | $3.93 | $2.73 | $1.14 | $3.25 | $3.19 | $2.94 | $2.54 | $2.00 | $1.18 |
| Discontinued operations | — | — | — | — | 0.01 | 0.12 | 0.17 | 0.08 | 0.07 | 0.10 |
| Total | $3.46 | $3.93 | $2.73 | $1.14 | $3.26 | $3.31 | $3.11 | $2.62 | $2.07 | $1.28 |
| | | | | | | | | | | |
| Net income per ordinary share - basic | | | | | | | | | | |
| Continuing operations | $3.54 | $3.98 | $2.76 | $1.16 | $3.29 | $3.26 | $2.99 | $2.61 | $2.05 | $1.20 |
| Discontinued operations | — | — | — | — | 0.01 | 0.12 | 0.17 | 0.07 | 0.07 | 0.11 |
| Total | $3.54 | $3.98 | $2.76 | $1.16 | $3.30 | $3.38 | $3.16 | $2.68 | $2.12 | $1.31 |
| | | | | | | | | | | |
| Weighted-average number of ordinary shares outstanding | | | | | | | | | | |
| Diluted | 350.9 | 342.8 | 339.5 | 335.8 | 324.6 | 300.6 | 305.8 | 308.0 | 314.2 | 301.0 |
| Basic | 347.8 | 338.3 | 335.5 | 332.7 | 320.4 | 294.6 | 300.4 | 300.4 | 306.2 | 295.8 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash dividends declared per ordinary share | $1.52 | $1.36 | $1.08 | $1.00 | $1.00 | $0.86 | $0.74 | $0.62 | $0.54 | $0.46 |
| Total assets | $35,848 | $17,873 | $17,252 | $16,282 | $16,655 | $13,430 | $11,417 | $10,218 | $9,075 | $8,223 |
| Long-term debt | 9,762 | 3,366 | 3,382 | 3,349 | 3,190 | 2,432 | 1,774 | 1,830 | 1,734 | 1,651 |
| Total debt | 10,833 | 3,773 | 3,458 | 3,467 | 4,271 | 3,417 | 2,586 | 2,464 | 1,773 | 1,953 |
| Eaton shareholders' equity | 15,086 | 7,469 | 7,362 | 6,777 | 6,317 | 5,172 | 4,106 | 3,778 | 3,606 | 3,117 |
| Eaton shareholders' equity per ordinary share | $32.05 | $22.34 | $21.66 | $20.39 | $19.14 | $17.71 | $14.04 | $12.72 | $11.76 | $10.19 |
| Ordinary shares outstanding | 470.7 | 334.4 | 339.9 | 332.3 | 330.0 | 292.0 | 292.6 | 297.0 | 306.6 | 306.0 |

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| | | |
|---|---|---|
| 3 (i) | Certificate of Incorporation - Incorporated by reference to the Form S-8 filed November 30, 2012 | |
| 3 (ii) | Amended and restated Memorandum and Articles of Incorporation - Incorporated by reference to the Form 10-Q Report for the three months ended September 30, 2012 | |
| 4 (a) | Pursuant to Regulation S-K Item 601(b) (4), the Company agrees to furnish to the SEC, upon request, a copy of the instruments defining the rights of holders of its other long-term debt | |
| 10 | Material contracts | |
| | (a) | Senior Executive Incentive Compensation Plan (effective February 27, 2013) * |
| | (b) | Deferred Incentive Compensation Plan II - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007 |
| | (c) | First Amendment to Deferred Incentive Compensation Plan II - Incorporated by reference to the Form S-8 filed November 30, 2012 |
| | (d) | Excess Benefits Plan II (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007 |
| | (e) | First Amendment to Excess Benefits Plan II (2008 restatement) * |
| | (f) | Incentive Compensation Deferral Plan II - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007 |
| | (g) | First Amendment to Incentive Compensation Deferral Plan II - Incorporated by reference to the Form S-8 filed November 30, 2012 |
| | (h) | Limited Eaton Service Supplemental Retirement Income Plan II - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007 |
| | (i) | First Amended to Limited Eaton Service Supplemental Retirement Income Plan II * |
| | (j) | Supplemental Benefits Plan II (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007 |
| | (k) | First Amended to Supplemental Benefits Plan II (2008 restatement) * |
| | (l) | Form of Restricted Share Unit Agreement * |
| | (m) | Form of Restricted Share Agreement * |
| | (n) | Form of Restricted Share Agreement (Non-Employee Directors) - Incorporated by reference to the Form<br>8-K Report filed February 1, 2010 |

| | |
|---|---|
| (o) | Form of Directors' Restricted Share Unit Agreement * |
| (p) | Form of Stock Option Agreement for Executives * |
| (q) | Form of Stock Option Agreement for Non-Employee Directors (2008) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007 |
| (r) | Amended and Restated 2002 Stock Plan - Incorporated by reference to the Form S-8 filed November 30, 2012 |
| (s) | Amended and Restated 2004 Stock Plan - Incorporated by reference to the Form S-8 filed November 30, 2012 |
| (t) | Amended and Restated 2008 Stock Plan - Incorporated by reference to the Form S-8 filed November 30, 2012 |

| | |
|---|---|
| (u) | Second Amended and Restated 2009 Stock Plan - Incorporated by reference to Form S-8 filed November 30, 2012 |
| (v) | Amended and Restated 2012 Stock Plan - Incorporated by reference to the Form S-8 filed November 30, 2012 |
| (w) | Amendment to Amended and Restated 2012 Stock Plan * |
| (x) | First Amendment to 2005 Non-Employee Director Fee Deferral Plan - Incorporated by reference to the Form S-8 filed November 30, 2012 |
| (y) | 2013 Non-Employee Director Fee Deferral Plan * |
| (z) | Form of Change of Control Agreement entered into with officers of Eaton Corporation - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2008 |
| (aa) | Form of Indemnification Agreement entered into with officers of Eaton Corporation - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002 |
| (bb) | Form of Indemnification Agreement entered into with directors * |
| (cc) | Form of Indemnification Agreement II entered into with directors * |
| (dd) | Amended and Restated Executive Strategic Incentive Plan (amended and restated February 27, 2013) * |
| (ee) | Executive Strategic Incentive Plan II (effective January 1, 2001) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002 |
| (ff) | Amended and Restated Supplemental Executive Strategic Incentive Plan (amended and restated February 27, 2013) * |
| (gg) | Deferred Incentive Compensation Plan (amended and restated effective November 1, 2007) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2009 |
| (hh) | Amended and Restated 1998 Stock Plan - Incorporated by reference to the Form S-8 filed November 30, 2012 |
| (ii) | Trust Agreement - Officers and Employees (dated December 6, 1996) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002 |
| (jj) | Trust Agreement - Non-employee Directors (dated December 6, 1996) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002 |
| (kk) | Group Replacement Insurance Plan (GRIP) (effective June 1, 1992) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 1992 |
| (ll) | Excess Benefits Plan (amended and restated effective January 1, 1989) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002 |

| | |
|---|---|
| (mm) | Amendment to Excess Benefit Plan * |
| (nn) | Supplemental Benefits Plan (amended and restated January 1, 1989) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002 |
| (oo) | Amendment to Supplemental Benefits Plan * |
| (pp) | Eaton Corporation Board of Directors Policy on Incentive Compensation, Stock Options and Other Equity Grants upon the Restatement of Financial Results - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007 |
| (qq) | Amended and Restated Grantor Trust Agreement for Non-Employee Directors' Deferred Fees Plans - effective January 1, 2010 - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2010 |
| (rr) | Amended and Restated Grantor Trust Agreement for Employees' Deferred Compensation Plans - effective January 1, 2010 - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2010 |

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| 12 | Ratio of Earnings to Fixed Charges - Filed in conjunction with this Form 10-K Report * |
| 14 | Code of Ethics - Incorporated by reference to the definitive Proxy Statement filed on March 14, 2008 |
| 21 | Subsidiaries of Eaton Corporation - Filed in conjunction with this Form 10-K Report * |
| 23 | Consent of Independent Registered Public Accounting Firm - Filed in conjunction with this Form 10-K Report * |
| 24 | Power of Attorney - Filed in conjunction with this Form 10-K Report * |
| 31.1 | Certification of Principal Executive Officer (Pursuant to the Sarbanes-Oxley Act of 2002, Section 302) - Filed in conjunction with this Form 10-K Report * |
| 31.2 | Certification of Principal Financial Officer (Pursuant to the Sarbanes-Oxley Act of 2002, Section 302) - Filed in conjunction with this Form 10-K Report * |
| 32.1 | Certification of Principal Executive Officer (Pursuant to the Sarbanes-Oxley Act of 2002, Section 906) - Filed in conjunction with this Form 10-K Report * |
| 32.2 | Certification of Principal Financial Officer (Pursuant to the Sarbanes-Oxley Act of 2002, Section 906) - Filed in conjunction with this Form 10-K Report * |
| 101.INS | XBRL Instance Document * |
| 101.SCH | XBRL Taxonomy Extension Schema Document * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document * |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document * |

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* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010, (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010 (iii) Consolidated Balance Sheets at December 31, 2012 and 2011, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010, (v) Notes to Consolidated Financial Statements for the year ended December 31, 2012.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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