

Eaton Corporation

Reconciliation of Non-GAAP Financial Information

2008 Q3

All numbers \$M except per share numbers

Reconciliation of net income to operating earnings

	2000	2001	2002	2003	2004	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3	2008 Low	2008 High
Net income from continuing operations	\$ 343	\$ 150	\$ 258	\$ 355	\$ 627	\$ 783	\$ 897	\$ 959	\$ 244	\$ 333	\$ 315		
Net income from discontinued operations	110	19	23	31	21	22	53	35	3				
Net Income	453	169	281	386	648	805	950	994	247	333	315		
Restructuring charges (after-tax)	34	86	47	24	27	24	27	42	9	11	14		
Gains on sales of business (after-tax)	-	(22)	(13)	-	-	-	-	-	-	-	-		
Gains on sales of corporate assets (after-tax)	(14)	-	-	-	-	-	-	-	-	-	-		
Operating earnings	\$ 473	\$ 233	\$ 315	\$ 410	\$ 675	\$ 829	\$ 977	\$ 1,036	\$ 256	\$ 344	\$ 329		
	\$ 3.12	\$ 1.20	\$ 1.96	\$ 2.56	\$ 4.12	\$ 5.23	\$ 6.22	\$ 6.62	\$ 1.64	\$ 2.03	\$ 1.87	\$ 7.10	\$ 7.20
Per share impact of unusual items (after tax)	0.14	0.45	0.24	0.16	0.17	0.15	0.17	0.28	0.06	0.07	0.08	0.35	0.35
Operating earnings per common share	\$ 3.26	\$ 1.65	\$ 2.20	\$ 2.72	\$ 4.30	\$ 5.38	\$ 6.39	\$ 6.90	\$ 1.70	\$ 2.10	\$ 1.95	\$ 7.45	\$ 7.55

Reconciliation of segment operating profit to segment operating profit excluding restructuring

	2000	2001	2002	2003	2004	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3
Segment operating profit	\$ 785	\$ 455	\$ 625	\$ 763	\$ 1,123	\$ 1,374	\$ 1,468	\$ 1,668	\$ 432	\$ 556	\$ 518
Restructuring charges (pre-tax)	47	107	59	36	41	36	40	64	13	15	20
Segment operating profit excluding restructuring	\$ 832	\$ 562	\$ 684	\$ 799	\$ 1,164	\$ 1,410	\$ 1,508	\$ 1,732	\$ 445	\$ 571	\$ 538

Reconciliation of segment operating margin to segment operating margin excluding restructuring

Segment operating margin	9.7%	6.4%	9.0%	9.8%	11.8%	12.7%	12.0%	12.8%	12.4%	13.0%	12.6%
Restructuring charges	0.6%	1.5%	0.8%	0.4%	0.4%	0.3%	0.3%	0.5%	0.4%	0.4%	0.5%
Segment operating margin excluding restructuring	10.3%	7.9%	9.8%	10.2%	12.2%	13.0%	12.3%	13.3%	12.7%	13.3%	13.1%

Reconciliation of net income margin to after tax operating margin

Net income margin	5.6%	2.4%	4.0%	5.0%	6.8%	7.4%	7.8%	7.6%	7.1%	7.8%	7.7%
Restructuring charges (after-tax)	0.2%	0.9%	0.5%	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%
After tax operating margin	5.8%	3.3%	4.5%	5.3%	7.1%	7.6%	8.0%	7.9%	7.3%	8.0%	8.0%

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Reconciliation of net income to EBIT and EBITDA

	2000	2001	2002	2003	2004	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3
Net income from continuing operations	\$ 343	\$ 150	\$ 258	\$ 355	\$ 627	\$ 783	\$ 897	\$ 959	\$ 244	\$ 333	\$ 315
Net income from discontinued operations	110	19	23	31	21	22	53	35	3	0	0
Net Income	453	169	281	386	648	805	950	994	247	333	315
Income tax	189	109	118	122	133	191	77	97	42	21	39
Net interest expense	177	142	104	87	78	90	104	146	38	44	37
Loss (gain) on sale of business	-	(61)	(18)	-	-	-	-	-	-	-	-
Other expense (income)	(80)	(11)	32	(5)	28	(27)	(72)	(43)	(1)	(3)	(17)
EBIT (including restructuring)	\$ 739	\$ 348	\$ 517	\$ 590	\$ 887	\$ 1,059	\$ 1,059	\$ 1,194	\$ 326	\$ 395	\$ 374
Depreciation & amortization	462	449	376	394	400	409	434	469	126	154	155
EBITDA (including restructuring)	\$ 1,201	\$ 797	\$ 893	\$ 984	\$ 1,287	\$ 1,468	\$ 1,493	\$ 1,663	\$ 452	\$ 549	\$ 529

Reconciliation of EBIT and EBITDA to EBIT excluding restructuring and EBITDA excluding restructuring

	2000	2001	2002	2003	2004	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3
EBIT (including restructuring)	\$ 739	\$ 348	\$ 517	\$ 590	\$ 887	\$ 1,059	\$ 1,059	\$ 1,194	\$ 326	\$ 395	\$ 374
Restructuring charges (pre-tax)	52	129	62	37	41	36	40	64	13	17	21
EBIT (excluding restructuring)	\$ 791	\$ 477	\$ 579	\$ 627	\$ 928	\$ 1,095	\$ 1,100	\$ 1,258	\$ 339	\$ 412	\$ 395
EBITDA (including restructuring)	\$ 1,201	\$ 797	\$ 893	\$ 984	\$ 1,287	\$ 1,468	\$ 1,493	\$ 1,663	\$ 452	\$ 549	\$ 529
Restructuring charges (pre-tax)	52	129	62	37	41	36	40	64	13	17	21
EBITDA (excluding restructuring)	\$ 1,253	\$ 926	\$ 955	\$ 1,021	\$ 1,328	\$ 1,504	\$ 1,534	\$ 1,727	\$ 465	\$ 566	\$ 550

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Reconciliation of Operating Cash Flow to Free Cash Flow

	2000	2001	2002	2003	2004	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3	2008 Guidance
Operating Cash Flow	\$ 519	\$ 765	\$ 900	\$ 874	\$ 838	\$ 1,135	\$ 1,431	\$ 1,161	(17)	376	433	\$1,400 - \$1,500
Capital Expenditures	386	295	228	273	330	363	360	355	83	134	120	500
Free Cash Flow	\$ 133	\$ 470	\$ 672	\$ 601	\$ 508	\$ 772	\$ 1,071	\$806	(100)	242	313	\$900 - \$1,000

Reconciliation of Eaton Electrical operating profit to operating profit excluding restructuring

	2003	2004	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3
Electrical operating profit (including restructuring)	\$ 158	\$ 243	\$ 375	\$ 474	\$ 579	\$ 160	\$ 250	\$ 259
Restructuring charges (pre-tax)	22	33	21	7	12	3	7	14
Electrical operating profit (excluding restructuring)	\$ 180	\$ 276	\$ 396	\$ 481	\$ 591	\$ 163	\$ 257	\$ 273

Reconciliation of Eaton Hydraulics operating profit to operating profit excluding restructuring

	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3
Hydraulic operating profit (including restructuring)	\$ 153	\$ 221	\$ 265	\$ 78	\$ 92	\$ 71
Restructuring charges (pre-tax)	6	11	12	2	1	1
Hydraulic operating profit (excluding restructuring)	\$ 159	\$ 232	\$ 277	\$ 80	\$ 93	\$ 72

Reconciliation of Eaton Aerospace operating profit to operating profit excluding restructuring

	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3
Aerospace operating profit (including restructuring)	\$ 157	\$ 182	\$ 233	\$ 63	\$ 69	\$ 75
Restructuring charges (pre-tax)	1	12	39	7	6	4
Aerospace operating profit (excluding restructuring)	\$ 158	\$ 194	\$ 272	\$ 70	\$ 75	\$ 79

Reconciliation of Eaton Truck operating profit to operating profit excluding restructuring

	2003	2004	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3
Truck operating profit (including restructuring)	\$ 168	\$ 329	\$ 453	\$ 448	\$ 357	\$ 85	\$ 94	\$ 95
Restructuring charges (pre-tax)	-	-	4	5	-	-	-	-
Truck operating profit (excluding restructuring)	\$ 168	\$ 329	\$ 457	\$ 453	\$ 357	\$ 85	\$ 94	\$ 95

Reconciliation of Eaton Automotive operating profit to operating profit excluding restructuring

	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3
Automotive operating profit (including restructuring)	\$ 236	\$ 143	\$ 234	\$ 46	\$ 51	\$ 18
Restructuring charges (pre-tax)	4	5	1	1	1	1
Automotive operating profit (excluding restructuring)	\$ 240	\$ 148	\$ 235	\$ 47	\$ 52	\$ 19

For acquisitions closed in 2007, reconciliation of operating profit to operating profit excluding restructuring and EBITDA excluding restructuring

	2007
Acquisition operating profit (including restructuring)	\$ 69
Restructuring charges (pre-tax)	5
Acquisition operating profit (excluding restructuring)	\$ 74
Depreciation & amortization	\$ 3
EBITDA (excluding restructuring)	\$ 77

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Impact of Delta, Powerware, Cobham, PerkinElmer, Hayward, Tractech, Synflex, Senyuan, Argo-Tech and MGE on DSO, DOH, and DPO calculations

	2003				2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	\$ 58	\$ 93	\$ 97	\$ 96	\$ -	\$ 52	\$ 212	\$ 234	\$ -	\$ -	\$ 15	\$ 110
COGS	43	70	72	64	-	36	149	161	-	-	9	60
Accounts Receivable	74	79	85	79	-	146	160	174	-	-	19	57
Inventory	74	67	58	61	-	102	100	82	-	-	27	110
Accounts Payable	31	32	31	33	-	73	74	86	-	-	6	30

	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	\$ -	\$ 35	\$ 35	\$ 46	\$ 13	\$ 62	\$ 64	\$ 103
COGS	-	28	28	37	7	36	31	51
Accounts Receivable	-	20	35	37	34	35	40	107
Inventory	-	10	20	22	38	39	34	73
Accounts Payable	-	15	12	11	2	8	8	70

Methodology for calculations used in the presentations

Return on equity = trailing 4 quarters net income / average trailing 5 quarters shareholder's equity

Return on invested capital = (EBIT - taxes) / average (total debt + equity)

Return on sales = net income / sales

Total return = stock price appreciation + dividend yield

Net debt to total capital = (total debt - cash & equivalents) / (total debt - cash & equivalents + equity)

Fixed charge coverage ratio = (pre-tax Income + depreciation + amortization + interest expense) / interest expense

Segment net working capital (including acquisitions) = accounts receivable + inventory - accounts payable. All amounts average over the year.

DSO = average of quarterly DSO; quarterly DSO = quarter end accounts receivable / quarter sales * 90 days

DOH = average of quarterly DOH; quarterly DOH = quarter end inventory / quarter COGS * 90 days

DPO = average of quarterly DPO; quarterly DPO = quarter end accounts payable / quarter COGS * 90days

Cash conversion cycle = DSO + DOH - DPO

Free cash flow = cash flow from operations - capital expenditures