

Eaton Corporation

Reconciliation of Non-GAAP Financial Information

2009 Q3

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 Low	2009 High
Net income from continuing operations	\$ 343	\$ 150	\$ 258	\$ 355	\$ 627	\$ 783	\$ 897	\$ 959	\$ 1,055	\$ (50)	\$ 29	\$ 193		
Net income from discontinued operations	110	19	23	31	21	22	53	35	3	0	0	0		
Net Income	453	169	281	386	648	805	950	994	1,058	(50)	29	193		
Restructuring charges (after-tax)	34	86	47	24	27	24	27	42	51	14	10	12		
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		
Net income per share	\$ 3.12	\$ 1.20	\$ 1.96	\$ 2.56	\$ 4.12	\$ 5.23	\$ 6.22	\$ 6.62	\$ 6.52	\$ (0.30)	\$ 0.17	\$ 1.14	\$ 2.05	\$ 2.15
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	0.35	0.35
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	\$ 2.40	\$ 2.50

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

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

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

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%
Restructuring charges	0.6%	1.5%	0.8%	0.4%	0.4%	0.3%	0.3%	0.5%	0.5%	0.7%	0.5%	0.6%
Segment operating margin excluding restructuring	10.3%	7.9%	9.8%	10.2%	12.2%	13.0%	12.3%	13.3%	12.2%	4.2%	8.2%	10.9%

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%	6.9%	-1.8%	1.0%	6.4%
Restructuring charges (after-tax)	0.2%	0.9%	0.5%	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%	0.5%	0.3%	0.4%
After tax operating margin	5.8%	3.3%	4.5%	5.3%	7.1%	7.6%	8.0%	7.9%	7.2%	-1.3%	1.3%	6.8%

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Reconciliation of net income to EBIT and EBITDA

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3
Net income from continuing operations	\$ 343	\$ 150	\$ 258	\$ 355	\$ 627	\$ 783	\$ 897	\$ 959	\$ 1,055	\$ (50)	\$ 29	\$ 193
Net income from discontinued operations	110	19	23	31	21	22	53	35	3	0	0	0
Net income	453	169	281	386	648	805	950	994	1,058	(50)	29	193
Income tax	189	109	118	122	133	191	77	97	73	(11)	(1)	(28)
Net interest expense	177	142	104	87	78	90	104	146	157	37	41	38
Loss (gain) on sale of business	-	(61)	(18)	-	-	-	-	-	-	-	-	-
Other expense (income)	(80)	(11)	32	(5)	28	(27)	(72)	(43)	(30)	9	(8)	(6)
EBIT (including restructuring)	\$ 739	\$ 348	\$ 517	\$ 590	\$ 887	\$ 1,059	\$ 1,059	\$ 1,194	\$ 1,258	\$ (15)	\$ 61	\$ 197
Depreciation & amortization	462	449	376	394	400	409	434	469	592	143	147	153
EBITDA (including restructuring)	\$ 1,201	\$ 797	\$ 893	\$ 984	\$ 1,287	\$ 1,468	\$ 1,493	\$ 1,663	\$ 1,850	\$ 128	\$ 208	\$ 350

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3
EBIT (including restructuring)	\$ 739	\$ 348	\$ 517	\$ 590	\$ 887	\$ 1,059	\$ 1,059	\$ 1,194	\$ 1,258	\$ (15)	\$ 61	\$ 197
Restructuring charges (pre-tax)	52	129	62	37	41	36	40	64	77	21	15	19
EBIT (excluding restructuring)	\$ 791	\$ 477	\$ 579	\$ 627	\$ 928	\$ 1,095	\$ 1,100	\$ 1,258	\$ 1,335	\$ 6	\$ 76	\$ 216
EBITDA (including restructuring)	\$ 1,201	\$ 797	\$ 893	\$ 984	\$ 1,287	\$ 1,468	\$ 1,493	\$ 1,663	\$ 1,850	\$ 128	\$ 208	\$ 350
Restructuring charges (pre-tax)	52	129	62	37	41	36	40	64	77	21	15	19
EBITDA (excluding restructuring)	\$ 1,253	\$ 926	\$ 955	\$ 1,021	\$ 1,328	\$ 1,504	\$ 1,534	\$ 1,727	\$ 1,927	\$ 149	\$ 223	\$ 369

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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 Guidance
Operating cash flow	\$ 519	\$ 765	\$ 900	\$ 874	\$ 838	\$ 1,135	\$ 1,431	\$ 1,161	\$ 1,416	\$ 107	\$ 361	\$ 471	\$1,300 - \$1,400
Capital expenditures	386	295	228	273	330	363	360	355	448	48	48	40	200
Free cash flow	\$ 133	\$ 470	\$ 672	\$ 601	\$ 508	\$ 772	\$ 1,071	\$ 806	\$ 968	\$ 59	\$ 313	\$ 431	\$1,100 - \$1,200

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

	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3
Electrical operating profit (including restructuring)	\$ 448	\$ 535	\$ 631	\$ 106	\$ 144	\$ 142
Restructuring charges (pre-tax)	1	-	3	1	2	1
Electrical operating profit (excluding restructuring)	\$ 449	\$ 535	\$ 634	\$ 107	\$ 146	\$ 143

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

	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3
Electrical operating profit (including restructuring)	\$ 26	\$ 44	\$ 232	\$ (6)	\$ 16	\$ 45
Restructuring charges (pre-tax)	6	12	44	16	10	12
Electrical operating profit (excluding restructuring)	\$ 32	\$ 56	\$ 276	\$ 10	\$ 26	\$ 57

Reconciliation of Eaton Hydraulics operating profit to operating profit excluding restructuring

	2005	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3
Hydraulic operating profit (including restructuring)	\$ 153	\$ 221	\$ 265	\$ 285	\$ 6	\$ 14	\$ 18
Restructuring charges (pre-tax)	6	11	12	6	1	-	2
Hydraulic operating profit (excluding restructuring)	\$ 159	\$ 232	\$ 277	\$ 291	\$ 7	\$ 14	\$ 20

Reconciliation of Eaton Aerospace operating profit to operating profit excluding restructuring

	2005	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3
Aerospace operating profit (including restructuring)	\$ 157	\$ 182	\$ 233	\$ 283	\$ 71	\$ 70	\$ 57
Restructuring charges (pre-tax)	1	12	39	20	2	3	4
Aerospace operating profit (excluding restructuring)	\$ 158	\$ 194	\$ 272	\$ 303	\$ 73	\$ 73	\$ 61

Reconciliation of Eaton Truck operating profit to operating profit excluding restructuring

	2003	2004	2005	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3
Truck operating profit (including restructuring)	\$ 168	\$ 329	\$ 453	\$ 448	\$ 357	\$ 315	\$ (34)	\$ (3)	\$ 25
Restructuring charges (pre-tax)	-	-	4	5	-	-	-	-	-
Truck operating profit (excluding restructuring)	\$ 168	\$ 329	\$ 457	\$ 453	\$ 357	\$ 315	\$ (34)	\$ (3)	\$ 25

Reconciliation of Eaton Automotive operating profit to operating profit excluding restructuring

	2005	2006	2007	2008	2009 Q1	2009 Q2	2009 Q3
Automotive operating profit (including restructuring)	\$ 236	\$ 143	\$ 234	\$ 59	\$ (46)	\$ (19)	\$ 23
Restructuring charges (pre-tax)	4	5	1	3	1	-	-
Automotive operating profit (excluding restructuring)	\$ 240	\$ 148	\$ 235	\$ 62	\$ (45)	\$ (19)	\$ 23

Methodology for calculations used in the presentations

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

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Return on invested capital = $(\text{EBIT} - \text{taxes}) / \text{average (total debt} + \text{equity)}$

Return on sales = $\text{net income} / \text{sales}$

Total return = $\text{stock price appreciation} + \text{dividend yield}$

Net debt to total capital = $(\text{total debt} - \text{cash \& equivalents}) / (\text{total debt} - \text{cash \& equivalents} + \text{equity})$

Cash flow coverage ratio = $(\text{pre-tax income} + \text{depreciation} + \text{amortization} + \text{interest expense}) / \text{interest expense}$

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

DSO = average of quarterly DSO; quarterly DSO = $\text{quarter end accounts receivable} / \text{quarter sales} * 90 \text{ days}$

DOH = average of quarterly DOH; quarterly DOH = $\text{quarter end inventory} / \text{quarter COGS} * 90 \text{ days}$

DPO = average of quarterly DPO; quarterly DPO = $\text{quarter end accounts payable} / \text{quarter COGS} * 90 \text{ days}$

Cash conversion cycle = $\text{DSO} + \text{DOH} - \text{DPO}$

Free cash flow = $\text{cash flow from operations} - \text{capital expenditures}$