

# Eaton Corporation

## Reconciliation of Non-GAAP Financial Information

2Q 2010

All numbers \$M except per share numbers

### Reconciliation of net income to operating earnings

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1Q 2010	2Q 2010	2010 Low	2010 High
Net income from continuing operations	\$ 343	\$ 150	\$ 258	\$ 355	\$ 627	\$ 783	\$ 897	\$ 959	\$ 1,055	\$ 383	\$ 155	\$ 226		
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	383	155	226		
Restructuring charges (after-tax)	34	86	47	24	27	24	27	42	51	54	6	6		
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	\$ 437	\$ 161	\$ 232		
Net income per share	\$ 3.12	\$ 1.20	\$ 1.96	\$ 2.56	\$ 4.12	\$ 5.23	\$ 6.22	\$ 6.62	\$ 6.52	\$ 2.27	\$ 0.91	\$ 1.33	\$ 1.25	\$ 1.35
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	0.32	0.04	0.03	0.05	0.05
Operating earnings per common share	\$ 3.26	\$ 1.65	\$ 2.20	\$ 2.72	\$ 4.30	\$ 5.38	\$ 6.39	\$ 6.90	\$ 6.83	\$ 2.59	\$ 0.95	\$ 1.36	\$ 1.30	\$ 1.40

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1Q 2010	2Q 2010
Segment operating profit	\$ 785	\$ 455	\$ 625	\$ 763	\$ 1,123	\$ 1,374	\$ 1,468	\$ 1,668	\$ 1,805	\$ 950	\$ 338	\$ 403
Restructuring charges (pre-tax)	47	107	59	36	41	36	40	64	76	80	9	9
Segment operating profit excluding restructuring	\$ 832	\$ 562	\$ 684	\$ 799	\$ 1,164	\$ 1,410	\$ 1,508	\$ 1,732	\$ 1,881	\$ 1,030	\$ 347	\$ 412

### 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%	8.0%	10.9%	11.9%
Restructuring charges	0.6%	1.5%	0.8%	0.4%	0.4%	0.3%	0.3%	0.5%	0.5%	0.7%	0.3%	0.3%
Segment operating margin excluding restructuring	10.3%	7.9%	9.8%	10.2%	12.2%	13.0%	12.3%	13.3%	12.2%	8.7%	11.2%	12.2%

### 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%	3.2%	5.0%	6.7%
Restructuring charges (after-tax)	0.2%	0.9%	0.5%	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%	0.5%	0.2%	0.2%
After tax operating margin	5.8%	3.3%	4.5%	5.3%	7.1%	7.6%	8.0%	7.9%	7.2%	3.7%	5.2%	6.9%

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#### Reconciliation of net income to EBIT and EBITDA

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1Q 2010	2Q 2010
Net income from continuing operations	\$ 343	\$ 150	\$ 258	\$ 355	\$ 627	\$ 783	\$ 897	\$ 959	\$ 1,055	\$ 383	\$ 155	\$ 226
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	383	155	226
Income tax	189	109	118	122	133	191	77	97	73	(82)	31	22
Net interest expense	177	142	104	87	78	90	104	146	157	150	35	34
Loss (gain) on sale of business	-	(61)	(18)	-	-	-	-	-	-	-	-	-
Other expense (income)	(80)	(11)	32	(5)	28	(27)	(72)	(43)	(30)	(9)	(8)	(1)
EBIT (including restructuring)	\$ 739	\$ 348	\$ 517	\$ 590	\$ 887	\$ 1,059	\$ 1,059	\$ 1,194	\$ 1,258	\$ 442	\$ 213	\$ 281
Depreciation & amortization	462	449	376	394	400	409	434	439	571	573	141	136
EBITDA (including restructuring)	\$ 1,201	\$ 797	\$ 893	\$ 984	\$ 1,287	\$ 1,468	\$ 1,493	\$ 1,633	\$ 1,829	\$ 1,015	\$ 354	\$ 417

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1Q 2010	2Q 2010
EBIT (including restructuring)	\$ 739	\$ 348	\$ 517	\$ 590	\$ 887	\$ 1,059	\$ 1,059	\$ 1,194	\$ 1,258	\$ 442	\$ 213	\$ 281
Restructuring charges (pre-tax)	52	129	62	37	41	36	40	64	77	82	9	9
EBIT (excluding restructuring)	\$ 791	\$ 477	\$ 579	\$ 627	\$ 928	\$ 1,095	\$ 1,100	\$ 1,258	\$ 1,335	\$ 524	\$ 222	\$ 290
EBITDA (including restructuring)	\$ 1,201	\$ 797	\$ 893	\$ 984	\$ 1,287	\$ 1,468	\$ 1,493	\$ 1,633	\$ 1,829	\$ 1,015	\$ 354	\$ 417
Restructuring charges (pre-tax)	52	129	62	37	41	36	40	64	77	82	9	9
EBITDA (excluding restructuring)	\$ 1,253	\$ 926	\$ 955	\$ 1,021	\$ 1,328	\$ 1,504	\$ 1,534	\$ 1,697	\$ 1,906	\$ 1,097	\$ 363	\$ 426

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1Q 2010	2Q 2010	2010 Guidance
Operating cash flow	\$ 519	\$ 765	\$ 900	\$ 874	\$ 838	\$ 1,135	\$ 1,431	\$ 1,161	\$ 1,416	\$ 1,408	\$ (162)	\$ 469	\$1,150 - \$1,250
Capital expenditures	386	295	228	273	330	363	360	355	448	195	38	63	400
Free cash flow	\$ 133	\$ 470	\$ 672	\$ 601	\$ 508	\$ 772	\$ 1,071	\$ 806	\$ 968	\$ 1,213	\$ (200)	\$ 406	\$750 - \$850

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

	2006	2007	2008	2009	1Q 2010	2Q 2010
Electrical operating profit (including restructuring)	\$ 448	\$ 535	\$ 631	\$ 518	\$ 105	\$ 120
Restructuring charges (pre-tax)	1	-	3	4	1	1
Electrical operating profit (excluding restructuring)	\$ 449	\$ 535	\$ 634	\$ 522	\$ 106	\$ 121

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

	2006	2007	2008	2009	1Q 2010	2Q 2010
Electrical operating profit (including restructuring)	\$ 26	\$ 44	\$ 232	\$ 107	\$ 42	\$ 60
Restructuring charges (pre-tax)	6	12	44	60	7	7
Electrical operating profit (excluding restructuring)	\$ 32	\$ 56	\$ 276	\$ 167	\$ 49	\$ 67

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

	2005	2006	2007	2008	2009	1Q 2010	2Q 2010
Hydraulic operating profit (including restructuring)	\$ 153	\$ 221	\$ 265	\$ 285	\$ 51	\$ 54	\$ 77
Restructuring charges (pre-tax)	6	11	12	6	3	-	-
Hydraulic operating profit (excluding restructuring)	\$ 159	\$ 232	\$ 277	\$ 291	\$ 54	\$ 54	\$ 77

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

	2005	2006	2007	2008	2009	1Q 2010	2Q 2010
Aerospace operating profit (including restructuring)	\$ 157	\$ 182	\$ 233	\$ 283	\$ 245	\$ 49	\$ 48
Restructuring charges (pre-tax)	1	12	39	20	12	1	1
Aerospace operating profit (excluding restructuring)	\$ 158	\$ 194	\$ 272	\$ 303	\$ 257	\$ 50	\$ 49

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

	2003	2004	2005	2006	2007	2008	2009	1Q 2010	2Q 2010
Truck operating profit (including restructuring)	\$ 168	\$ 329	\$ 453	\$ 448	\$ 357	\$ 315	\$ 39	\$ 46	\$ 59
Restructuring charges (pre-tax)	-	-	4	5	-	-	-	-	-
Truck operating profit (excluding restructuring)	\$ 168	\$ 329	\$ 457	\$ 453	\$ 357	\$ 315	\$ 39	\$ 46	\$ 59

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

	2005	2006	2007	2008	2009	1Q 2010	2Q 2010
Automotive operating profit (including restructuring)	\$ 236	\$ 143	\$ 234	\$ 59	\$ (10)	\$ 42	\$ 39
Restructuring charges (pre-tax)	4	5	1	3	1	-	-
Automotive operating profit (excluding restructuring)	\$ 240	\$ 148	\$ 235	\$ 62	\$ (9)	\$ 42	\$ 39

#### 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)

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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