

# Eaton Corporation

## Reconciliation of Non-GAAP Financial Information

1Q 2012

All numbers \$M except per share numbers

### Reconciliation of net income to operating earnings

	2003	2004	2005	2006	2007	2008	2009	2010	2011	1Q 2012	2Q 2012	
											2012 Low	2012 High
Net income from continuing operations	\$ 356	\$ 626	\$ 783	\$ 897	\$ 959	\$ 1,055	\$ 383	\$ 929	\$ 1,350	\$ 311		
Net income from discontinued operations	30	22	22	53	35	3	-	-	-	-		
Net Income	386	648	805	950	994	1,058	383	929	1,350	311		
Acquisition integration charges (after-tax)	24	27	24	27	42	51	54	27	10	2		
Operating earnings	\$ 410	\$ 675	\$ 829	\$ 977	\$ 1,036	\$ 1,109	\$ 437	\$ 956	\$ 1,360	\$ 313		
Net income per share - diluted	\$ 1.28	\$ 2.07	\$ 2.62	\$ 3.11	\$ 3.31	\$ 3.26	\$ 1.14	\$ 2.73	\$ 3.93	\$ 0.91	\$ 1.04	\$ 1.14
Per share impact of unusual items (after tax)	0.08	0.08	0.07	0.09	0.14	0.16	0.16	0.08	0.03	0.01	0.01	0.01
Operating earnings per common share	\$ 1.36	\$ 2.15	\$ 2.69	\$ 3.20	\$ 3.45	\$ 3.42	\$ 1.30	\$ 2.81	\$ 3.96	\$ 0.92	\$ 1.05	\$ 1.15

### Reconciliation of segment operating profit to segment operating profit excluding restructuring charges

	2003	2004	2005	2006	2007	2008	2009	2010	2011	1Q 2012
Segment operating profit	\$ 763	\$ 1,123	\$ 1,374	\$ 1,468	\$ 1,668	\$ 1,805	\$ 950	\$ 1,700	\$ 2,260	\$ 544
Acquisition integration charges (pre-tax)	36	41	36	40	64	76	80	40	14	3
Segment operating profit excluding restructuring	\$ 799	\$ 1,164	\$ 1,410	\$ 1,508	\$ 1,732	\$ 1,881	\$ 1,030	\$ 1,740	\$ 2,274	\$ 547

### Reconciliation of segment operating margin to segment operating margin excluding restructuring charges

Segment operating margin	9.8%	11.8%	12.7%	12.0%	12.8%	11.7%	8.0%	12.4%	14.1%	13.7%
Acquisition integration charges	0.4%	0.4%	0.3%	0.3%	0.5%	0.5%	0.7%	0.3%	0.1%	0.1%
Segment operating margin excluding restructuring	10.2%	12.2%	13.0%	12.3%	13.3%	12.2%	8.7%	12.7%	14.2%	13.8%

### Reconciliation of net income margin to after tax operating margin

Net income margin	5.0%	6.8%	7.4%	7.8%	7.6%	6.9%	3.2%	6.8%	8.4%	7.9%
Acquisition integration charges	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%	0.5%	0.2%	0.1%	0.1%
After tax operating margin	5.3%	7.1%	7.6%	8.0%	7.9%	7.2%	3.7%	7.0%	8.5%	8.0%

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### Reconciliation of net income to EBIT and EBITDA

	2003	2004	2005	2006	2007	2008	2009	2010	2011	1Q 2012
Net income from continuing operations	\$ 356	\$ 626	\$ 783	\$ 897	\$ 959	\$ 1,055	\$ 383	\$ 929	\$ 1,350	\$ 311
Net income from discontinued operations	30	22	22	53	35	3	-	-	-	-
Net income	386	648	805	950	994	1,058	383	929	1,350	311
Income tax	122	133	191	77	97	73	(82)	99	201	57
Net interest expense	87	78	90	104	146	157	150	136	118	28
Other expense (income)	(5)	28	(27)	(72)	(43)	(30)	(9)	(1)	(38)	3
EBIT (including acquisition integration)	\$ 590	\$ 887	\$ 1,059	\$ 1,059	\$ 1,194	\$ 1,258	\$ 442	\$ 1,163	\$ 1,631	\$ 399
Depreciation & amortization	394	400	409	434	439	571	573	551	556	140
EBITDA (including acquisition integration)	\$ 984	\$ 1,287	\$ 1,468	\$ 1,493	\$ 1,633	\$ 1,829	\$ 1,015	\$ 1,714	\$ 2,187	\$ 539

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	1Q 2012
EBIT (including acquisition integration)	\$ 590	\$ 887	\$ 1,059	\$ 1,059	\$ 1,194	\$ 1,258	\$ 442	\$ 1,163	\$ 1,631	\$ 399
Acquisition integration charges (pre-tax)	37	41	36	40	64	77	82	40	14	3
EBIT (excluding restructuring)	\$ 627	\$ 928	\$ 1,095	\$ 1,099	\$ 1,258	\$ 1,335	\$ 524	\$ 1,203	\$ 1,645	\$ 402
EBITDA (including acquisition integration)	\$ 984	\$ 1,287	\$ 1,468	\$ 1,493	\$ 1,633	\$ 1,829	\$ 1,015	\$ 1,714	\$ 2,187	\$ 539
Acquisition integration charges (pre-tax)	37	41	36	40	64	77	82	40	14	3
EBITDA (excluding restructuring)	\$ 1,021	\$ 1,328	\$ 1,504	\$ 1,533	\$ 1,697	\$ 1,906	\$ 1,097	\$ 1,754	\$ 2,201	\$ 542

### Reconciliation of operating cash flow to free cash flow

	2003	2004	2005	2006	2007	2008	2009	2010	2011	1Q 2012	2012 Guidance	
Operating cash flow	\$ 874	\$ 838	\$ 1,135	\$ 1,431	\$ 1,158	\$ 1,441	\$ 1,408	\$ 1,282	\$ 1,248	\$ (98)	\$ 1,700	\$ 1,800
Capital expenditures	273	330	363	360	354	448	195	394	568	105	600	600
Free cash flow	\$ 601	\$ 508	\$ 772	\$ 1,071	\$ 804	\$ 993	\$ 1,213	\$ 888	\$ 680	\$ (203)	\$ 1,100	\$ 1,200

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### Reconciliation of Eaton Electrical Americas operating profit to operating profit excluding restructuring

	2006	2007	2008	2009	2010	2011	1Q 2012
Electrical operating profit (including restructuring)	\$ 448	\$ 534	\$ 630	\$ 518	\$ 529	\$ 605	\$ 162
Acquisition integration charges (pre-tax)	2	-	4	4	2	8	1
Electrical operating profit (excluding restructuring)	<u>\$ 450</u>	<u>\$ 534</u>	<u>\$ 634</u>	<u>\$ 522</u>	<u>\$ 531</u>	<u>\$ 613</u>	<u>\$ 163</u>

### Reconciliation of Eaton Electrical Rest of World operating profit to operating profit excluding restructuring

	2006	2007	2008	2009	2010	2011	1Q 2012
Electrical operating profit (including restructuring)	\$ 26	\$ 45	\$ 233	\$ 107	\$ 264	\$ 278	\$ 53
Acquisition integration charges (pre-tax)	5	12	43	60	33	2	1
Electrical operating profit (excluding restructuring)	<u>\$ 31</u>	<u>\$ 57</u>	<u>\$ 276</u>	<u>\$ 167</u>	<u>\$ 297</u>	<u>\$ 280</u>	<u>\$ 54</u>

### Reconciliation of Eaton Hydraulics operating profit to operating profit excluding restructuring

	2005	2006	2007	2008	2009	2010	2011	1Q 2012
Hydraulic operating profit (including restructuring)	\$ 153	\$ 221	\$ 265	\$ 285	\$ 51	\$ 279	\$ 438	\$ 109
Acquisition integration charges (pre-tax)	6	11	12	6	3	1	4	1
Hydraulic operating profit (excluding restructuring)	<u>\$ 159</u>	<u>\$ 232</u>	<u>\$ 277</u>	<u>\$ 291</u>	<u>\$ 54</u>	<u>\$ 280</u>	<u>\$ 442</u>	<u>\$ 110</u>

### Reconciliation of Eaton Aerospace operating profit to operating profit excluding restructuring

	2005	2006	2007	2008	2009	2010	2011	1Q 2012
Aerospace operating profit (including restructuring)	\$ 157	\$ 182	\$ 233	\$ 283	\$ 245	\$ 220	\$ 244	\$ 60
Acquisition integration charges (pre-tax)	1	12	39	20	12	4	-	-
Aerospace operating profit (excluding restructuring)	<u>\$ 158</u>	<u>\$ 194</u>	<u>\$ 272</u>	<u>\$ 303</u>	<u>\$ 257</u>	<u>\$ 224</u>	<u>\$ 244</u>	<u>\$ 60</u>

### Reconciliation of Eaton Truck operating profit to operating profit excluding restructuring

	2005	2006	2007	2008	2009	2010	2011	1Q 2012
Truck operating profit (including restructuring)	\$ 453	\$ 448	\$ 357	\$ 315	\$ 39	\$ 245	\$ 486	\$ 116
Acquisition integration charges (pre-tax)	4	5	-	-	-	-	-	-
Truck operating profit (excluding restructuring)	<u>\$ 457</u>	<u>\$ 453</u>	<u>\$ 357</u>	<u>\$ 315</u>	<u>\$ 39</u>	<u>\$ 245</u>	<u>\$ 486</u>	<u>\$ 116</u>

### Reconciliation of Eaton Automotive operating profit to operating profit excluding restructuring

	2005	2006	2007	2008	2009	2010	2011	1Q 2012
Automotive operating profit (including restructuring)	\$ 236	\$ 143	\$ 234	\$ 59	\$ (10)	\$ 163	\$ 209	\$ 44
Acquisition integration charges (pre-tax)	4	5	1	3	1	-	-	-
Automotive operating profit (excluding restructuring)	<u>\$ 240</u>	<u>\$ 148</u>	<u>\$ 235</u>	<u>\$ 62</u>	<u>\$ (9)</u>	<u>\$ 163</u>	<u>\$ 209</u>	<u>\$ 44</u>

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#### 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)

Cash flow 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