

## Eaton Corporation

### Reconciliation of Non-GAAP Financial Information

All numbers \$M except per share numbers

#### Reconciliation of net income to operating earnings:

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009	2010 Q1		2010 Full Year	
															Low	High	Low	High
Net income from continuing operations	\$ 343	\$ 150	\$ 258	\$ 355	\$ 627	\$ 783	\$ 897	\$ 959	\$ 1,055	\$ (50)	\$ 29	\$ 193	\$ 211	\$ 383				
Net income from discontinued operations	110	19	23	31	21	22	53	35	3	0	0	0	0	0				
Net income attributable to common shareholders	453	169	281	386	648	805	950	994	1,058	(50)	29	193	211	383				
Acquisition integration charges (after-tax)	34	86	47	24	27	24	27	42	51	14	10	12	18	54				
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	\$ 1,109	\$ (36)	\$ 39	\$ 205	\$ 229	\$ 437				
Net income per share attributable to common shareholders	\$ 3.12	\$ 1.20	\$ 1.96	\$ 2.56	\$ 4.12	\$ 5.23	\$ 6.22	\$ 6.62	\$ 6.52	\$ (0.30)	\$ 0.17	\$ 1.14	\$ 1.25	\$ 2.27	\$ 0.75	\$ 0.85	\$ 3.65	\$ 3.95
Per share impact of unusual items (after tax)	0.14	0.45	0.24	0.16	0.17	0.15	0.17	0.28	0.31	0.08	0.06	0.07	0.10	0.32	0.05	0.05	0.20	0.20
Operating earnings per common share	\$ 3.26	\$ 1.65	\$ 2.20	\$ 2.72	\$ 4.30	\$ 5.38	\$ 6.39	\$ 6.90	\$ 6.83	\$ (0.22)	\$ 0.23	\$ 1.21	\$ 1.35	\$ 2.59	\$ 0.80	\$ 0.90	\$ 3.85	\$ 4.15

#### Reconciliation of segment operating profit to segment operating profit excluding acquisition integration charge

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009
Segment operating profit	\$ 785	\$ 455	\$ 625	\$ 763	\$ 1,123	\$ 1,374	\$ 1,468	\$ 1,668	\$ 1,805	\$ 97	\$ 222	\$ 310	\$ 321	\$ 950
Acquisition integration charges (pre-tax)	47	107	59	36	41	36	40	64	76	21	15	19	25	80
Segment operating profit excluding acquisition integration charge	\$ 832	\$ 562	\$ 684	\$ 799	\$ 1,164	\$ 1,410	\$ 1,508	\$ 1,732	\$ 1,881	\$ 118	\$ 237	\$ 329	\$ 346	\$ 1,030

#### Reconciliation of segment operating margin to segment operating margin excluding acquisition integration charge

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009	2010E	2014E
Segment operating margin	9.7%	6.4%	9.0%	9.8%	11.8%	12.7%	12.0%	12.8%	11.7%	3.4%	7.7%	10.2%	10.3%	8.0%	9%	15%
Acquisition integration charges	0.6%	1.5%	0.8%	0.4%	0.4%	0.3%	0.3%	0.5%	0.7%	0.5%	0.5%	0.6%	0.8%	0.7%	1%	0%
Segment operating margin excluding acquisition integration charge	10.3%	7.9%	9.8%	10.2%	12.2%	13.0%	12.3%	13.3%	12.2%	4.2%	8.2%	10.9%	11.1%	8.7%	10%	15%

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#### Reconciliation of net income to EBIT and EBITD/

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net income from continuing operations	\$ 343	\$ 150	\$ 258	\$ 355	\$ 627	\$ 783	\$ 897	\$ 959	\$ 1,055	\$ 383
Net income from discontinued operations	110	19	23	31	21	22	53	35	3	0
Net income attributable to common shareholders	453	169	281	386	648	805	950	994	1,058	383
Income tax	189	109	118	122	133	191	77	97	73	(82)
Net interest expense	177	142	104	87	78	90	104	146	157	150
Loss (gain) on sale of business	-	(61)	(18)	-	-	-	-	-	-	-
Other expense (income)	(80)	(11)	32	(5)	28	(27)	(72)	(43)	(30)	(9)
EBIT (including acquisition integration charges)	\$ 739	\$ 348	\$ 517	\$ 590	\$ 887	\$ 1,059	\$ 1,059	\$ 1,194	\$ 1,258	\$ 442
Depreciation & amortization	462	449	376	394	400	409	434	469	592	590
EBITDA (including acquisition integration charges)	\$ 1,201	\$ 797	\$ 893	\$ 984	\$ 1,287	\$ 1,468	\$ 1,493	\$ 1,663	\$ 1,850	\$ 1,032

#### Reconciliation of EBIT and EBITDA to EBIT excluding acquisition integration charges and EBITDA excluding acquisition integration charges

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EBIT (including acquisition integration charges)	\$ 739	\$ 348	\$ 517	\$ 590	\$ 887	\$ 1,059	\$ 1,059	\$ 1,194	\$ 1,258	\$ 442
Acquisition integration charges (pre-tax)	52	129	62	37	41	36	40	64	77	80
EBIT (excluding acquisition integration charges)	\$ 791	\$ 477	\$ 579	\$ 627	\$ 928	\$ 1,095	\$ 1,100	\$ 1,258	\$ 1,335	\$ 522
EBITDA (including acquisition integration charges)	\$ 1,201	\$ 797	\$ 893	\$ 984	\$ 1,287	\$ 1,468	\$ 1,493	\$ 1,663	\$ 1,850	\$ 1,032
Acquisition integration charges (pre-tax)	52	129	62	37	41	36	40	64	77	80
EBITDA (excluding acquisition integration charges)	\$ 1,253	\$ 926	\$ 955	\$ 1,021	\$ 1,328	\$ 1,504	\$ 1,534	\$ 1,727	\$ 1,927	\$ 1,112

#### Reconciliation of Operating Cash Flow to Free Cash Flow

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009	2010 Guidance
Operating Cash Flow	\$ 519	\$ 765	\$ 900	\$ 874	\$ 838	\$ 1,135	\$ 1,431	\$ 1,161	\$ 1,416	\$ 107	\$ 361	\$ 471	\$ 469	\$ 1,408	\$ 1,000 - \$1,100
Capital Expenditures	386	295	228	273	330	363	360	355	448	48	48	40	59	195	400
Free Cash Flow	\$ 133	\$ 470	\$ 672	\$ 601	\$ 508	\$ 772	\$ 1,071	\$ 806	\$ 968	\$ 59	\$ 313	\$ 431	\$ 410	\$ 1,213	\$ 600 - \$700

#### Reconciliation of Net Working Capital

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Current Assets (GAAP)	2,571	2,387	2,457	3,093	3,182	3,578	4,408	4,767	4,795	4,524
Total Current Liabilities (GAAP)	2,107	1,669	1,734	2,126	2,267	2,968	3,290	3,659	3,745	2,689
Net Working Capital (GAAP)	464	718	723	967	915	610	1,118	1,108	1,050	1,835
Less:										
Cash	(82)	(112)	(75)	(61)	(85)	(110)	(114)	(142)	(188)	(340)
Short-term investments	(44)	(199)	(353)	(804)	(211)	(226)	(671)	(504)	(342)	(433)
Deferred income taxes	(147)	(153)	(181)	(192)	(216)	(243)	(267)	(291)	(239)	(377)
Other current assets	(207)	(172)	(118)	(125)	(92)	(115)	(135)	(139)	(177)	(149)
Short-term debt	447	58	47	45	13	394	490	825	812	113
Current portion of long-term debt	110	130	154	257	26	240	322	160	269	5
Accrued compensation	199	158	199	204	270	277	305	355	297	256
Other current liabilities	955	905	846	1,094	1,182	1,247	1,123	1,149	1,246	1,258
Net Working Capital (accounts receivable, inventory less accounts payable)	1,695	1,333	1,242	1,385	1,802	2,074	2,171	2,521	2,728	2,168

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### Reconciliation of Non-GAAP Financial Information

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#### Reconciliation of Eaton Electrical Sector operating profit to operating profit excluding acquisition integration charge

	2003	2004	2005	2006	2007	2008	2009
Electrical Sector operating profit (including acquisition integration charges)	\$ 158	\$ 243	\$ 375	\$ 474	\$ 579	\$ 863	\$ 625
Acquisition integration charges (pre-tax)	22	33	21	7	12	47	64
Electrical Sector operating profit (excluding acquisition integration charge)	\$ 180	\$ 276	\$ 396	\$ 481	\$ 591	\$ 910	\$ 689

#### Reconciliation of Eaton Electrical Americas operating profit to operating profit excluding acquisition integration charge

	2002	2003	2004	2005	2006	2007	2008	2009
Electrical Americas operating profit (including acquisition integration charges)	\$ 149	\$ 169	\$ 239	\$ 368	\$ 448	\$ 534	\$ 630	\$ 518
Acquisition integration charges (pre-tax)	16	4	8	2	2	-	4	4
Electrical Americas operating profit (excluding acquisition integration charge)	\$ 165	\$ 173	\$ 247	\$ 370	\$ 450	\$ 534	\$ 634	\$ 522

#### Reconciliation of Eaton Electrical Americas operating margin to operating margin excluding acquisition integration charge

	2002	2003	2004	2005	2006	2007	2008	2009	2010E
Electrical Americas operating margin (including acquisition integration charges)	7.8%	8.8%	9.8%	12.5%	13.8%	14.8%	15.7%	15.2%	13%
Acquisition integration charges (pre-tax)	0.8%	0.2%	0.3%	0.1%	0.1%	0.0%	0.1%	0.1%	0%
Electrical Americas operating margin (excluding acquisition integration charge)	8.6%	9.0%	10.1%	12.6%	13.9%	14.8%	15.8%	15.3%	13%

#### Reconciliation of Eaton Electrical RoW operating profit to operating profit excluding acquisition integration charge

	2002	2003	2004	2005	2006	2007	2008	2009
Electrical RoW operating profit (including acquisition integration charges)	\$ (1)	\$ (11)	\$ 4	\$ 7	\$ 26	\$ 45	\$ 233	\$ 107
Acquisition integration charges (pre-tax)	-	18	25	19	5	12	43	60
Electrical RoW operating profit (excluding acquisition integration charge)	\$ (1)	\$ 7	\$ 29	\$ 26	\$ 31	\$ 57	\$ 276	\$ 167

#### Reconciliation of Eaton Electrical RoW operating margin to operating margin excluding acquisition integration charge

	2002	2003	2004	2005	2006	2007	2008	2009	2010E
Electrical RoW operating margin (including acquisition integration charges)	-1.5%	-2.9%	0.6%	0.9%	2.8%	3.9%	8.0%	4.3%	7%
Acquisition integration charges (pre-tax)	0.0%	4.7%	3.9%	2.3%	0.5%	1.0%	1.5%	2.4%	2%
Electrical RoW operating margin (excluding acquisition integration charge)	-1.5%	1.8%	4.5%	3.2%	3.3%	4.9%	9.5%	6.7%	9%

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### Reconciliation of Non-GAAP Financial Information

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#### Reconciliation of Eaton Industrial Sector operating profit to operating profit excluding acquisition integration charge

	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009
Industrial Sector operating profit (including acquisition integration charges)	\$ (3)	\$ 62	\$ 123	\$ 143	\$ 325
Acquisition integration charges (pre-tax)	4	3	6	3	16
Industrial Sector operating profit (excluding acquisition integration charge)	\$ 1	\$ 65	\$ 129	\$ 146	\$ 341

#### Reconciliation of Eaton Hydraulics operating profit to operating profit excluding acquisition integration charge

	2009
Hydraulic operating profit (including acquisition integration charges)	\$ 51
Acquisition integration charges (pre-tax)	3
Hydraulic operating profit (excluding acquisition integration charge)	\$ 54

#### Reconciliation of Eaton Hydraulics operating margin to operating margin excluding acquisition integration charge

	2009	2010E
Hydraulic operating margin (including acquisition integration charges)	3.0%	9%
Acquisition integration charges (pre-tax)	0.2%	0%
Hydraulic operating margin (excluding acquisition integration charge)	3.2%	9%

#### Reconciliation of Eaton Aerospace operating profit to operating profit excluding acquisition integration charge

	2009
Aerospace operating profit (including acquisition integration charges)	\$ 245
Acquisition integration charges (pre-tax)	12
Aerospace operating profit (excluding acquisition integration charge)	\$ 257

#### Reconciliation of Eaton Aerospace operating margin to operating margin excluding acquisition integration charge

	2009	2010E
Aerospace operating margin (including acquisition integration charges)	15.3%	15.3%
Acquisition integration charges (pre-tax)	0.7%	0.2%
Aerospace operating margin (excluding acquisition integration charge)	16.0%	15.5%

#### Reconciliation of Eaton Truck operating profit to operating profit excluding acquisition integration charge

	2009
Truck operating profit (including acquisition integration charges)	\$ 39
Acquisition integration charges (pre-tax)	-
Truck operating profit (excluding acquisition integration charge)	\$ 39

#### Reconciliation of Eaton Truck operating margin to operating margin excluding acquisition integration charge

	2009	2010E
Truck operating margin (including acquisition integration charges)	2.7%	10%
Acquisition integration charges (pre-tax)	0.0%	0%
Truck operating margin (excluding acquisition integration charge)	2.7%	10%

#### Reconciliation of Eaton Automotive operating profit to operating profit excluding acquisition integration charge

	2009
Automotive operating profit (including acquisition integration charges)	\$ (10)
Acquisition integration charges (pre-tax)	1
Automotive operating profit (excluding acquisition integration charge)	\$ (9)

#### Reconciliation of Eaton Automotive operating margin to operating margin excluding acquisition integration charge

	2009	2010E
Automotive operating margin (including acquisition integration charges)	-0.8%	7%
Acquisition integration charges (pre-tax)	0.1%	0%
Automotive operating margin (excluding acquisition integration charge)	-0.7%	7%

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#### Methodology for calculations used in the presentation

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

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

Return on sales = operating profit excluding acquisition integration charges / sales

Total return = stock price appreciation + dividend yield

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

Net working capital = 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