

Second Quarter 2010 Earnings Release

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Forward-looking statements and Non-GAAP financial information

This presentation contains forward-looking statements concerning the third quarter 2010, and full year 2010 net income per share and operating earnings per share, full year 2010 revenues, our worldwide markets, our growth in relation to end markets, 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 earnings per share of \$1.36
- Net income per share of \$1.33
- Sales for Q2 were \$3,378M, up 16%
 - Up 9% versus Q1
- Operating cash flow of \$469M for Q2
- Quarterly dividend increased 16%
 - From \$0.50 to \$0.58 per share
- Full year earnings per share guidance midpoint raised by \$0.55
- April through December operating EPS forecasted to be 16% better than April Guidance

Comparison to 2nd Q Guidance

Operating EPS Reconciliation versus Guidance

Midpoint of Guidance	\$	1.15
Higher end markets		0.17
Lower tax rate		<u>0.04</u>
Total	\$	1.36

Financial Summary

(M)	<u>2Q '10</u>	<u>2Q '09</u>	<u>V '09</u>
Sales	\$3,378	\$2,901	↑ 16%
Segment Operating Profit	412	237	↑ 74%
Segment Operating Margin	12.2%	8.2%	↑ 400 bps
Acquisition Integration Charges	(9)	(15)	
Segment Operating Profit as Reported	403	222	↑ 82%
Net Income	226	29	↑ 679%

Sales Mix:	Market Growth	12%
	Outgrowth	4%
	Acquisition	0%
	Forex	0%
	Total	16%

Reconciliation of net income to operating earnings

Net Income per share assuming dilution	\$1.33
After tax per share impact of acquisition integration charges	\$0.03
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Operating Earnings per share	\$1.36

Electrical – Americas Segment

(M)	<u>2Q '10</u>	<u>2Q '09</u>	<u>V '09</u>
Sales	\$894	\$881	↑ 1%
Operating Profit	121	146	↓ 17%
Margin	13.5%	16.6%	↓ 310 bps
Acquisition Integration Charges	(1)	(2)	
Operating Profit as Reported	120	144	↓ 17%

Sales Mix:	Market Growth	(2)%
	Outgrowth	2%
	Acquisition	0%
	Forex	1%
	Total	1%

- Q2 bookings up 27%, powered by strong industrial and power quality markets
- Infrastructure bookings remain strong
- Stimulus bookings at \$360M
- No significant distributor restocking occurring

Electrical – Rest of World Segment

(M)	<u>2Q '10</u>	<u>2Q '09</u>	<u>V '09</u>
Sales	\$665	\$595	↑ 12%
Operating Profit	67	26	↑ 158%
Margin	10.1%	4.4%	↑ 570 bps
Acquisition Integration Charges	(7)	(10)	
Operating Profit as Reported	60	16	↑ 275%

Sales Mix:	Market Growth	6%
	Outgrowth	9%
	Acquisition	1%
	Forex	(4)%
	Total	<u>12%</u>

- Q2 bookings up 23%
- No significant distributor restocking occurring
- Power Quality markets particularly strong in Asia
- Acquisition integration remains on track to deliver \$0.30 in 2010

Hydraulics Segment

(M)	<u>2Q '10</u>	<u>2Q '09</u>	<u>V '09</u>
Sales	\$568	\$425	↑ 34%
Operating Profit	77	14	↑ 450%
Margin	13.6%	3.3%	↑ 1,030 bps

Sales Mix:	Market Growth	34%
	Outgrowth	0%
	Acquisition	0%
	Forex	0%
	Total	<u>34%</u>

- Global bookings up 69%
- Construction equipment OEMs leading rebound
- No significant distributor restocking occurring
- Signed global strategic alliance with Linde Hydraulics
- Raised full year market growth forecast to 26%

Aerospace Segment

(M)	<u>2Q '10</u>	<u>2Q '09</u>	<u>V '09</u>
Sales	\$370	\$409	↓ 9%
Operating Profit	49	73	↓ 33%
Margin	13.2%	17.8%	↓ 460 bps
Acquisition Integration Charges	(1)	(3)	
Operating Profit as Reported	48	70	↓ 31%

Sales Mix:	Market Growth	(1)%
	Outgrowth	(7)%
	Acquisition	0%
	Forex	(1)%
	Total	(9)%

- Bookings up 28%
- Aftermarket bookings up 13%
- Signed JV and supply contract with COMAC for new C919 single aisle
 - Expect over \$2.2B of program life revenue

Truck Segment

(M)	<u>2Q '10</u>	<u>2Q '09</u>	<u>V '09</u>
Sales	\$492	\$321	↑ 53%
Operating Profit	59	(3)	N/M
Margin	12.0%	(0.9)%	↑ 1,290 bps

Sales Mix:	Market Growth	28%
	Outgrowth	19%
	Acquisition	0%
	Forex	6%
	Total	53%

- 42% increase in NAFTA heavy duty truck production
- NAFTA Class 8 forecast of 150K units for 2010, up 27% over 2009
- South American markets remain strong, led by agricultural equipment and truck markets

Automotive Segment

(M)	<u>2Q '10</u>	<u>2Q '09</u>	<u>V '09</u>
Sales	\$389	\$270	↑ 44%
Operating Profit	39	(19)	N/M
Margin	10.0%	(7.0)%	↑ 1,700 bps

Sales Mix:	Market Growth	34%
	Outgrowth	11%
	Acquisition	0%
	Forex	(1)%
	Total	44%

- U.S. retail sales up 18%
- U.S. light vehicle production up 73%
- Production in international markets up 15%, led by APAC

Generated Strong Cash Flow

(\$M)	<u>Q2</u>
Operating cash flow	\$469
Capital expenditures	64
Free cash flow	405

2010 cash flow guidance increased by \$50M

2010 End Market Growth Forecast

	2010		
	U.S. Growth	Non U.S. Growth	Total
Electrical Americas Index	(1)	(1)	(1) ↑
Electrical Rest of World Index	N/A	6	6
Hydraulics Index	29	24	26 ↑
Aerospace Index	(1)	(1)	(1)
Truck Index	24	22	23 ↑
Automotive Index	36	8	17 ↑
Consolidated Market Index	8	8	8 ↑
Eaton Weightings	45%	55%	100%

Further Improvement In Segment Margins

	February Guidance	April Guidance	July Guidance
Electrical Americas	13%	13%	13%
Electrical ROW	9%	9%	10%
Hydraulics	9%	11%	12%
Aerospace	15.5%	14.5%	14.5%
Truck	10%	10%	12%
Automotive	7%	9%	10%
Eaton Consolidated	10%	11%	12%

2010 EPS Guidance

	<u>Operating Earnings</u>	<u>Net Income</u>
Full Year	\$4.90 - \$5.10	\$4.75 - \$4.95
Midpoint	\$5.00	\$4.85
Q3	\$1.30 - \$1.40	\$1.25 - \$1.35
Midpoint	\$1.35	\$1.30

Note: Full year guidance includes \$(0.14) impact from Medicare Part D

2010 EPS Guidance Bridge

2009 Operating EPS **\$ 2.59**

Several Pluses:

• Market improvement of 8% at 40% margin	\$	2.55
• Year-to-Year RIF net savings		1.77
• Market outgrowth at 40% margin		1.07
• FOREX		0
• Moeller and Phoenixtec cost synergies		0.30
	\$	5.69

Several Negatives:

• Tax rate change	\$	1.65
• Restoration of other savings		1.53
• Net acquisition / divestiture		0.01
• Increase in number of shares outstanding		0.05
• Higher amortization of intangibles and other		0.04
	\$	(3.28)

2010 Operating EPS **\$ 5.00**

2nd Q 2010 to 3rd Q 2010 Reconciliation

2 nd Q Operating EPS	\$ 1.36
Incremental volume	.08
Higher tax rate	(.09)
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3 rd Q Operating EPS	\$ 1.35

Summary of 2010 guidance

	April Guidance	July Guidance
Market Growth Forecast	6%	8%
Market Growth	\$700M	\$950M
Market Outgrowth	\$300M	\$400M
Incremental Growth from FOREX	\$150M	0
Tax Rate	12-14%	12-14%
Operating EPS	\$4.30 - \$4.60	\$4.90 - \$5.10
Fully Diluted EPS	\$4.15 - \$4.45	\$4.75 - \$4.95
Operating Cash Flow	\$1.1B to \$1.2B	\$1.15B to \$1.25B
Free Cash Flow	\$700M to \$800M	\$750M to \$850M

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