

Third Quarter 2010 Earnings Release

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Forward-looking statements and Non-GAAP financial information

This presentation contains forward-looking statements concerning the fourth 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, 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 3Q Results

- Operating earnings per share of \$1.60
- Net income per share of \$1.57
- Sales for Q3 were \$3,571M, up 18%
 - 25% of sales from developing countries
 - Sales up 6% sequentially
- Operating cash flow of \$420M for Q3, 11.8% of sales
- Segment margins of 13.4%, nearly matching all-time record margins despite sales 17% below peak levels
- Full year operating EPS forecasted to be 10% better than July Guidance

Comparison to 3rd Q Guidance

Operating EPS Reconciliation versus Guidance

Midpoint of Guidance	\$	1.35
Higher end market growth		0.10
Improved performance		0.08
Lower tax rate		0.04
Improved currency		0.03
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Total	\$	1.60

Financial Summary

(M)	<u>3Q '10</u>	<u>3Q '09</u>	<u>V '09</u>
Sales	\$3,571	\$3,028	↑ 18%
Segment Operating Profit	478	329	↑ 45%
Segment Operating Margin	13.4%	10.9%	↑ 250 bps
Acquisition Integration Charges	(7)	(19)	
Segment Operating Profit as Reported	471	310	↑ 52%
Net Income	268	193	↑ 39%

Sales Mix:	Market Growth	14%
	Outgrowth	4%
	Acquisition	1%
	Forex	(1)%
	Total	<u>18%</u>

Reconciliation of net income to operating earnings

Net Income per share assuming dilution	\$1.57
After tax per share impact of acquisition integration charges	\$0.03
	<u> </u>
Operating Earnings per share	\$1.60

Electrical – Americas Segment

(M)	<u>3Q '10</u>	<u>3Q '09</u>	<u>V '09</u>
Sales	\$967	\$843	↑ 15%
Operating Profit	141	143	↓ 1%
Margin	14.6%	17.0%	↓ 240 bps
Acquisition Integration Charges	(0)	(1)	
Operating Profit as Reported	141	142	↓ 1%

Sales Mix:	Market Growth	3%
	Outgrowth	9%
	Acquisition	2%
	Forex	1%
	Total	15%

- Strong margins despite the 15% reduction in non-residential construction market
- Q3 bookings up 8%
- Stimulus bookings at \$450M
- Distributor restocking not yet occurring

Electrical – Rest of World Segment

(M)	<u>3Q '10</u>	<u>3Q '09</u>	<u>V '09</u>
Sales	\$707	\$646	↑ 9%
Operating Profit	87	57	↑ 53%
Margin	12.3%	8.8%	↑ 350 bps
Acquisition Integration Charges	(6)	(12)	
Operating Profit as Reported	81	45	↑ 80%

Sales Mix:	Market Growth	9%
	Outgrowth	3%
	Acquisition	1%
	Forex	(4)%
	Total	<u>9%</u>

- All-time record quarterly margins
- European industrial and power quality markets strong
- Asian power quality and power distribution markets remain strong
- Q3 bookings up 19%, led by APAC
- Distributor restocking not yet occurring

Hydraulics Segment

(M)	<u>3Q '10</u>	<u>3Q '09</u>	<u>V '09</u>
Sales	\$583	\$418	↑ 40%
Operating Profit	76	20	↑ 280%
Margin	13.0%	4.8%	↑ 820 bps
Acquisition Integration Charges	0	(2)	
Operating Profit as Reported	76	18	↑ 322%

Sales Mix:	Market Growth	44%
	Outgrowth	(4)%
	Acquisition	0%
	Forex	0%
	Total	40%

- Mobile equipment, particularly construction equipment OEM's, are showing strongest growth
- International market growth is strong in Latin America, Europe, and APAC
- Hydraulics bookings up 43%

Aerospace Segment

(M)	<u>3Q '10</u>	<u>3Q '09</u>	<u>V '09</u>
Sales	\$390	\$394	↓ 1 %
Operating Profit	61	61	
Margin	15.6%	15.5%	↑ 10 bps
Acquisition Integration Charges	(1)	(4)	
Operating Profit as Reported	60	57	↑ 5%

Sales Mix:	Market Growth	3%
	Outgrowth	(3)%
	Acquisition	0%
	Forex	(1)%
	Total	(1)%

- Improved margin performance in line with our expectations
- Q3 bookings up 12%, led by commercial OEM and military aftermarket

Truck Segment

(M)	<u>3Q '10</u>	<u>3Q '09</u>	<u>V '09</u>
Sales	\$534	\$401	↑ 33%
Operating Profit	74	25	↑ 196%
Margin	13.9%	6.2%	↑ 770 bps

Sales Mix:	Market Growth	28%
	Outgrowth	2%
	Acquisition	0%
	Forex	3%
	Total	<u>33%</u>

- U.S. markets up 24%
- NAFTA Heavy Duty production up 34%
- Brazil Truck and Bus markets up 57%
- South America Agricultural production up 46%

Automotive Segment

(M)	<u>3Q '10</u>	<u>3Q '09</u>	<u>V '09</u>
Sales	\$390	\$326	↑ 20%
Operating Profit	39	23	↑ 70%
Margin	10.0%	7.1%	↑ 290 bps






Sales Mix:	Market Growth	14%
	Outgrowth	7%
	Acquisition	0%
	Forex	(1)%
	Total	<u>20%</u>

- Maintained 10% margins in the seasonally weaker third quarter
- U.S. production increased 28%
- International production up 8%, led by Latin America

Cash Flow

(\$M)	<u>Q3</u>	<u>2010 Guidance</u>
Operating cash flow	\$420	\$1,200 – \$1,300
Capital expenditures	<u>106</u>	<u>400</u>
Free cash flow	\$314	\$800 – \$900

2010 End Market Growth Forecast -- A Transitional Year

	2010		
	U.S. Growth	Non U.S. Growth	Total
Electrical Americas Index	(2)	0	(1)
Electrical Rest of World Index	N/A	7	7 
Hydraulics Index	37	26	31 
Aerospace Index	(1)	(2)	(1)
Truck Index	22	30	26 
Automotive Index	38	19	24 
Consolidated Market Index	8	12	10 
Eaton Weightings	45%	55%	100%

Further Improvement In 2010 Segment Margins

	February Guidance	April Guidance	July Guidance	October Guidance	
Electrical Americas	13%	13%	13%	14%	↑
Electrical ROW	9%	9%	10%	11%	↑
Hydraulics	9%	11%	12%	13%	↑
Aerospace	15.5%	14.5%	14.5%	14.5%	
Truck	10%	10%	12%	12%	
Automotive	7%	9%	10%	10%	
Eaton Consolidated	10%	11%	12%	12%	

2010 EPS Guidance

	<u>Operating Earnings</u>	<u>Net Income</u>
Full Year	\$5.45 - \$5.55	\$5.30 - \$5.40
Midpoint	\$5.50	\$5.35
Q4	\$1.55 - \$1.65	\$1.50 - \$1.60
Midpoint	\$1.60	\$1.55

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 10% at 40% margin	\$ 3.18
• Year-to-Year RIF net savings	1.77
• Market outgrowth at 40% margin	1.07
• FOREX	0.07
• Moeller and Phoenixtec cost synergies	0.30
• Net acquisition / divestiture	0.01
	\$ 6.40

Several Negatives:

• Tax rate change	\$ 1.66
• Restoration of other savings	1.53
• Increase in number of shares outstanding	0.07
• Other corporate expense charges	0.23
	\$ (3.49)

2010 Operating EPS **\$ 5.50**

3rd Q 2010 to 4th Q 2010 Reconciliation

3 rd Q Operating EPS	\$ 1.60
Mix of FX, acquisitions and seasonal volume	(0.01)
Lower tax rate	<u>0.01</u>
4 th Q Operating EPS	\$ 1.60

Summary of 2010 guidance

	April Guidance	July Guidance	October Guidance
Market Growth Forecast	6%	8%	10%
Market Growth	\$700M	\$950M	\$1,200M
Market Outgrowth	\$300M	\$400M	\$400M
Incremental Growth from FOREX	\$150M	0	\$100M
Tax Rate	12 - 14%	12 - 14%	11 - 12%
Operating EPS	\$4.30 - \$4.60	\$4.90 - \$5.10	\$5.45 - \$5.55
Fully Diluted EPS	\$4.15 - \$4.45	\$4.75 - \$4.95	\$5.30 - \$5.40
Operating Cash Flow	\$1.1B to \$1.2B	\$1.15B to \$1.25B	\$1.2B to \$1.3B
Free Cash Flow	\$700M to \$800M	\$750M to \$850M	\$800M to \$900M

2011

- Consensus global growth forecasts

	<u>2010</u>	<u>2011</u>
Global GDP	3.6%	3.2%
Global Industrial Production	8.9%	5.1%

- Expect higher growth in Eaton markets, as late-cycle businesses begin to rebound
- Incrementals return to historical levels of 30% to 35%

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