



# Eaton Corporation

## Bank of America Merrill Lynch 2010 Global Industries Conference

Richard Fearon, Vice Chairman and Chief Financial & Planning Officer  
December 16, 2010



# Forward-looking statements and Non-GAAP financial information

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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 and our growth from acquisitions. 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 or currency 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](http://www.eaton.com).

# Eaton Corporation – A Premier Diversified Power Management Company

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- A balanced power management company
- Progress over the last decade
- Accelerating growth and profitability
- 2010 Outlook

# Eaton is a leader across the power management spectrum

We provide reliable, efficient and safe power management for...



**Cities & Buildings**

**Industrial & Machinery**

**Information Technology**

**Transportation**

**Infrastructure**

**Energy & Utilities**

# EATON

*Powering Business Worldwide*

# We have aligned our organization structure to better serve our markets



## Electrical Sector

2009 – \$5.9 B Sales  
9 mos. 2010 – \$4.6B Sales

Electrical Americas

Electrical Rest of World

## Industrial Sector

2009 – \$6.0 B Sales  
9 mos. 2010 – \$5.4B Sales

Aerospace

Hydraulics

Vehicle

# The Electrical Sector delivers a broad array of power solutions through a regionally focused organization

## Power Distribution



- Circuit breakers
- Switchgear
- Panelboards and switchboards
- Transformers
- Assemblies

## Power Quality



- Uninterruptible power supplies
  - Single phase
  - 3 phase
- Power distribution units
- Meters and software

## Control and Automation



- Drives
- Sensors
- Human machine interface
- Control components

## Services and Aftermarket



- Engineering and consulting services
- Turnkey design, build and management
- Maintenance and aftermarket
- Power audits and studies

## 2009 Sales

\$3.4B Americas business  
\$2.5B Rest of World business

# Eaton's Industrial Sector is a leader in the management of mechanical and fluid power

## Aerospace

2009 Sales \$1.6B



- Hydraulic Systems
- Conveyance Systems
- Electrical, Sensing and Controls
- Fuel Systems

## Hydraulics

2009 Sales \$1.7B



- Controls
- Fluid Conveyance
- Power
- Filtration

## Truck

2009 Sales \$1.5B



- Transmissions
  - Heavy Duty
  - Light / Medium Duty
- Clutch
- Hybrid

## Automotive

2009 Sales \$1.2B



- Valvetrain
- Supercharger
- Fluid Connectors
- Fuel and Powertrain
- Torque Control

\$6.0B portfolio of Industry leading businesses

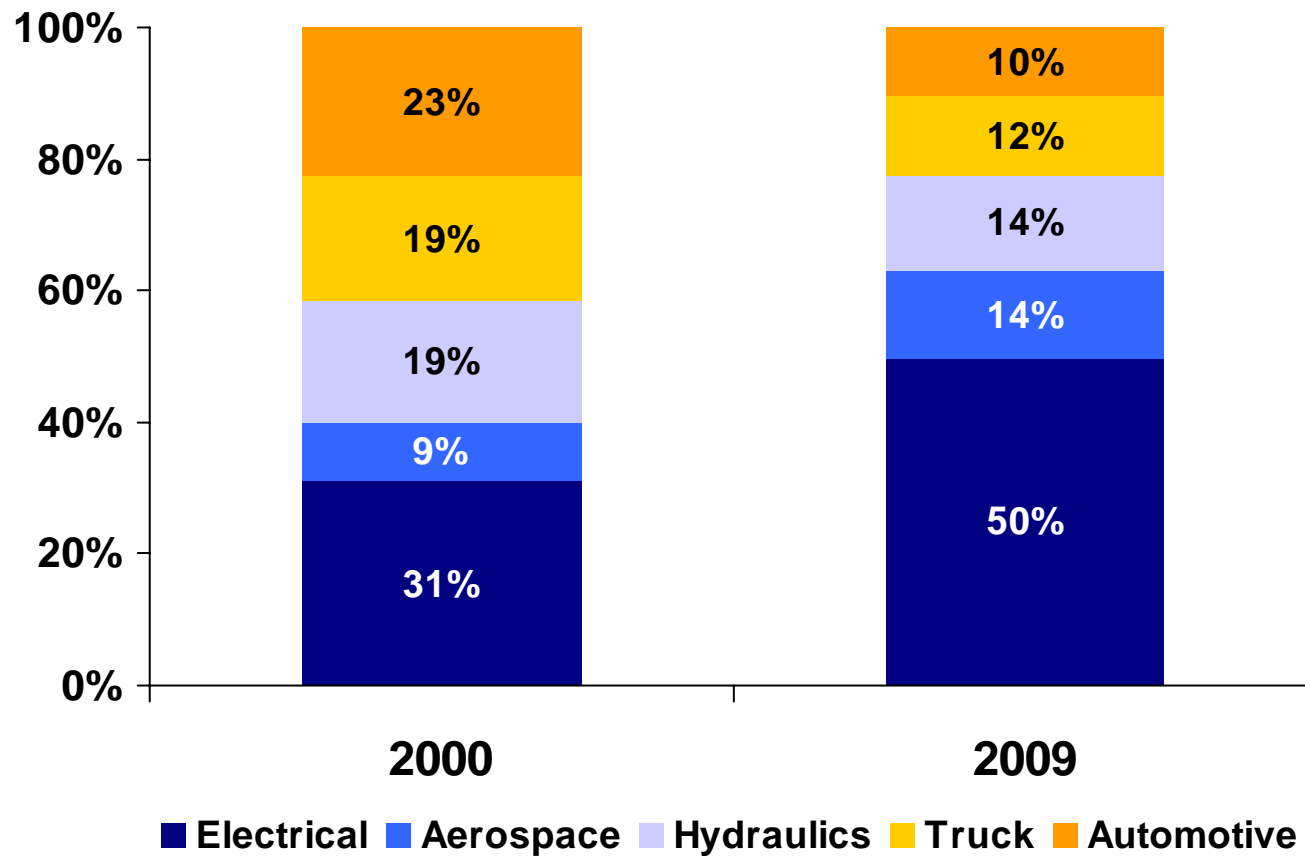
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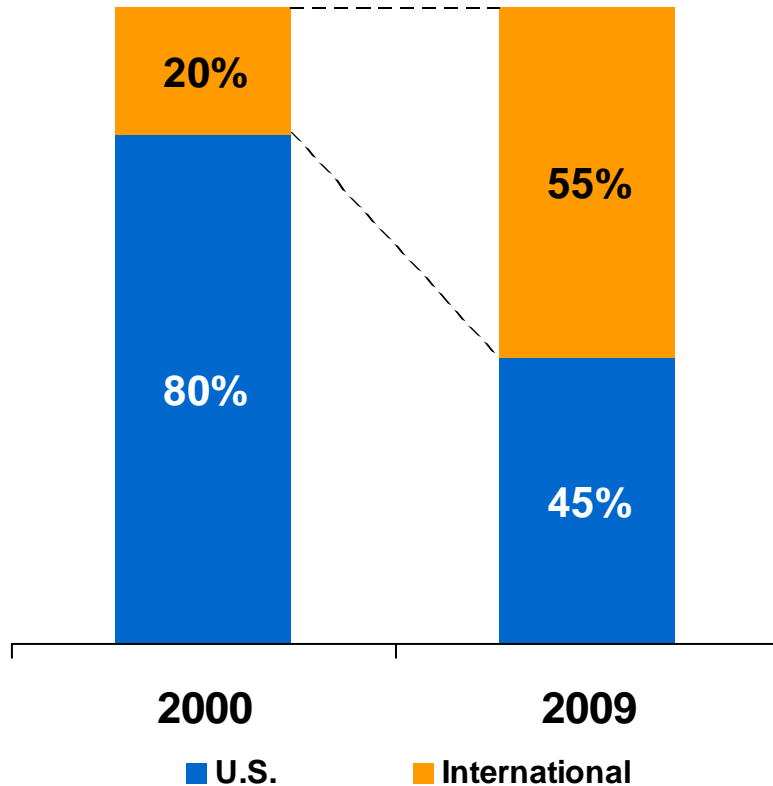
# Over the last decade, we have shifted our business mix towards higher-growth markets

## Eaton Sales

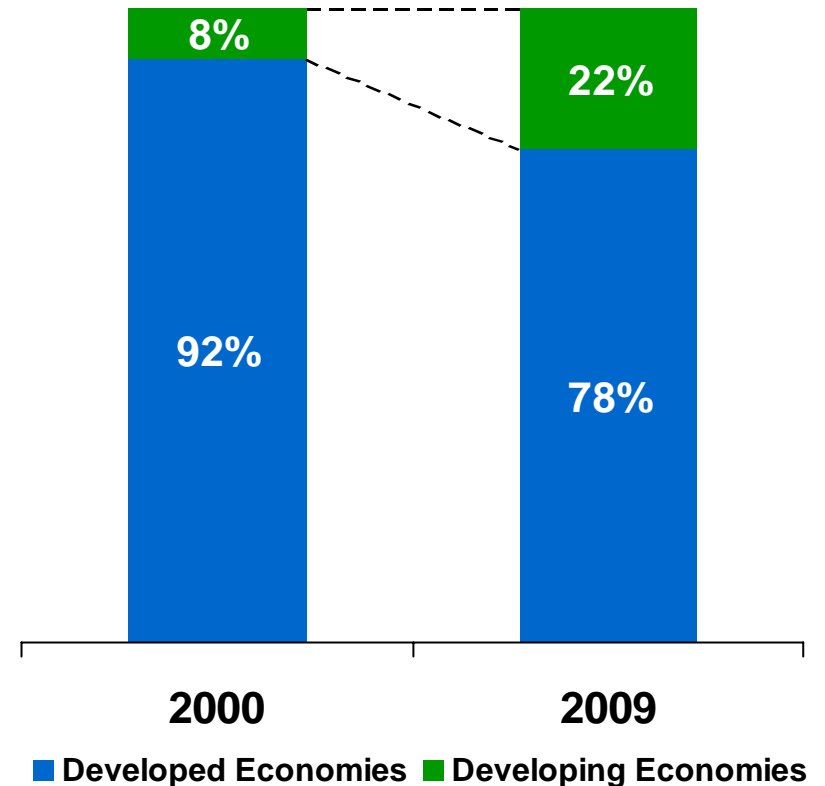


# The majority of our sales are global, with growing exposure to developing economies

## Global Sales by Region



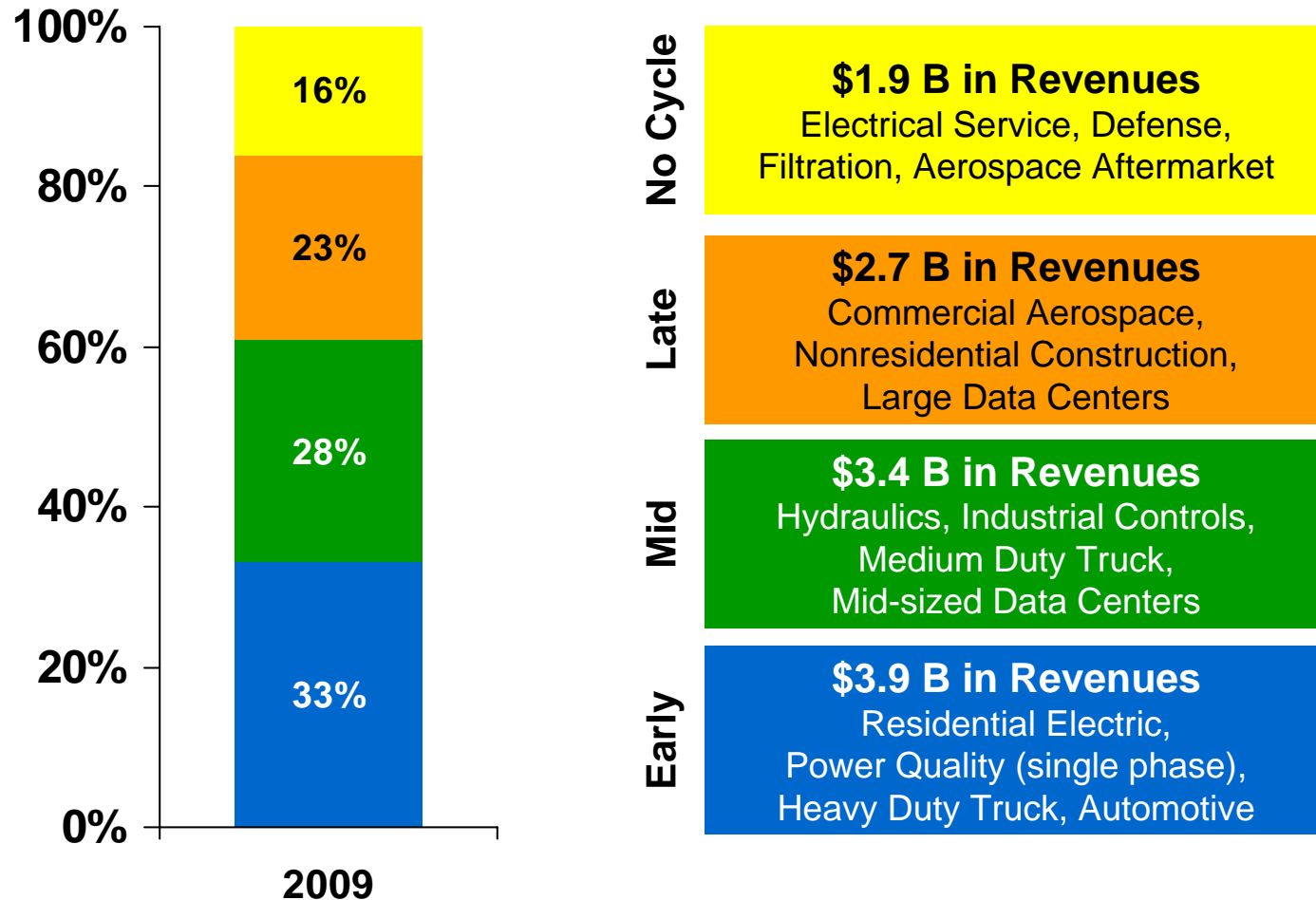
## Global Sales by Type of Market



**Sales to developing countries over 25% in Q3 2010**

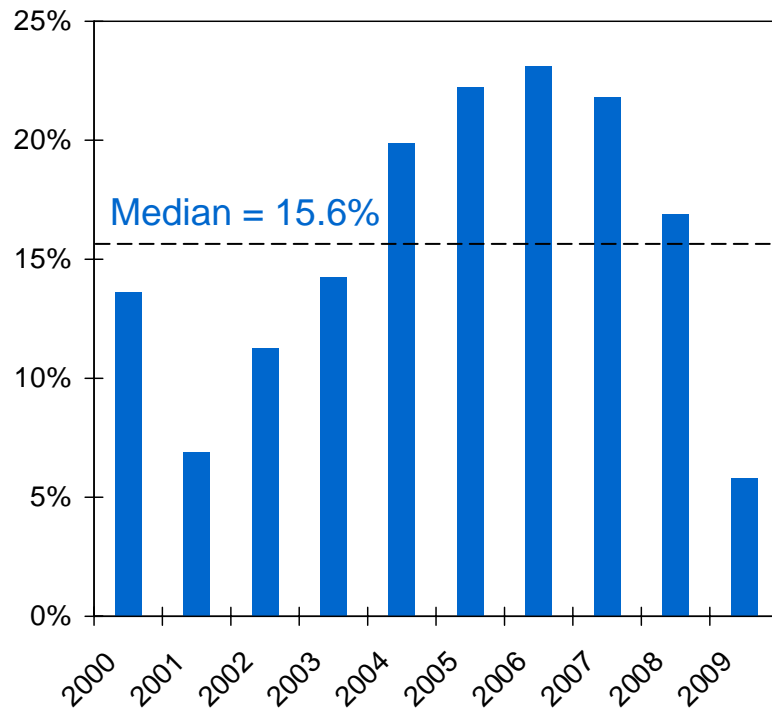
# Our business mix is balanced through the economic cycle

## 2009 Global Sales by Cycle

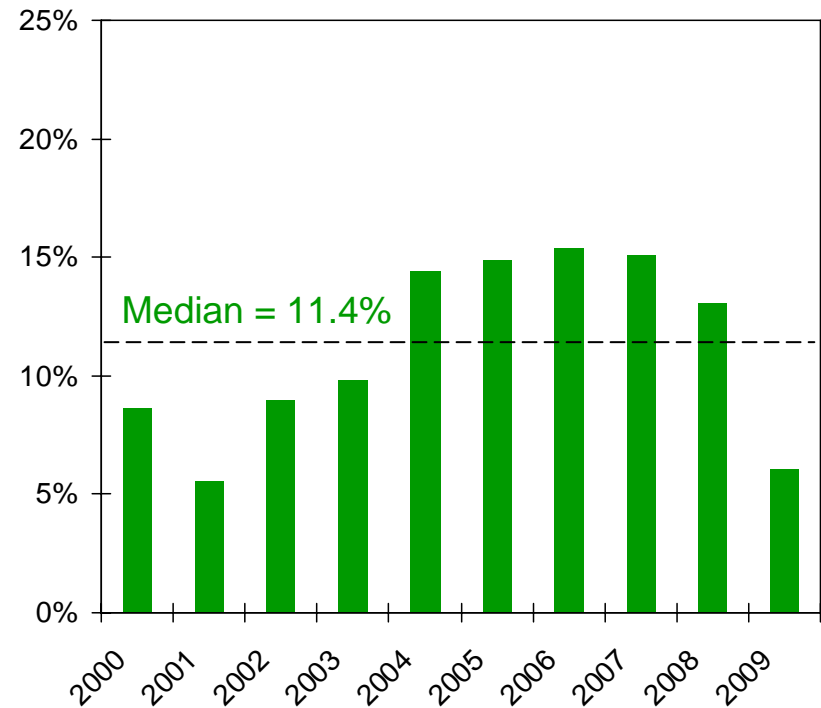


# Our businesses have generated attractive returns over the past decade

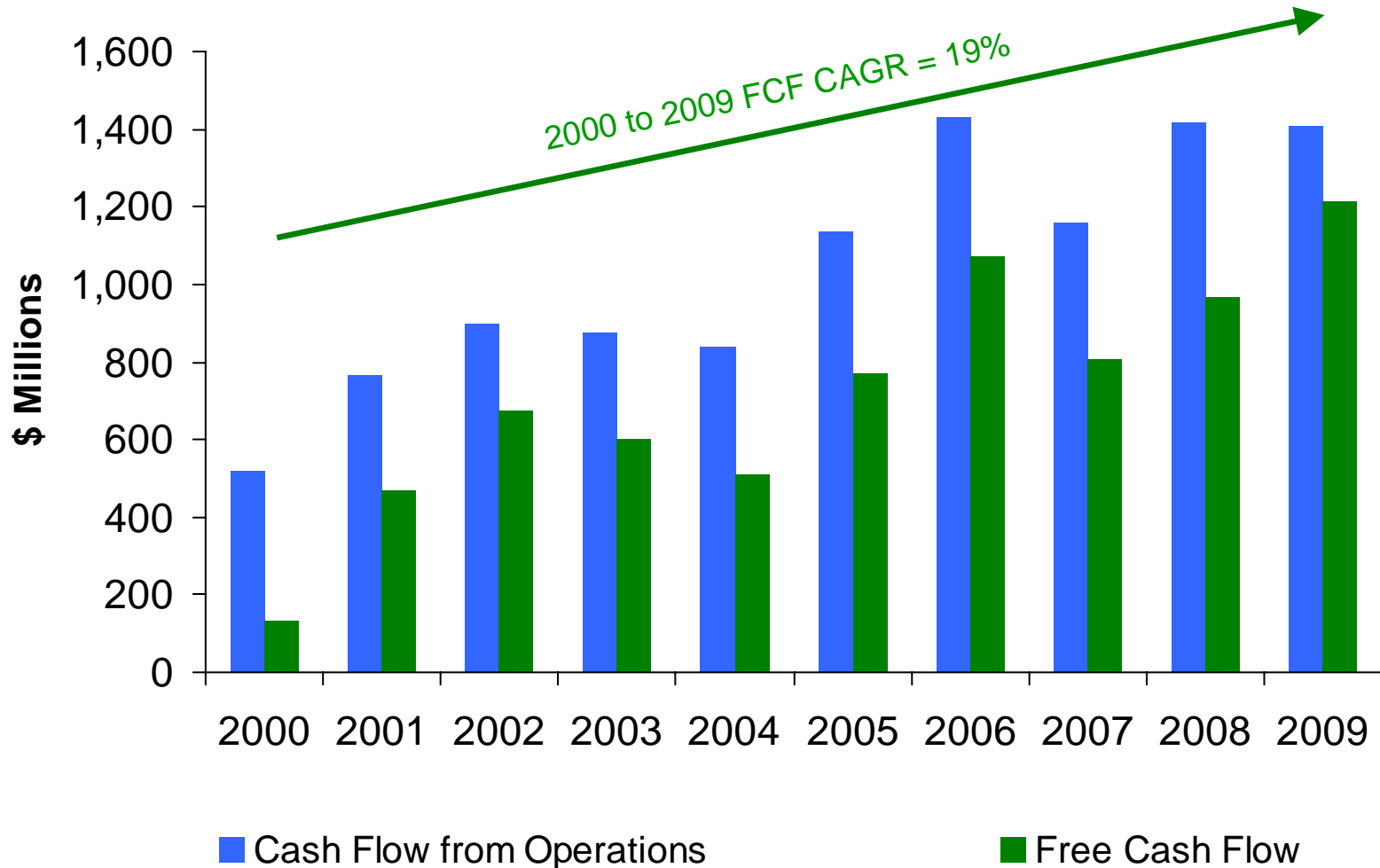
## Return on Equity



## Return on Invested Capital

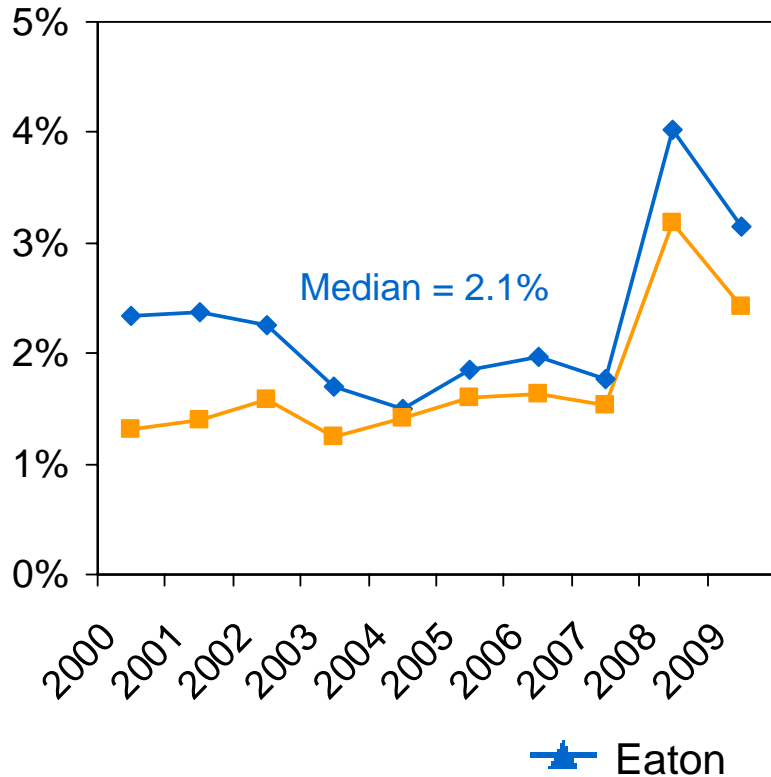


# Free cash flow has grown at 19% a year, reaching a record level in 2009

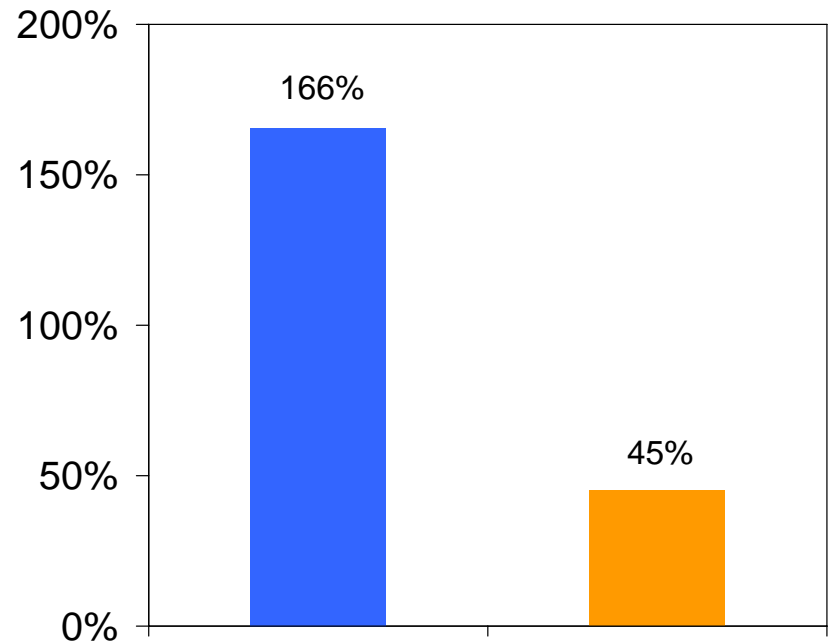


# Our dividend yield and share price appreciation have delivered strong returns to shareholders

## Dividend Yield

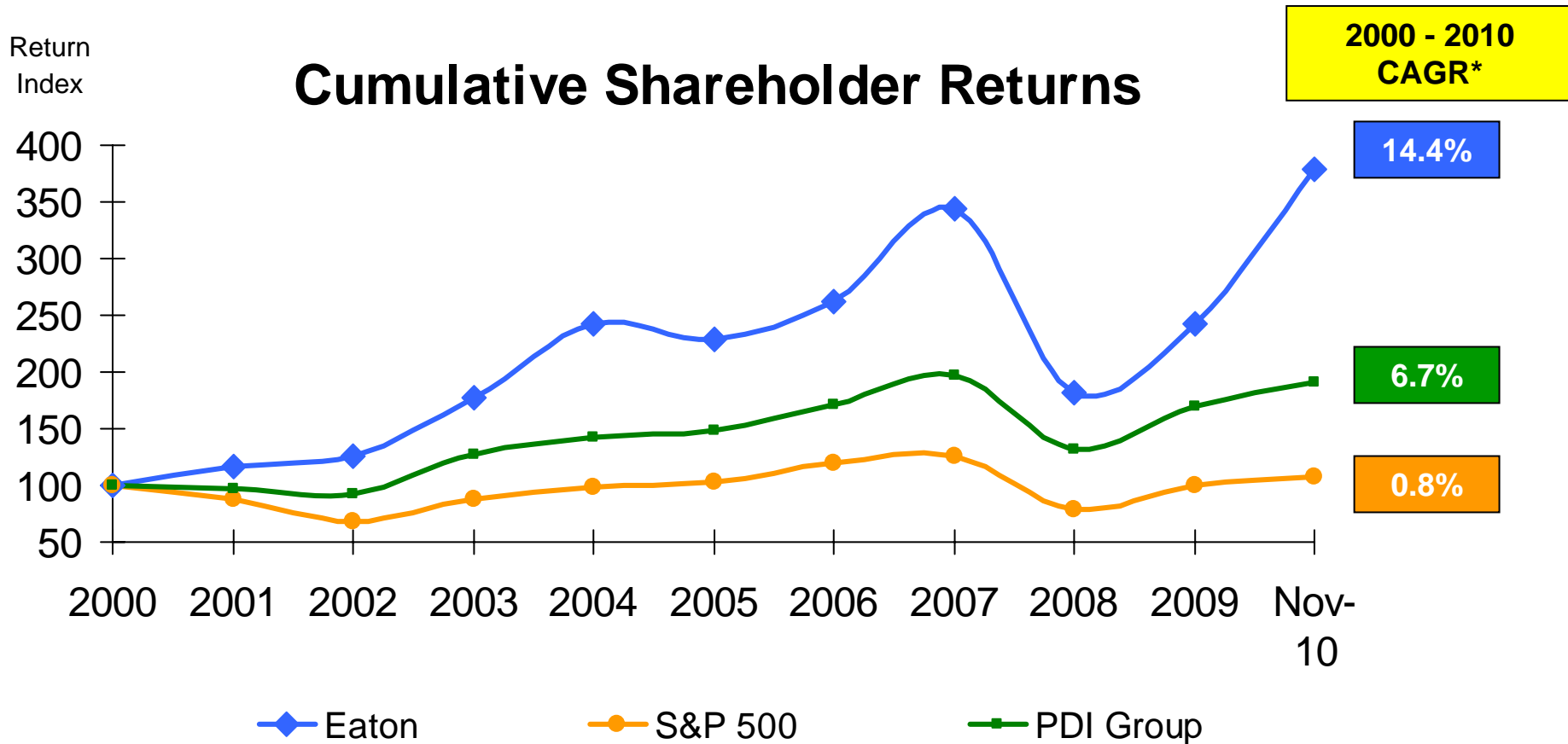


## Cumulative Price Appreciation 2000 – Nov 2010



**On July 21<sup>st</sup> quarterly dividend raised by 16% from \$0.50 to \$0.58**

# Eaton's cumulative return over the last decade



Note – DI Group represents an equal weighted index of ABB, DHR, DOV, EMR, GE, HON, IR, ITT, ITW, MMM, PH, SI, SPW, TXT, TYC, UTX;  
 \*CAGR = Calculated using the End Point Methodology  
 Source Data: Capital IQ

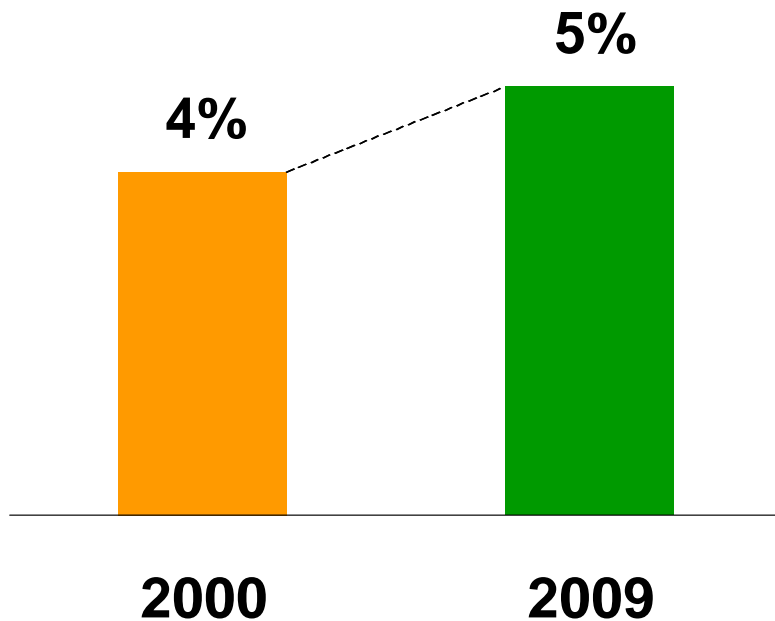
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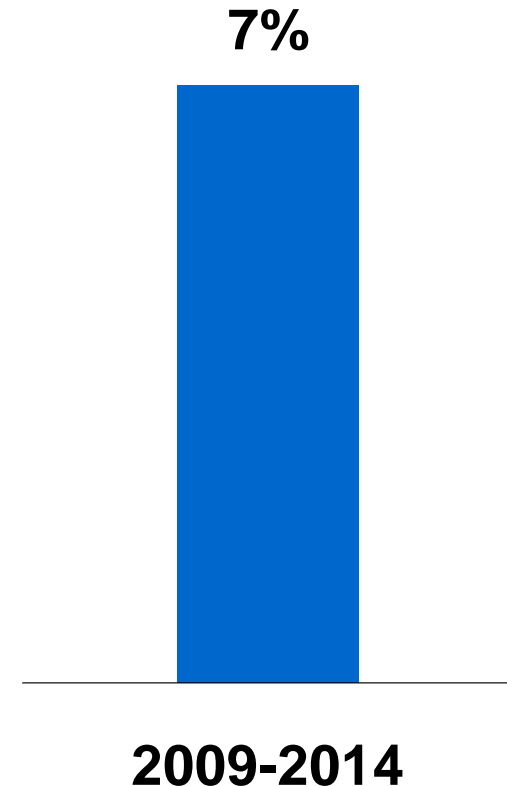
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We have increased our core growth rate to 5% and expect growth of 7% as markets recover

**Eaton Core Growth Rate Through the Cycle**

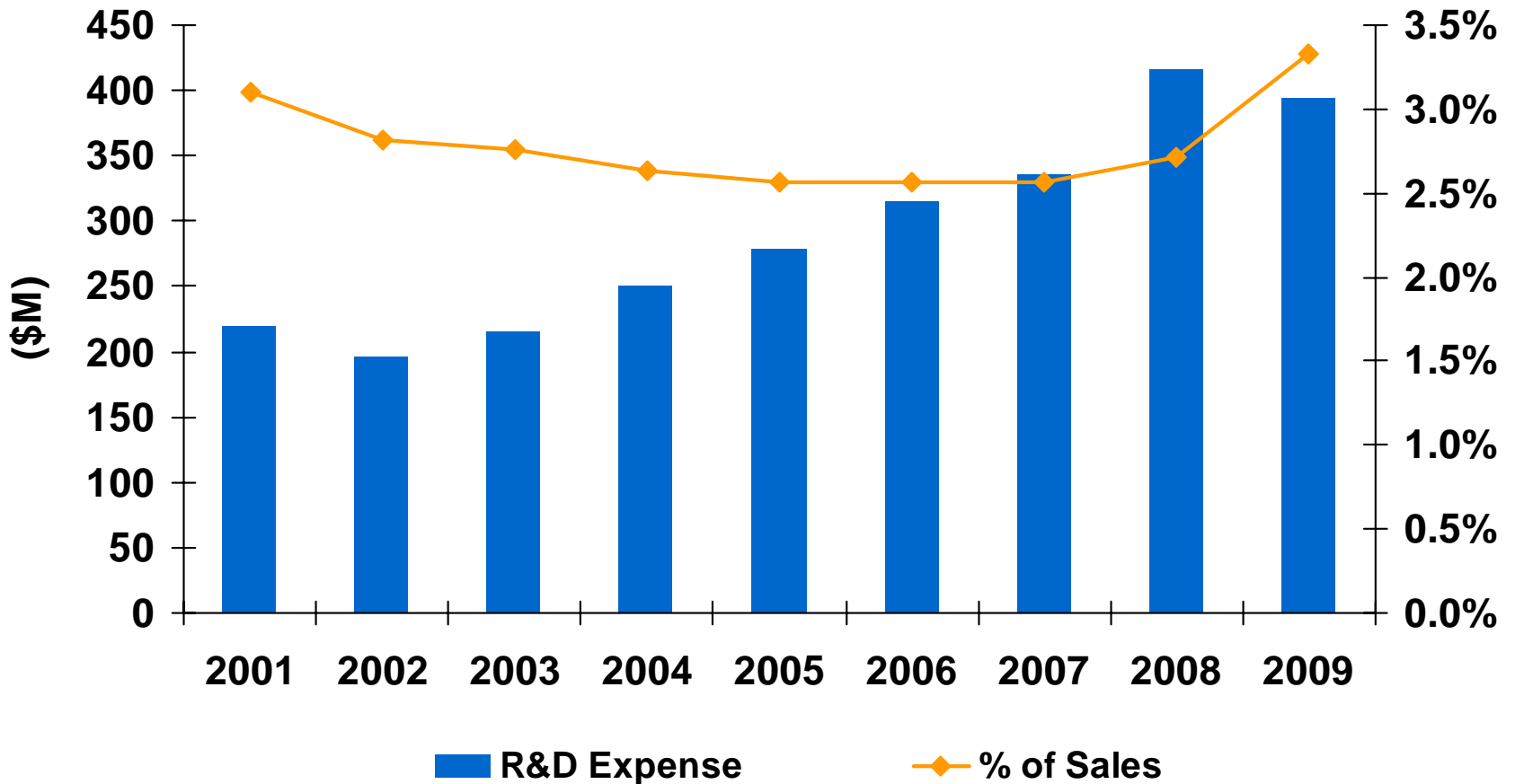


**Expected Market Growth Rate During Recovery**



# We have remained focused on developing new technology through the downturn

## R&D Expense



# Our innovative Electrical technologies provide a full suite of sustainable solutions

## Wind Power



- Electrical nacelle components and gearbox substitutes
- Space-saving, cost-effective switchgear
- Integrated collector substations

**20-25% CAGR**

## Solar Power



- Commercial/utility scale photovoltaic inverters
- Scalable, integrated balance of system solutions
- SolarGuard arc flash fire prevention and safety system

**25-35% CAGR**

## Energy Conservation



- Energy efficient uninterruptible power supplies
- Energy management engineering, programs and audits
- Power management software and reporting

**15-20% CAGR**

## Services



- Turnkey design and engineering services
- Energy management engineering, programs and audits
- Building and infrastructure retrofits

**15-20% CAGR**

# The Industrial sector is a market leader in hydraulic, mechanical and vehicle power

## Alternative Energy



- Cylinders, valves, pumps and hoses for a broad range of alternative energy markets
  - Wind Power – leader in wind turbine pitch and yaw control
  - Hydropower – unique combination of XL cylinders, power units and design capabilities

**20-25% CAGR**

## Hybrid Vehicles



- Global leader in commercial hybrid vehicles
- Hybrid electric systems reduce both exhaust and noise emissions
- Hybrid hydraulic systems for improved fuel economy and extended brake life

**50-60% CAGR**

## Fuel and Emissions

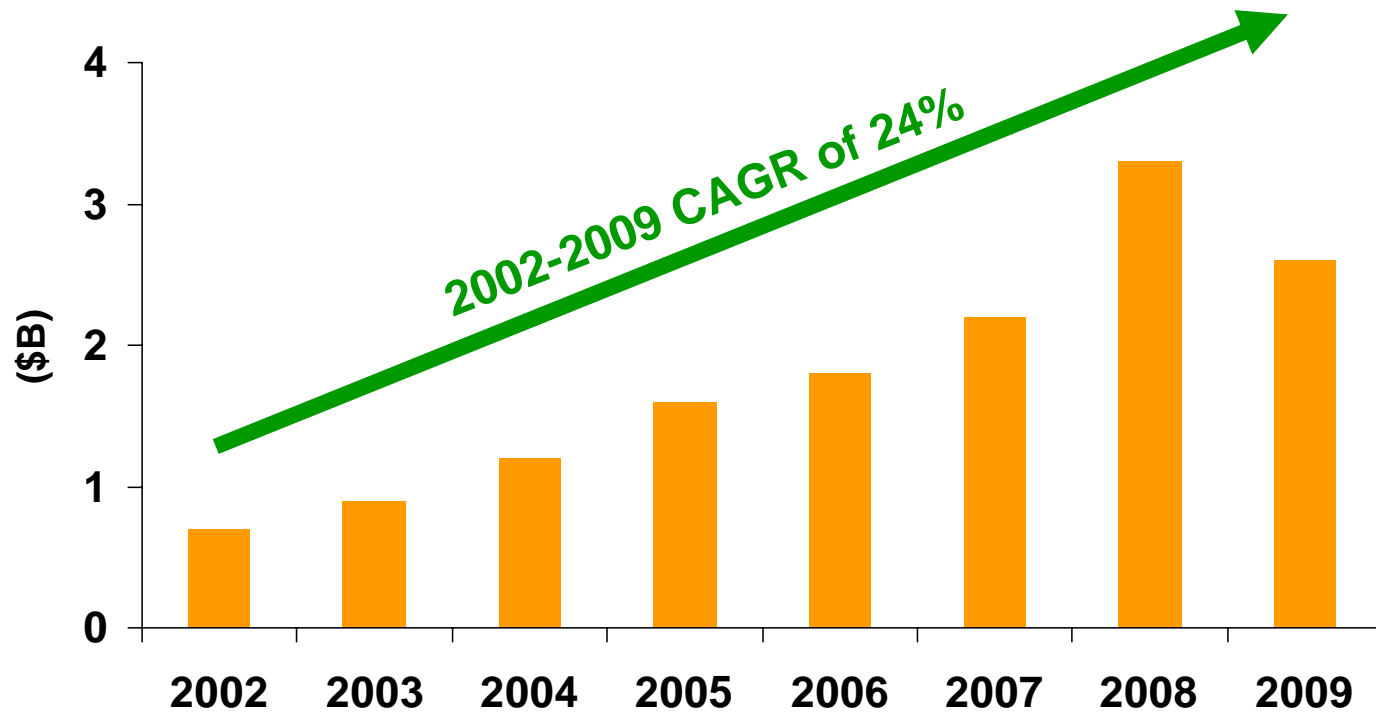


- Leading technologies improve fuel economy and reduce vehicle emissions
  - TVS™ superchargers
  - High-efficiency variable valve actuation
  - Fuel vapor valves

**20-25% CAGR**

# We have a strong track record of growth in developing economies...

## Sales in Developing Economies



Percent  
of Sales:

10% 11% 13% 15% 14% 17% 21% 22%

**YTD for 2010, 25% of sales are to developing economies**

# ...and we continued to invest heavily during the global downturn

2007



**Eaton Engineering & Shared Service Center  
(Pune, India)**

- Full range of professional services
- 1,100 employees, including 800 engineers

2008



**Eaton R&D Center  
(Suzhou, China)**

- Electrical center of excellence
- R&D for Electrical businesses
- Shared service center for Finance

2009



**Eaton Corporate Office  
(Moscow, Russia)**

- Co-located business and corporate teams
- Regional training center

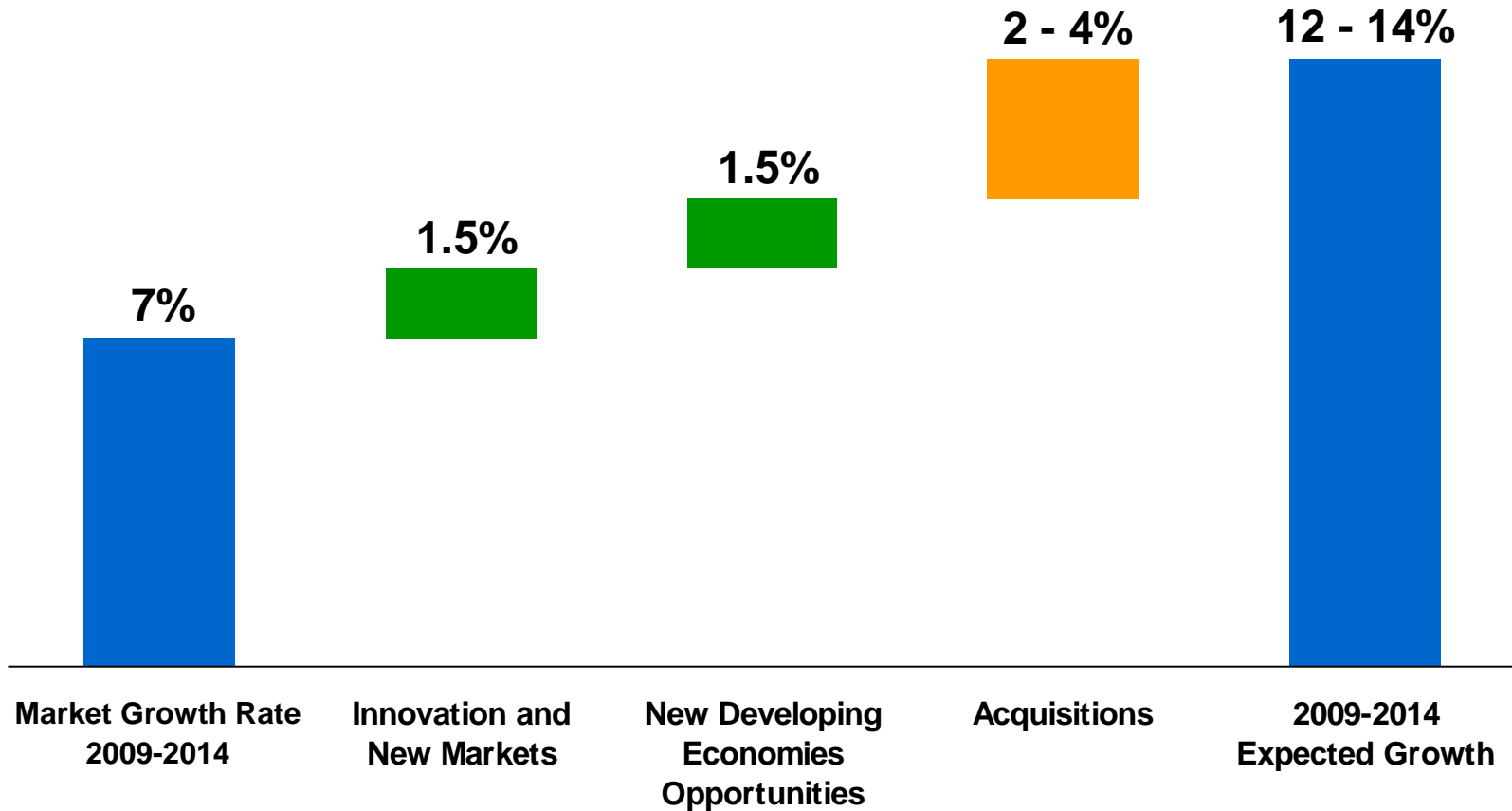


**Eaton Regional HQ  
(Shanghai, China)**

- Co-located business and corporate teams
- Customer experience center

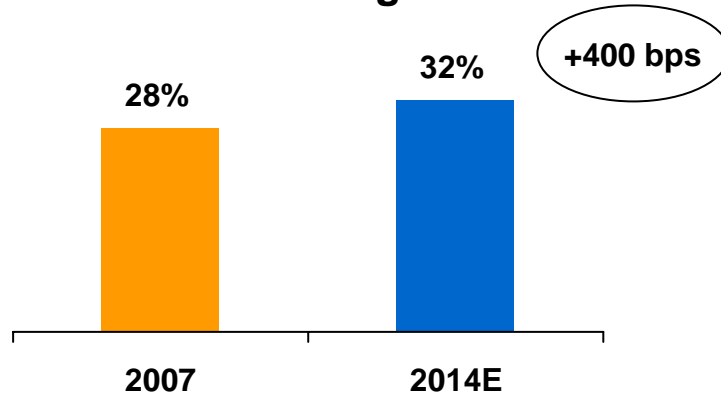
We expect organic growth of 10% over the next 5 years and an overall growth rate of 12-14%

### Eaton Long-Term Sales Growth

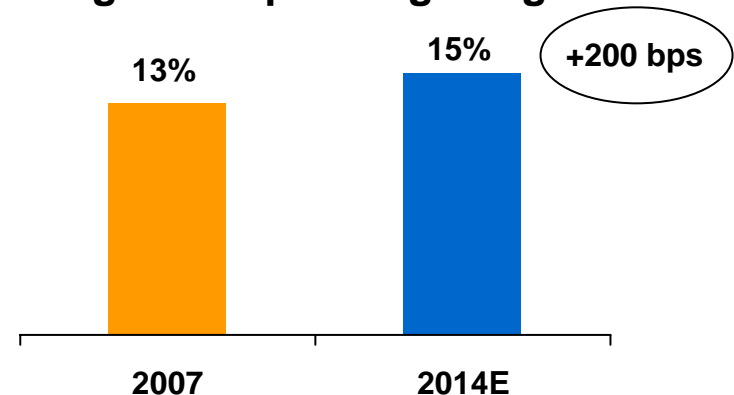


# We look to surpass peak levels for key financial metrics by 2014

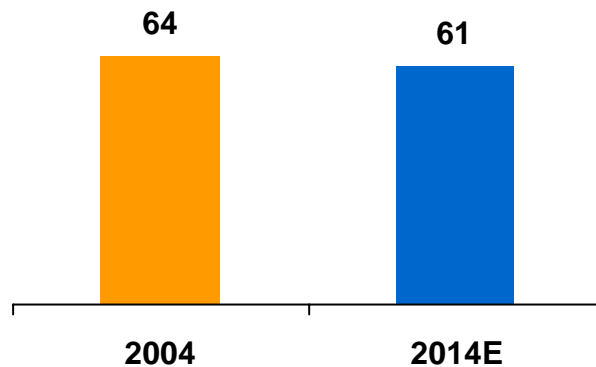
## Gross Margin



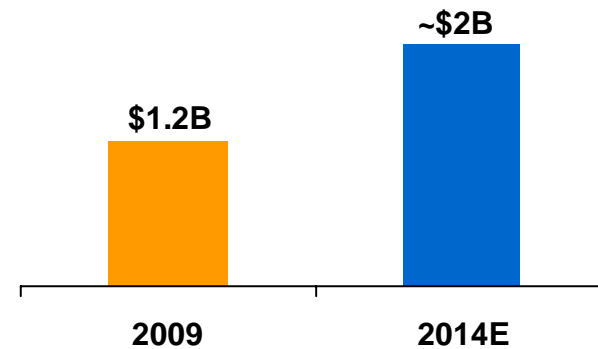
## Segment Operating Margin



## Cash Conversion Cycle



## Free Cash Flow



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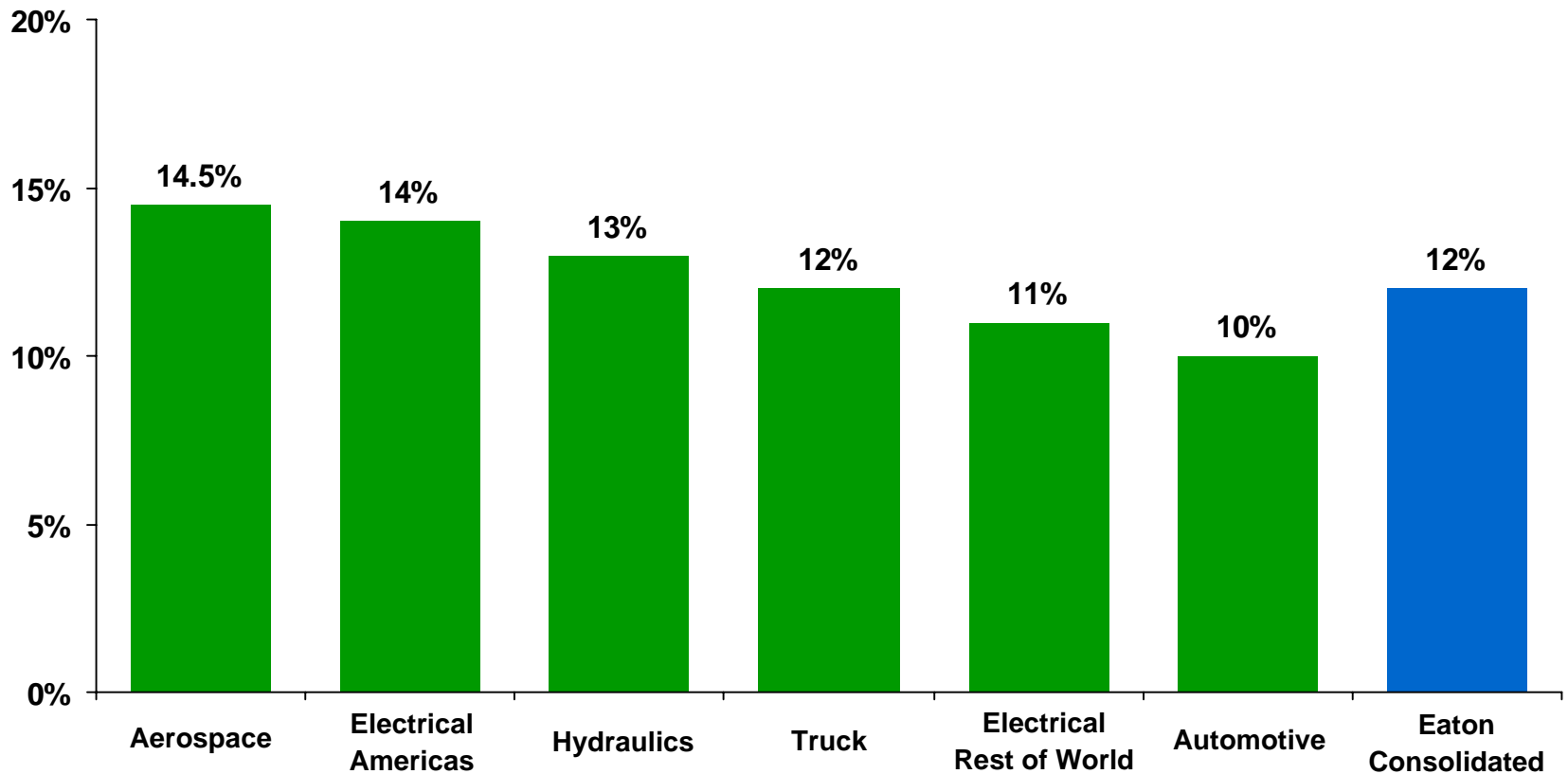
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# For 2010, we now project growth of 10% in our markets...

|                                 | 2008      | 2009         | 2010E<br>Total | 2010E     |            |
|---------------------------------|-----------|--------------|----------------|-----------|------------|
|                                 |           |              |                | U.S.      | Non U.S.   |
| Electrical Americas Index       | 4         | (21)         | (1)            | (2)       | 0          |
| Electrical ROW Index            | 4         | (17)         | 7              | n/a       | 7          |
| Hydraulics Index                | 2         | (33)         | 31             | 37        | 26         |
| Aerospace Index                 | 3         | (4)          | (1)            | (1)       | (2)        |
| Truck Index                     | 1         | (26)         | 26             | 22        | 30         |
| Automotive Index                | (7)       | (23)         | 24             | 38        | 19         |
| <b>Eaton Consolidated Index</b> | <b>2%</b> | <b>(21%)</b> | <b>10%</b>     | <b>8%</b> | <b>12%</b> |

# ...and further improvement in segment margins

## 2010E Segment Operating Margins



# Our financial results continue to improve...

(\$M except for per share data)

|                           | <u>3Q '10</u>  | <u>3Q '09</u>  | <u>V '09</u> |
|---------------------------|----------------|----------------|--------------|
| <b>Net Sales</b>          | <b>\$3,571</b> | <b>\$3,028</b> | <b>18%</b>   |
| <b>Net Income</b>         | <b>\$268</b>   | <b>\$193</b>   | <b>39%</b>   |
| <b>Fully Diluted EPS</b>  | <b>\$1.57</b>  | <b>\$1.14</b>  | <b>38%</b>   |
| <b>Operating Earnings</b> | <b>\$478</b>   | <b>\$329</b>   | <b>45%</b>   |
| <b>Operating EPS</b>      | <b>\$1.60</b>  | <b>\$1.21</b>  | <b>32%</b>   |

# ...with significant sequential gains in 2010

(\$M except for per share data)

|                           | <u>Q1</u>      | <u>Q2</u>      | <u>Sequential Change</u> | <u>Q3</u>      | <u>Sequential Change</u> |
|---------------------------|----------------|----------------|--------------------------|----------------|--------------------------|
| <b>Net Sales</b>          | <b>\$3,103</b> | <b>\$3,378</b> | <b>9%</b>                | <b>\$3,571</b> | <b>6%</b>                |
| <b>Net Income</b>         | <b>\$155</b>   | <b>\$226</b>   | <b>46%</b>               | <b>\$268</b>   | <b>19%</b>               |
| <b>Fully Diluted EPS</b>  | <b>\$0.91</b>  | <b>\$1.33</b>  | <b>46%</b>               | <b>\$1.57</b>  | <b>18%</b>               |
| <b>Operating Earnings</b> | <b>\$338</b>   | <b>\$403</b>   | <b>19%</b>               | <b>\$471</b>   | <b>17%</b>               |
| <b>Operating EPS</b>      | <b>\$0.95</b>  | <b>\$1.36</b>  | <b>43%</b>               | <b>\$1.60</b>  | <b>18%</b>               |

# 2010 earnings guidance

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

\* Includes Medicare Part D impact of \$(0.14)

# Summary of 2010 guidance

|                        | February Guidance | April Guidance  | July Guidance     | October Guidance       |
|------------------------|-------------------|-----------------|-------------------|------------------------|
| Market Growth Forecast | 5.5%              | 6%              | 8%                | <b>10%</b>             |
| Market Growth          | \$650M            | \$700M          | \$950M            | <b>\$1,200M</b>        |
| Outgrowth of Market    | \$300M            | \$300M          | \$400M            | <b>\$400M</b>          |
| Growth from Forex      | \$225M            | \$150M          | 0                 | <b>\$100M</b>          |
| Tax Rate               | 14% – 16%         | 12% – 14%       | 12% – 14%         | <b>11% – 12%</b>       |
| Operating EPS          | \$3.85 – \$4.15   | \$4.30 – \$4.60 | \$4.90 – \$5.10   | <b>\$5.45 – \$5.55</b> |
| Fully Diluted EPS      | \$3.65 – \$3.95   | \$4.15 – \$4.45 | \$4.75 – \$4.95   | <b>\$5.30 – \$5.40</b> |
| Operating Cash Flow    | \$1.0B – \$1.1B   | \$1.1B – \$1.2B | \$1.15B – \$1.25B | <b>\$1.2B – \$1.3B</b> |
| Free Cash Flow         | \$600M – \$700M   | \$700M – \$800M | \$750M – \$850M   | <b>\$800M – \$900M</b> |

# 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%

**EATON**

*Powering Business Worldwide*