

First Quarter 2009 Earnings Release

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Forward-looking statements and Non-GAAP financial information

This presentation contains forward-looking statements concerning the second quarter 2009 sales, second quarter and full year 2009 net income per share and operating earnings per share, our worldwide markets, our growth in relation to end markets, our growth from acquisitions, the benefits due to employee reduction actions, and estimated savings from acquisition integration. These statements should be used with caution and are subject to various risks and uncertainties, many of which are outside the company's control. The following factors could cause actual results to differ materially from those in the forward-looking statements: unanticipated changes in the markets for the company's business segments; unanticipated downturns in business relationships with customers or their purchases from us; competitive pressures on sales and pricing; increases in the cost of material and other production costs, or unexpected costs that cannot be recouped in product pricing; the introduction of competing technologies; unexpected technical or marketing difficulties; unexpected claims, charges, litigation or dispute resolutions; the impact of acquisitions and divestitures; unanticipated difficulties integrating acquisitions; new laws and governmental regulations; interest rate changes; changes in currency exchange rates; stock market fluctuations; and unanticipated deterioration of economic and financial conditions in the United States and around the world. We do not assume any obligation to update these forward-looking statements.

This presentation includes certain non-GAAP measures as defined by SEC rules. A reconciliation of those measures to the most directly comparable GAAP equivalent is provided in the investor relations section of our website at www.eaton.com.

Highlights of 1Q Results

- Improved performance versus our revised guidance - \$0.08 better than mid-point of operating EPS guidance
- Sales for Q1 down 20% from Q1 2008
 - End markets down 21% offset by outgrowth of 1%
 - Acquisition growth offset by Forex
- Electrical and Aerospace weathering recession best; Hydraulics, Truck, and Automotive facing steep end market declines
- Operating cash flow was \$107M with \$59M in free cash flow
 - Second highest first quarter free cash flow
 - \$731M operating cash flow in the last six months

Comparison to 1st Q Guidance

Operating Earnings Per Share Guidance (\$0.25)-(\$0.35)

Reconciliation versus Guidance

Midpoint original Guidance	(\$0.30)
Lower RIF expense	\$0.23
Higher RIF savings	\$0.02
Lower end markets	(\$0.48)
Improved performance	\$0.31
Total	(\$0.22)

Guidance as announced February 27, 2009

Financial Summary

(M)	<u>1Q '09</u>	<u>1Q '08</u>	<u>V '09</u>
Sales	\$2,813	\$3,496	↓ 20%
Segment Operating Profit	118	445	↓ 73%
Segment Operating Margin	4.2%	12.7%	↓ 850 bps
Acquisition Integration Charges	21	13	
Segment Operating Profit as Reported	97	432	↓ 78%
Net Income	(50)	247	nm

Sales Mix:	Market Growth	(21)%
	Outgrowth	1%
	Acquisition	8%
	Forex	(8)%
	Total	<u>(20)%</u>

Reconciliation of net income to operating earnings

Net Income per share assuming dilution	(\$0.30)
After tax per share impact of acquisition integration charges	(0.08)
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Operating Earnings per share	(\$0.22)

Electrical Segment – Americas

(M)	<u>1Q '09</u>	<u>1Q '08</u>	<u>V '09</u>
Sales	\$859	\$911	↓ 6%
Operating Profit	107	142	↓ 25%
Margin	12.5%	15.6%	↓ 310 bps
Acquisition Integration Charges	1	0	
Operating Profit as Reported	106	142	↓ 25%

Sales Mix:	Market Growth	(10)%
	Outgrowth	7%
	Acquisition	0%
	Forex	(3)%
	Total	(6)%

- Bookings adjusted for Forex and acquisitions were down 11%
- Large project business held up well
- Steep decline in short cycle components businesses
- (\$1M) YTY operating income impact from RIFs

Electrical Segment – Rest of World

(M)	<u>1Q '09</u>	<u>1Q '08</u>	<u>V '09</u>
Sales	\$544	\$393	↑ 38%
Operating Profit	10	21	↓ 52%
Margin	1.8%	5.3%	↓ 350 bps
Acquisition Integration Charges	16	3	
Operating Profit as Reported	(6)	18	nm

Sales Mix:	Market Growth	(18)%
	Outgrowth	2%
	Acquisition	70%
	Forex	(16)%
	Total	<u>38%</u>

- Bookings in Europe and Asia Pacific declined 20%
- Significant destocking occurred in most channels
- Early signs of Asia stabilizing, but not so in Europe
- (\$3M) YTY operating income impact from RIFs

Hydraulics Segment

(M)	<u>1Q '09</u>	<u>1Q '08</u>	<u>V '09</u>
Sales	\$430	\$657	↓35%
Operating Profit	7	80	↓91%
Margin	1.6%	12.2%	↓1060 bps
Acquisition Integration Charges	1	2	
Operating Profit as Reported	6	78	↓92%

Sales Mix:	Market Growth	(29)%
	Outgrowth	(2)%
	Acquisition	1%
	Forex	(5)%
	Total	<u>(35)%</u>

- Prolonged shutdowns throughout the quarter by many OEM's. Significant cancellations and order curtailment added to the weakness.
- Global near term hydraulics orders were down 30%
- Full year decline of markets expected to be 25%
- \$2M YTY operating income improvement from RIFs

Aerospace Segment

(M)	<u>1Q '09</u>	<u>1Q '08</u>	<u>V '09</u>
Sales	\$418	\$430	↓ 3%
Operating Profit	73	70	↑ 4%
Margin	17.5%	16.3%	↑120 bps
Acquisition Integration Charges	2	7	
Operating Profit as Reported	71	63	↑13%

Sales Mix:	Market Growth	(4)%
	Outgrowth	6%
	Acquisition	0%
	Forex	(5)%
	Total	<u>(3)%</u>

- Margins holding at attractive levels
- Declines in commercial passenger traffic and business jet production likely to produce a 5% full year reduction in aerospace markets
- \$2M YTY operating income improvement from RIFs

Truck Segment

(M)	<u>1Q '09</u>	<u>1Q '08</u>	<u>V '09</u>
Sales	\$292	\$567	↓ 49%
Operating Profit	(34)	85	nm
Margin	(11.6)%	15.0%	↓ 2660 bps
Acquisition Integration Charges	0	0	
Operating Profit as Reported	(34)	85	nm

Sales Mix:	Market Growth	(27)%
	Outgrowth	(11)%
	Acquisition	0%
	Forex	(11)%
	Total	<u>(49)%</u>

- Significant destocking by OEMs and the aftermarket channel
- NAFTA heavy duty production totaled 28,000 units
- Current NAFTA heavy duty forecast is 135,000 units
- New hybrid programs continue to gain customer support
- (\$1M) YTY operating income impact from RIFs

Automotive Segment

(M)	<u>1Q '09</u>	<u>1Q '08</u>	<u>V '09</u>
Sales	\$270	\$538	↓ 50%
Operating Profit	(45)	47	nm
Margin	(16.7)%	8.7%	↓ 2540 bps
Acquisition Integration Charges	1	1	
Operating Profit as Reported	(46)	46	nm

Sales Mix:	Market Growth	(40)%
	Outgrowth	1%
	Acquisition	0%
	Forex	(11)%
	Total	(50)%

- U.S. market down 51% and non U.S. markets down 35%
- Full year production forecast now minus 23% with U.S. production down 25% and non-U.S. production down 22%
- (\$8M) YTY operating income impact from RIFs

Summary of Q1 2009 Accomplishments

- Acquisition integration on track
- Strong cash generation
- Cost management offsets lower market impact
- Issued \$550 million of term debt and reduced CP to \$172 million

2009 End Market Growth Forecast

	2009		
	U.S. Growth	Non U.S. Growth	Total
Electrical Americas Index	(12%)	NA	(12%)
Electrical Rest of World Index	NA	(9%)	(9%)
Hydraulics Index	(26%)	(22%)	(24%)
Aerospace Index	0%	(14%)	(5%)
Truck Index	(26%)	(17%)	(22%)
Automotive Index	(25%)	(22%)	(23%)
Consolidated Market Index	(16%)	(15%)	(15%) to (16%)
Eaton Weightings	45%	55%	100%

2008-2009 Employment Reductions

Pre-Tax (Millions)	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Cost	(65)	(85)		
<u>Benefit</u>	<u>53</u>	<u>77</u>	<u>100</u>	<u>125</u>
Net	(12)	(8)	100	125

Full year 2009 YTY Pretax income increase of \$205M

Full year 2010 YTY Pretax income increase of \$210M

2009 Benefits

(Millions)	February <u>Guidance</u>	Additional <u>Actions</u>	Revised <u>Total</u>
Employment	\$165	\$ 40	\$205
Other Actions	90	80	170
Total	<u>\$255</u>	<u>\$120</u>	<u>\$375</u>

2009 EPS Guidance Bridge

2008 Actual Operating EPS

\$6.83

Several Pluses:

• Year-to-Year RIF net savings	\$1.01
• Other cost savings actions	.86
• Market outgrowth at 25% margin	.25
• Full year acquisitions growth at 13% margin	.19
• Moeller and Phoenixtec cost synergies	.30
• Purchase price accounting avoidance	.17
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	\$2.78

Several Negatives:

• Market decline of 15.5%	\$(5.29)
• Higher tax rate	(.60)
• FOREX	(.49)
• Increase in number of shares outstanding	(.15)
• Higher pension & health care, and other expense (LIFO, intangibles)	(.33)
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	\$(6.86)

2009 Operating EPS

\$2.75

2009 EPS Guidance

	<u>Operating Earnings</u>	<u>Net Income</u>
Full Year	\$2.50 - \$3.00	\$2.10 - \$2.60
Q2*	\$0.25	\$0.15

* Assuming Q2 sales between \$3.0B and \$3.1B

Note: Acquisition integration costs are estimated to be \$0.10 per share in Q2 and \$0.40 per share for full year

Summary of 2009 guidance

	2009 Guidance
Market Outgrowth	\$200M
Incremental Sales from Acquisitions	\$300M
Operating EPS	\$2.50 - \$3.00
Fully Diluted EPS	\$2.10 - \$2.60
Operating Cash Flow	\$1.3B - \$1.4B
Free Cash Flow	\$1.0B - \$1.1B

Outlook for 2009

- Forecasting remains extremely difficult in current environment
- Markets expected to decline between 15% and 16%
- Foreign currency decline of 6%
- \$375M in net pre-tax year-to-year earnings improvement
- Tax rate of 14-16%

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