

Second Quarter 2009 Earnings Release

July 20, 2009

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Forward-looking statements and Non-GAAP financial information

This presentation contains forward-looking statements concerning the third quarter 2009 sales, third 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 2Q Results

- Operating EPS of \$0.23, about equal to guidance despite revenue shortfall of \$100M
- Sales for Q2 were down 32% from Q2 2008
 - End markets down 26% and foreign exchange down 6%
- Operating cash flow of \$361M and free cash flow of \$313M
 - Free cash flow \$68M above level in second quarter of 2008
- Operating cash flow in last three quarters totaled \$1.1B
- Maintaining quarterly dividend at \$0.50 per share
- Instituted further cost reductions, expected to yield an additional \$120M of cost savings in 2009

Comparison to 2nd Q Guidance

Reconciliation versus Guidance

Original Guidance	\$ 0.25
Lower RIF expense	\$ 0.10
Higher RIF savings	\$ 0.20
Lower end markets	\$ (0.70)
Lower tax rate	\$ 0.04
Improved performance	\$ 0.34
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Total	\$ 0.23

Financial Summary

(M)	<u>2Q '09</u>	<u>2Q '08</u>	<u>V '09</u>
Sales	\$2,901	\$4,279	↓ 32%
Segment Operating Profit	237	571	↓ 58%
Segment Operating Margin	8.2%	13.3%	↓ 510 bps
Acquisition Integration Charges	15	15	
Segment Operating Profit as Reported	222	556	↓ 60%
Net Income	29	333	↓ 91%

Sales Mix:	Market Growth	(26)%
	Outgrowth	0%
	Acquisition	0%
	Forex	(6)%
	Total	<u>(32)%</u>

Reconciliation of net income to operating earnings

Net Income per share assuming dilution	\$0.17
After tax per share impact of acquisition integration charges	\$0.06
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Operating Earnings per share	\$0.23

Electrical Segment – Americas

(M)	<u>2Q '09</u>	<u>2Q '08</u>	<u>V '09</u>
Sales	\$881	\$1,028	↓ 14%
Operating Profit	146	159	↓ 8%
Margin	16.6%	15.5%	↑ 110 bps
Acquisition Integration Charges	2	1	
Operating Profit as Reported	144	158	↓ 9%

Sales Mix:	Market Growth	(22)%
	Outgrowth	10%
	Acquisition	0%
	Forex	(2)%
	Total	(14)%

- Non-residential and power quality markets declined in high teens
- Residential electric and industrial control markets declined about 30%
- Bookings adjusted for forex and acquisitions were down 33%
- Market outgrowth of approximately \$100M
- \$13M net operating income savings from RIFs

Electrical Segment – Rest of World

(M)	<u>2Q '09</u>	<u>2Q '08</u>	<u>V '09</u>
Sales	\$595	\$911	↓ 35%
Operating Profit	26	98	↓ 73%
Margin	4.4%	10.8%	↓ 640 bps
Acquisition Integration Charges	10	6	
Operating Profit as Reported	16	92	↓ 83%

Sales Mix:	Market Growth	(22)%
	Outgrowth	(2)%
	Acquisition	0%
	Forex	(11)%
	Total	<u>(35)%</u>

- European markets down 24%
- Asia Pacific markets down 15%
- Bookings were down by 27%, but showed moderate improvement over the course of the quarter
- No net operating income savings from RIFs

Hydraulics Segment

(M)	<u>2Q '09</u>	<u>2Q '08</u>	<u>V '09</u>
Sales	\$425	\$695	↓ 39%
Operating Profit	14	93	↓ 85%
Margin	3.3%	13.4%	↓ 1010 bps
Acquisition Integration Charges	0	1	
Operating Profit as Reported	14	92	↓ 85%

Sales Mix:	Market Growth	(39)%
	Outgrowth	3%
	Acquisition	1%
	Forex	(4)%
	Total	<u>(39)%</u>

- U.S. markets down 45% and non-U.S. markets down 33%
- Near term bookings for Americas down 28%
- \$23M net operating income savings from RIFs

Aerospace Segment

(M)	<u>2Q '09</u>	<u>2Q '08</u>	<u>V '09</u>
Sales	\$409	\$466	↓ 12%
Operating Profit	73	75	↓ 3%
Margin	17.8%	16.1%	↑ 170 bps
Acquisition Integration Charges	3	6	
Operating Profit as Reported	70	69	↑ 1%

Sales Mix:	Market Growth	(8)%
	Outgrowth	0%
	Acquisition	0%
	Forex	(4)%
	Total	(12)%

- Growth in second quarter impacted by declines in commercial aftermarket and inventory reduction at commercial OEMs
- Overall bookings in the quarter declined by 32%
- Margins remain strong despite market weakness
- \$5M net operating income savings from RIFs

Truck Segment

(M)	<u>2Q '09</u>	<u>2Q '08</u>	<u>V '09</u>
Sales	\$321	\$625	↓ 49%
Operating Profit	(3)	94	nm
Margin	(0.9)%	15.0%	↓1590 bps
Acquisition Integration Charges	0	0	
Operating Profit as Reported	(3)	94	nm

Sales Mix:	Market Growth	(33)%
	Outgrowth	(7)%
	Acquisition	0%
	Forex	(9)%
	Total	(49)%

- U.S. markets down 43% and international markets down 22%
- Expect second half production levels broadly similar to first half
- New hybrid programs continue to gain customer support
- \$8M net operating income savings from RIFs

Automotive Segment

(M)	<u>2Q '09</u>	<u>2Q '08</u>	<u>V '09</u>
Sales	\$270	\$554	↓ 51%
Operating Profit	(19)	52	nm
Margin	(7.0)%	9.4%	↓ 1640 bps
Acquisition Integration Charges	0	(1)	
Operating Profit as Reported	(19)	51	nm

Sales Mix:	Market Growth	(33)%
	Outgrowth	(9)%
	Acquisition	0%
	Forex	(9)%
	Total	<u>(51)%</u>

- U.S. market down 48% and non-U.S. markets down 25%
- U.S. production levels should rise in second half as General Motors and Chrysler plants resume production following significant shut downs; Q3 U.S. production expected to rise about 25%
- International customer stimulus programs appear to have been broadly successful
- \$15M net operating income savings from RIFs

2009 End Market Growth Forecast

	2009		
	U.S. Growth	Non U.S. Growth	Total
Electrical Americas Index	(21)	(17)	(20)
Electrical Rest of World Index	0	(17)	(17)
Hydraulics Index	(39)	(27)	(33)
Aerospace Index	1	(16)	(5)
Truck Index	(36)	(16)	(27)
Automotive Index	(35)	(19)	(25)
Consolidated Market Index	(25)	(19)	(21) to (22)
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)	(69)	(16)	0
<u>Benefit</u>	<u>53</u>	<u>109</u>	<u>125</u>	<u>133</u>
Net	(12)	40	109	133

Full year 2009 YTY Pretax income increase of \$270M

Full year 2010 YTY Pretax income increase of \$220M

2009 Benefits

(Millions)	April <u>Guidance</u>	Additional <u>Actions</u>	Revised <u>Total</u>
Employment	\$205	\$ 65	\$270
Other Actions	170	55	225
Total	<u>\$375</u>	<u>\$120</u>	<u>\$495</u>

2009 EPS Guidance Bridge

2008 Actual Operating EPS **\$6.83**

Several Pluses:

• Year-to-Year RIF net savings	\$1.53
• Other cost savings actions	.96
• Lower tax rate	.31
• Improved operating performance	.34
• 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

\$4.05

Several Negatives:

• Market decline of 21.5%	\$(8.17)
• Forex	(.27)
• Increase in number of shares outstanding	(.08)
• Higher pension & health care, and other expense (LIFO, intangibles)	(.26)

\$(8.78)

2009 Operating EPS **\$2.10**

2009 EPS Guidance

	<u>Operating Earnings</u>	<u>Net Income</u>
Full Year	\$2.00 - \$2.20	\$1.65 - \$1.85
Midpoint	\$2.10	\$1.75
Q3	\$0.90 - \$1.00	\$0.80 - \$0.90
Midpoint	\$0.95	\$0.85

Summary of 2009 guidance

	2009 Guidance
Market Outgrowth	\$200M
Incremental Sales from Acquisitions	\$300M
Operating EPS	\$2.00 - \$2.20
Fully Diluted EPS	\$1.65 - \$1.85
Operating Cash Flow	\$1.2B to \$1.3B
Free Cash Flow	\$1.0B to \$1.1B

2010

- Consensus forecast for global GDP to grow by 2.5%, with industrial production likely to grow by 4.5% to 5.0%
- Expect good incremental profits as sales rebound
- Cost savings versus 2009 likely to be roughly neutral

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