

## BOARD OF DIRECTORS INDEPENDENCE CRITERIA

January 23, 2008

For an Eaton Corporation Director to be considered independent, the Board of Directors must affirmatively determine that the Director has no material<sup>1</sup> relationship (whether financial, business, personal or otherwise) with Eaton Corporation or any of its subsidiaries or affiliates, either directly or as a partner, shareholder or officer of an organization which in turn has a relationship with them. In making this determination, the Board may consider the Director independent either (A) because the Director has no relationships whatsoever with Eaton Corporation or any of its subsidiaries or affiliates (other than as a Director and shareholder) or (B) because the Director has only immaterial relationships with them. A Director's relationships will be deemed immaterial so long as the following categorical standards are met:

1. The Director is not, and has not been within the previous three years, an employee of Eaton Corporation or any of its subsidiaries or affiliates. No member of the Director's immediate family<sup>2</sup> is, or has been within the previous three years, an executive officer of Eaton Corporation or any of its subsidiaries or affiliates.
2. Neither the Director nor any member of his or her immediate family<sup>2</sup> has received, during any twelve-month period within the previous three years, more than \$100,000 in direct compensation from Eaton Corporation or any of its subsidiaries or affiliates (including, without limitation, any consulting, advisory or other compensatory fees) except (a) fees which Eaton Corporation pays to its Directors for their services as members of the Board and members or Chairs of Board Committees and (b) fixed amounts of deferred compensation for prior service, which is not contingent in any way on continued service; provided that compensation paid to an immediate family<sup>2</sup> member for service as an employee other than an executive officer will not be considered in determining the Director's independence so long as the compensation is

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<sup>1</sup> "Materiality" is to be considered from the standpoint of the Director and that of each person or organization with which the Director is affiliated, including organizations of which the Director is a partner, shareholder or officer. The determination that, as to each Director individually, there is no material relationship (whether financial, business, personal or otherwise) will be made by the Board of Directors after consideration of the recommendation of its Governance Committee, based upon information provided by the Director and any other information that may be known to the Board. The purpose is ultimately to determine whether a Director has any relationship with Eaton Corporation that may interfere with the exercise of the Director's independence from Eaton Corporation and its management.

<sup>2</sup> "Immediate family" means a Director's spouse, parents, stepparents, children, stepchildren, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law, and any person (other than a tenant or employee) who shares the Director's household.

comparable to the compensation paid to other similarly situated employees.

3. The Director is not a partner or an employee with a firm that is the internal or external auditor for Eaton Corporation or any of its subsidiaries or affiliates; nor is any member of the Director's immediate family<sup>2</sup> a partner with such a firm or an employee who participates in the firm's audit, assurance or tax compliance practice (excluding its tax planning practice); nor has the Director or any member of the Director's immediate family<sup>2</sup> within the previous three years been a partner or employee with such a firm who within that time has personally worked on the audit of Eaton Corporation or any of its subsidiaries or affiliates.
4. Neither the Director nor any member of his or her immediate family<sup>2</sup> is employed, or has been employed within the previous three years, as an executive officer of any company whose compensation committee at the same time included an individual who currently serves as an executive officer of Eaton Corporation or any of its subsidiaries or affiliates.
5. The Director is not an employee, nor is any member of his or her immediate family<sup>2</sup> an executive officer, of another company as to which payments by Eaton Corporation to that company, or from that company to Eaton Corporation, including their respective subsidiaries and affiliates, for property or services have exceeded the greater of \$1 million or 2% of the other company's consolidated gross revenues, in any of the other company's past three fiscal years.

However, notwithstanding anything to the contrary in categorical standards #1 through #5 above, the Board will not treat as categorically immaterial, but instead will discuss case by case and will disclose, (i) any relationship between a Director and Eaton Corporation or any of its subsidiaries or affiliates that is required to be disclosed under Item 404 of Securities and Exchange Commission Regulation S-K (pertaining to related party transactions) and (ii) any contributions made by Eaton Corporation or any of its subsidiaries or affiliates to any tax-exempt organization of which a Director serves as an executive officer if, within the preceding three years, such contributions in any single fiscal year exceeded the greater of \$1 million or 2% of the tax-exempt organization's consolidated gross revenues.

An Eaton Director will be deemed to meet the special independence standards required of Audit Committee members if the Board of Directors determines that the Director qualifies as independent under the above-described standards and that the Director meets the following additional criteria:

- A. The Director has received no direct compensation from Eaton Corporation or any of its subsidiaries or affiliates (including, without

limitation, any consulting, advisory or other compensatory fees) except (a) fees which Eaton Corporation pays to its Directors for their services as members of the Board and members or Chairs of Board Committees and (b) fixed amounts of deferred compensation for prior service, which are not contingent in any way on continued service.

- B. The Director is not an affiliate of Eaton Corporation (i.e., not controlling, controlled by, or under common control with, Eaton Corporation), such as a 10%-plus shareholder.

The Board of Directors has determined that simultaneous service by any Audit Committee member on a maximum of three public company audit committees, including the Eaton Corporation Audit Committee, does not impair his or her ability to effectively serve on the Eaton Corporation Audit Committee.

Directors and members of Eaton Corporation's management are encouraged to bring questions or concerns regarding Director independence or these criteria promptly to the attention of the Governance Committee Chair for guidance.

#### **BOARD OF DIRECTORS POLICY ON COMPANY-PAID TRANSPORTATION OF OUTSIDE DIRECTORS**

Since directors' independence might be influenced by their use of Company planes and other Company-paid transportation, the Board of Directors has adopted a policy on this subject, as follows:

The Board of Directors believes that the Company should provide transportation to facilitate Director attendance at meetings of the Board and Board Committees, Annual Shareholders Meetings, Board visits to Company facilities and other Company events. Transportation may be provided through the use of Company planes and cars or through Company-paid commercial transportation. At the same time, the Board believes it is important that the independence of the outside Directors not be compromised, or appear to be compromised, by their accepting transportation from the Company for personal purposes.

Therefore, the Board of Directors has adopted the following policy relating to Company-paid transportation of outside Directors:

1. Outside Directors may be transported on Company planes and cars or on Company-paid commercial transportation to facilitate their attending meetings of the Board and Board Committees, Annual Shareholders Meetings, Board visits to Company facilities and other Company events. This policy contemplates transportation to and from Directors' homes, places of business or other locations, and may include transportation to and from Directors' other business commitments, unrelated to the

Company, if necessary to facilitate the Directors' attending Company events. However, in no event may outside Directors be transported on Company planes and cars or on Company-paid commercial transportation for personal purposes.

2. Company planes and cars or Company-paid commercial transportation may not be used to transport spouses of the outside Directors except to attend Company events to which they are invited at the request of the Board.
3. The Governance Committee of the Board is authorized to interpret this policy and provide guidance on its application.