

Eaton Corp plc  
Form 10-Q  
July 29, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2015

Commission file number 000-54863

EATON CORPORATION plc

(Exact name of registrant as specified in its charter)

Ireland

98-1059235

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification Number)

Eaton House, 30 Pembroke Road, Dublin 4, Ireland  
(Address of principal executive offices)

-  
(Zip Code)

+1 353 1637 2900

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 467.5 million Ordinary Shares outstanding as of June 30, 2015.

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

EATON CORPORATION plc  
CONSOLIDATED STATEMENTS OF INCOME

| (In millions except for per share data)                | Three months ended |         | Six months ended |          |
|--|--------------------|---------|------------------|----------|
|  | June 30            | June 30 | June 30          | June 30  |
|  | 2015               | 2014    | 2015             | 2014     |
| Net sales  | \$5,372            | \$5,767 | \$10,595         | \$11,259 |
| Cost of products sold                                  | 3,675              | 4,025   | 7,268            | 7,883    |
| Selling and administrative expense                     | 901                | 984     | 1,816            | 1,946    |
| Litigation settlements                                 | —                  | 644     | —                | 644      |
| Research and development expense                       | 158                | 168     | 316              | 330      |
| Interest expense - net                                 | 59                 | 55      | 116              | 117      |
| Other income - net                                     | (19                | ) (166  | ) (24            | ) (171   |
| Income before income taxes                             | 598                | 57      | 1,103            | 510      |
| Income tax expense (benefit)                           | 63                 | (115    | ) 101            | (103     |
| Net income   | 535                | 172     | 1,002            | 613      |
| Less net income for noncontrolling interests           | —                  | (1      | ) (1             | ) (3     |
| Net income attributable to Eaton ordinary shareholders | \$535              | \$171   | \$1,001          | \$610    |
| Net income per ordinary share                          |                    |         |                  |          |
| Diluted  | \$1.14             | \$0.36  | \$2.13           | \$1.27   |
| Basic  | 1.14               | 0.36    | 2.14             | 1.28     |
| Weighted-average number of ordinary shares outstanding |                    |         |                  |          |
| Diluted  | 469.2              | 478.5   | 469.6            | 478.7    |
| Basic  | 467.6              | 475.9   | 467.7            | 475.9    |
| Cash dividends declared per ordinary share             | \$0.55             | \$0.49  | \$1.10           | \$0.98   |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of ContentsEATON CORPORATION plc  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (In millions)   | Three months ended |       | Six months ended |       |
|---|--------------------|-------|------------------|-------|
|   | June 30            |       | June 30          |       |
|   | 2015               | 2014  | 2015             | 2014  |
| Net income  | \$535              | \$172 | \$1,002          | \$613 |
| Less net income for noncontrolling interests                                  | —                  | (1    | ) (1             | ) (3  |
| Net income attributable to Eaton ordinary shareholders                        | 535                | 171   | 1,001            | 610   |
| Other comprehensive income (loss), net of tax                                 |                    |       |                  |       |
| Currency translation and related hedging instruments                          | 209                | 58    | (511             | ) 11  |
| Pensions and other postretirement benefits                                    | 18                 | 23    | 104              | 73    |
| Cash flow hedges  | 3                  | 2     | 3                | 2     |
| Other comprehensive income (loss) attributable to Eaton ordinary shareholders | 230                | 83    | (404             | ) 86  |
| Total comprehensive income attributable to Eaton ordinary shareholders        | \$765              | \$254 | \$597            | \$696 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of ContentsEATON CORPORATION plc  
CONDENSED CONSOLIDATED BALANCE SHEETS

| (In millions)                             | June 30,<br>2015 | December 31,<br>2014 |
|---|------------------|----------------------|
| Assets                                    |                  |                      |
| Current assets                            |                  |                      |
| Cash                                      | \$303            | \$781                |
| Short-term investments                    | 127              | 245                  |
| Accounts receivable - net                 | 3,840            | 3,667                |
| Inventory                                 | 2,439            | 2,428                |
| Deferred income taxes                     | 553              | 593                  |
| Prepaid expenses and other current assets | 382              | 386                  |
| Total current assets                      | 7,644            | 8,100                |
| Property, plant and equipment - net       | 3,680            | 3,750                |
| Other noncurrent assets                   |                  |                      |
| Goodwill                                  | 13,698           | 13,893               |
| Other intangible assets                   | 6,282            | 6,556                |
| Deferred income taxes                     | 250              | 228                  |
| Other assets                              | 1,025            | 1,002                |
| Total assets                              | \$32,579         | \$33,529             |
| Liabilities and shareholders' equity      |                  |                      |
| Current liabilities                       |                  |                      |
| Short-term debt                           | \$139            | \$2                  |
| Current portion of long-term debt         | 842              | 1,008                |
| Accounts payable                          | 1,931            | 1,940                |
| Accrued compensation                      | 327              | 420                  |
| Other current liabilities                 | 1,817            | 1,985                |
| Total current liabilities                 | 5,056            | 5,355                |
| Noncurrent liabilities                    |                  |                      |
| Long-term debt                            | 7,770            | 8,024                |
| Pension liabilities                       | 1,552            | 1,812                |
| Other postretirement benefits liabilities | 507              | 513                  |
| Deferred income taxes                     | 876              | 901                  |
| Other noncurrent liabilities              | 1,015            | 1,085                |
| Total noncurrent liabilities              | 11,720           | 12,335               |
| Shareholders' equity                      |                  |                      |
| Eaton shareholders' equity                | 15,753           | 15,786               |
| Noncontrolling interests                  | 50               | 53                   |
| Total equity                              | 15,803           | 15,839               |
| Total liabilities and equity              | \$32,579         | \$33,529             |

The accompanying notes are an integral part of these condensed consolidated financial statements.



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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In millions)   | Six months ended |          |
|---|------------------|----------|
|   | June 30<br>2015  | 2014     |
| Operating activities  |                  |          |
| Net income  | \$1,002          | \$613    |
| Adjustments to reconcile to net cash provided by operating activities |                  |          |
| Depreciation and amortization   | 460              | 499      |
| Deferred income taxes   | (29              | ) (256   |
| Pension and other postretirement benefits expense                     | 158              | 180      |
| Contributions to pension plans  | (258             | ) (304   |
| Contributions to other postretirement benefits plans                  | (16              | ) (24    |
| Excess tax benefit from equity-based compensation                     | —                | (20      |
| Gain on sale of businesses  | —                | (69      |
| Changes in working capital  | (506             | ) 116    |
| Other - net   | (155             | ) (90    |
| Net cash provided by operating activities                             | 656              | 645      |
| Investing activities  |                  |          |
| Cash paid for acquisitions of businesses, net of cash acquired        | (38              | ) —      |
| Capital expenditures for property, plant and equipment                | (246             | ) (236   |
| Sales of short-term investments - net                                 | 109              | 162      |
| Proceeds from sale of businesses                                      | 1                | 273      |
| Other - net   | (33              | ) (51    |
| Net cash (used in) provided by investing activities                   | (207             | ) 148    |
| Financing activities  |                  |          |
| Proceeds from borrowings  | 137              | —        |
| Payments on borrowings  | (404             | ) (576   |
| Cash dividends paid   | (514             | ) (467   |
| Exercise of employee stock options                                    | 46               | 44       |
| Repurchase of shares  | (170             | ) (99    |
| Excess tax benefit from equity-based compensation                     | —                | 20       |
| Other - net   | (7               | ) —      |
| Net cash used in financing activities                                 | (912             | ) (1,078 |
| Effect of currency on cash  | (15              | ) 1      |
| Total decrease in cash  | (478             | ) (284   |
| Cash at the beginning of the period                                   | 781              | 915      |
| Cash at the end of the period   | \$303            | \$631    |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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EATON CORPORATION plc

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Amounts are in millions unless indicated otherwise (per share data assume dilution).

Note 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Eaton Corporation plc (Eaton or the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles (US GAAP) for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) have been made that are necessary for a fair presentation of the condensed consolidated financial statements for the interim periods.

This Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in Eaton's 2014 Form 10-K. The interim period results are not necessarily indicative of the results to be expected for the full year. Management has evaluated subsequent events through the date this Form 10-Q was filed with the Securities and Exchange Commission.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09). This accounting standard supersedes all existing US GAAP revenue recognition guidance. Under ASU 2014-09, a company will recognize revenue when it transfers the control of promised goods or services to customers in an amount that reflects the consideration which the company expects to collect in exchange for those goods or services. ASU 2014-09 will require additional disclosures in the notes to the consolidated financial statements and is effective for annual and interim reporting periods beginning after December 15, 2016. In July 2015, the FASB made a decision to defer the effective date of the new standard for one year and permit early adoption as of the original effective date. Eaton is evaluating the impact of ASU 2014-09 and an estimate of the impact to the consolidated financial statements cannot be made at this time.

Note 2. ACQUISITION AND SALE OF BUSINESSES

Acquisition of UK Safety Technology Manufacturer Oxalis Group Ltd.

On January 12, 2015, Eaton acquired Oxalis Group Ltd. (Oxalis). Oxalis is a manufacturer of closed-circuit television camera stations, public address and general alarm systems and other electrical products for the hazardous area, marine and industrial communications markets. Oxalis is reported within the Electrical Systems and Services business segment.

Sale of Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions

On May 9, 2014, Eaton sold the Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses to Safran for \$270, which resulted in a pre-tax gain of \$156 as of June 30, 2014.



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## Note 3. ACQUISITION INTEGRATION CHARGES

Eaton incurs integration charges related to acquired businesses. A summary of these charges follows:

|   | Three months ended |        | Six months ended |        |
|---|--------------------|--------|------------------|--------|
|   | June 30<br>2015    | 2014   | June 30<br>2015  | 2014   |
| Business segment  |                    |        |                  |        |
| Electrical Products                                       | \$6                | \$12   | \$12             | \$41   |
| Electrical Systems and Services                           | 4                  | 13     | 7                | 39     |
| Hydraulics  | 1                  | 5      | 2                | 9      |
| Total business segments                                   | 11                 | 30     | 21               | 89     |
| Corporate   | 1                  | 7      | 2                | 14     |
| Total acquisition integration charges before income taxes | \$12               | \$37   | \$23             | \$103  |
| Total after income taxes                                  | \$8                | \$23   | \$15             | \$67   |
| Per ordinary share - diluted                              | \$0.02             | \$0.05 | \$0.03           | \$0.14 |

Business segment acquisition integration charges for the three and six months ended June 30, 2015 and 2014 were related primarily to the integration of Cooper Industries plc (Cooper) to gain efficiencies in selling, marketing, traditional back-office functions, manufacturing, and distribution. These charges were included in Cost of products sold or Selling and administrative expense, as appropriate. In Business Segment Information the charges reduced Operating profit of the related business segment. See Note 13 for additional information about business segments. Corporate acquisition integration charges in 2015 and 2014 were related to the acquisition of Cooper. These charges were included in Selling and administrative expense. In Business Segment Information the charges were included in Other corporate expense - net.

The Cooper integration initiatives are expected to continue throughout 2015.

## Note 4. RESTRUCTURING CHARGES

The Company plans to implement certain restructuring activities in an effort to gain efficiencies in all business segments. These restructuring activities are anticipated to be \$145, comprised primarily of severance costs, with \$120 to occur in the second half of 2015 and \$25 in 2016.

## Note 5. GOODWILL

A summary of goodwill follows:

|                   | Electrical<br>Products | Electrical<br>Systems and<br>Services | Hydraulics | Aerospace | Vehicle | Total    |
|-------------------|------------------------|---------------------------------------|------------|-----------|---------|----------|
| December 31, 2014 | \$6,940                | \$4,314                               | \$1,327    | \$962     | \$350   | \$13,893 |
| Additions         | —                      | 22                                    | —          | —         | —       | 22       |
| Reclassifications | (106                   | ) 106                                 | —          | —         | —       | —        |
| Translation       | (106                   | ) (66                                 | ) (42      | ) 1       | (4      | ) (217   |
| June 30, 2015     | \$6,728                | \$4,376                               | \$1,285    | \$963     | \$346   | \$13,698 |

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## Note 6. RETIREMENT BENEFITS PLANS

The components of retirement benefits expense follow:

|                                | United States              |        | Non-United States       |       | Other postretirement |      |
|--------------------------------|----------------------------|--------|-------------------------|-------|----------------------|------|
|                                | pension benefit expense    |        | pension benefit expense |       | benefits expense     |      |
|                                | Three months ended June 30 |        |                         |       |                      |      |
|                                | 2015                       | 2014   | 2015                    | 2014  | 2015                 | 2014 |
| Service cost                   | \$30                       | \$29   | \$19                    | \$17  | \$1                  | \$5  |
| Interest cost                  | 39                         | 41     | 18                      | 22    | 6                    | 10   |
| Expected return on plan assets | (65 )                      | (62 )  | (25 )                   | (25 ) | (1 )                 | (2 ) |
| Amortization                   | 30                         | 23     | 10                      | 7     | 1                    | 2    |
|                                | 34                         | 31     | 22                      | 21    | 7                    | 15   |
| Settlements                    | 19                         | 14     | —                       | —     | —                    | —    |
| Total expense                  | \$53                       | \$45   | \$22                    | \$21  | \$7                  | \$15 |
|                                | United States              |        | Non-United States       |       | Other postretirement |      |
|                                | pension benefit expense    |        | pension benefit expense |       | benefits expense     |      |
|                                | Six months ended June 30   |        |                         |       |                      |      |
|                                | 2015                       | 2014   | 2015                    | 2014  | 2015                 | 2014 |
| Service cost                   | \$61                       | \$58   | \$37                    | \$33  | \$3                  | \$9  |
| Interest cost                  | 78                         | 81     | 36                      | 44    | 12                   | 19   |
| Expected return on plan assets | (131 )                     | (123 ) | (50 )                   | (50 ) | (2 )                 | (3 ) |
| Amortization                   | 60                         | 46     | 20                      | 14    | 1                    | 4    |
|                                | 68                         | 62     | 43                      | 41    | 14                   | 29   |
| Settlements                    | 33                         | 48     | —                       | —     | —                    | —    |
| Total expense                  | \$101                      | \$110  | \$43                    | \$41  | \$14                 | \$29 |

## Note 7. LEGAL CONTINGENCIES

Eaton is subject to a broad range of claims, administrative and legal proceedings such as lawsuits that relate to contractual allegations, tax audits, patent infringement, personal injuries, antitrust matters and employment-related matters. Eaton is also subject to asbestos claims from historic products which may have contained asbestos.

Historically, significant insurance coverage has been available to cover costs associated with these claims. Although it is not possible to predict with certainty the outcome or cost of these matters, the Company believes they will not have a material adverse effect on the consolidated financial statements.

In 2010, a Brazilian court held that a judgment obtained by a Brazilian company, Raysul, against another Brazilian company, Saturnia, which was sold by Eaton in 2006, could be enforced against Eaton Ltda. and Eaton Holding S.à.r.l. This judgment is based on an alleged violation of an agency agreement between Raysul and Saturnia. At June 30, 2015, the Company has a total accrual of 88 Brazilian Reais related to this matter (\$28 based on current exchange rates), comprised of 60 Brazilian Reais recognized in the fourth quarter of 2010 (\$19 based on current exchange rates) with an additional 28 Brazilian Reais recognized through June 30, 2015 (\$9 based on current exchange rates). In 2010, Eaton filed motions for clarification with the Brazilian court of appeals which were denied on April 6, 2011. Eaton filed appeals on various issues to the Superior Court of Justice in Brasilia. In April 2013, the Superior Court of Justice ruled in favor of Raysul. Additional motions for clarification have been filed with the Superior Court of Justice in Brasilia and were denied. On February 2, 2015, a final appeal was filed with the Superior Court of Justice in Brasilia. The Company expects that any sum it may be required to pay in connection with this matter will not exceed the amount of the recorded liability.

On October 5, 2006, ZF Meritor LLC and Meritor Transmission Corporation (collectively, Meritor) filed an action against Eaton in the United States District Court of Delaware. The action sought damages, which would have been trebled under United States antitrust laws, as well as injunctive relief and costs. The suit alleged that Eaton engaged in anti-competitive conduct against Meritor in the sale of heavy-duty truck transmissions in North America. On June 23, 2014, Eaton announced it signed a settlement agreement with Meritor in the amount of \$500 that resolved the lawsuit

and removed the uncertainty of a trial and appeal process. On July 16, 2014, Eaton paid Meritor the \$500.

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Frisby Corporation, now known as Triumph Actuation Systems, LLC, and other claimants (collectively, Triumph) asserted claims alleging, among other things, unfair competition, defamation, malicious prosecution, deprivation of civil rights, and antitrust in the Hinds County Circuit Court of Mississippi in 2004 and in the Federal District Court of North Carolina in 2011. Eaton had asserted claims against Triumph regarding improper use of trade secrets and these claims were dismissed by the Hinds County Circuit Court. On June 18, 2014, Eaton announced it signed a settlement agreement with Triumph in the amount of \$147.5 that resolved all claims and lawsuits and removed the uncertainty of a trial and appeal process. On July 8, 2014, Eaton paid Triumph the \$147.5.

**Note 8. INCOME TAXES**

The effective income tax rate for the second quarter and first six months of 2015 was expense of 11% and 9%, respectively, compared to a benefit of 203% and 20% for the second quarter and first six months of 2014, respectively. Excluding the litigation settlements and related legal costs, as well as the gain on the sale of Eaton's Aerospace businesses, which represents a total pre-tax expense of \$494 and occurred in the second quarter of 2014, the effective income tax rate was expense of 8% and 6% for the second quarter and first six months of 2014, respectively. See Note 7 and Note 2 for additional information about legal contingencies and the sale of businesses, respectively.

The increase in the effective tax rate in the second quarter and first six months of 2015 is primarily due to more income earned in higher tax jurisdictions, including the United States.

**Note 9. EQUITY**

Eaton has an ordinary share repurchase program (2013 Program) that authorizes the repurchase of 40 million ordinary shares. During the first quarter of 2015, 2.4 million ordinary shares were repurchased under the 2013 Program in the open market at a total cost of \$170. No ordinary shares were repurchased during the second quarter of 2015. During the first six months and second quarter of 2014, 1.4 million ordinary shares were repurchased under the 2013 Program in the open market at a total cost of \$99.

The changes in Shareholders' equity follow:

|  | Eaton<br>shareholders'<br>equity | Noncontrolling<br>interests | Total<br>equity |
|--|----------------------------------|-----------------------------|-----------------|
| Balance at December 31, 2014                                   | \$ 15,786                        | \$ 53                       | \$ 15,839       |
| Net income   | 1,001                            | 1                           | 1,002           |
| Other comprehensive loss                                       | (404)                            | ) —                         | (404)           |
| Cash dividends paid and accrued                                | (514)                            | ) (4)                       | (518)           |
| Issuance of shares under equity-based compensation plans - net | 54                               | —                           | 54              |
| Repurchase of shares   | (170)                            | ) —                         | (170)           |
| Balance at June 30, 2015                                       | \$ 15,753                        | \$ 50                       | \$ 15,803       |

The changes in Accumulated other comprehensive loss follow:

|   | Currency<br>translation and<br>related hedging<br>instruments | Pensions and<br>other<br>postretirement<br>benefits | Cash flow<br>hedges | Total     |
|---|---|---|---------------------|-----------|
| Balance at December 31, 2014                                      | \$(1,414)   | ) \$(1,485)   | ) \$—               | \$(2,899) |
| Other comprehensive (loss) income<br>before reclassifications     | (511)   | ) 30  | 7                   | (474)     |
| Amounts reclassified from Accumulated other<br>comprehensive loss | —   | 74  | (4)                 | ) 70      |
| Net current-period Other comprehensive<br>(loss) income           | (511)   | ) 104   | 3                   | (404)     |
| Balance at June 30, 2015  | \$(1,925)   | ) \$(1,381)   | ) \$ 3              | \$(3,303) |

The reclassifications out of Accumulated other comprehensive loss follow:

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|  | Six months ended<br>June 30, 2015 | Consolidated statements<br>of income classification |
|--|-----------------------------------|---|
| Amortization of pensions and other postretirement benefits items |                                   |   |
| Actuarial loss and prior service cost                            | \$(114)                           | ) <sup>1</sup>                                      |
| Tax benefit  | 40                                |   |
| Total, net of tax  | (74)                              | )   |
| Gains and (losses) on cash flow hedges                           |                                   |   |
| Currency exchange contracts                                      | 6                                 | Cost of products sold                               |
| Tax expense  | (2)                               | )   |
| Total, net of tax  | 4                                 |   |
| Total reclassifications for the period                           | \$(70)                            | )   |

<sup>1</sup> These components of Accumulated other comprehensive loss are included in the computation of net periodic benefit cost. See Note 6 for additional information about pension and other post retirement benefits items.

## Net Income per Ordinary Share

A summary of the calculation of net income per ordinary share attributable to shareholders follows:

|  | Three months ended<br>June 30 |        | Six months ended<br>June 30 |        |
|--|-------------------------------|--------|-----------------------------|--------|
| (Shares in millions)   | 2015                          | 2014   | 2015                        | 2014   |
| Net income attributable to Eaton ordinary shareholders           | \$535                         | \$171  | \$1,001                     | \$610  |
| Weighted-average number of ordinary shares outstanding - diluted | 469.2                         | 478.5  | 469.6                       | 478.7  |
| Less dilutive effect of equity-based compensation                | 1.6                           | 2.6    | 1.9                         | 2.8    |
| Weighted-average number of ordinary shares outstanding - basic   | 467.6                         | 475.9  | 467.7                       | 475.9  |
| Net income per ordinary share                                    |                               |        |                             |        |
| Diluted  | \$1.14                        | \$0.36 | \$2.13                      | \$1.27 |
| Basic  | 1.14                          | 0.36   | 2.14                        | 1.28   |

For the second quarter and first six months of 2015, 1.3 million and 1.1 million stock options, respectively, were excluded from the calculation of diluted net income per ordinary share because the exercise price of the options exceeded the average market price of the ordinary shares during the period and their effect, accordingly, would have been antidilutive. For the second quarter and first six months of 2014, 0.5 million and 0.3 million stock options, respectively, were excluded from the calculation of diluted net income per ordinary share because the exercise price of the options exceeded the average market price of the ordinary shares during the period and their effect, accordingly, would have been antidilutive.

## Note 10. FAIR VALUE MEASUREMENTS

Fair value is measured based on an exit price, representing the amount that would be received to sell an asset or paid to satisfy a liability in an orderly transaction between market participants. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a fair value hierarchy is established, which categorizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A summary of financial instruments recognized at fair value, and the fair value measurements used, follows:



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|   | Total  | Level 1 | Level 2 | Level 3 |
|---|--------|---------|---------|---------|
| June 30, 2015   |        |         |         |         |
| Cash  | \$ 303 | \$ 303  | \$—     | \$—     |
| Short-term investments                                    | 127    | 127     | —       | —       |
| Net derivative contracts                                  | 73     | —       | 73      | —       |
| Long-term debt converted to floating interest rates<br>by | (71    | ) —     | (71     | ) —     |
| interest rate swaps - net                                 |        |         |         |         |
| December 31, 2014   |        |         |         |         |
| Cash  | \$ 781 | \$ 781  | \$—     | \$—     |
| Short-term investments                                    | 245    | 245     | —       | —       |
| Net derivative contracts                                  | 70     | —       | 70      | —       |
| Long-term debt converted to floating interest rates<br>by | (74    | ) —     | (74     | ) —     |
| interest rate swaps - net                                 |        |         |         |         |

Eaton values its financial instruments using an industry standard market approach, in which prices and other relevant information is generated by market transactions involving identical or comparable assets or liabilities. No financial instruments were measured using unobservable inputs.

**Other Fair Value Measurements**

Long-term debt and the current portion of long-term debt had a carrying value of \$8,612 and fair value of \$8,879 at June 30, 2015 compared to \$9,032 and \$9,509, respectively, at December 31, 2014. The fair value of Eaton's debt instruments were estimated using prevailing market interest rates on debt with similar creditworthiness, terms and maturities and are considered a Level 2 fair value measurement.

**Note 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

In the normal course of business, Eaton is exposed to certain risks related to fluctuations in interest rates, currency exchange rates and commodity prices. The Company uses various derivative and non-derivative financial instruments, primarily interest rate swaps, currency forward exchange contracts, currency swaps and, to a lesser extent, commodity contracts, to manage risks from these market fluctuations. The instruments used by Eaton are straightforward, non-leveraged instruments. The counterparties to these instruments are financial institutions with strong credit ratings. Eaton maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit rating of these institutions. Such instruments are not purchased and sold for trading purposes.

Derivative financial instruments are accounted for at fair value and recognized as assets or liabilities in the Condensed Consolidated Balance Sheets. Accounting for the gain or loss resulting from the change in the fair value of the derivative financial instrument depends on whether it has been designated, and is effective, as part of a hedging relationship and, if so, as to the nature of the hedging activity. Eaton formally documents all relationships between derivative financial instruments accounted for as designated hedges and the hedged item, as well as its risk-management objective and strategy for undertaking the hedge transaction. This process includes linking derivative financial instruments to a recognized asset or liability, specific firm commitment, forecasted transaction, or net investment in a foreign operation. These financial instruments can be designated as:

- Hedges of the change in the fair value of a recognized fixed-rate asset or liability, or the firm commitment to acquire such an asset or liability (a fair value hedge); for these hedges, the gain or loss from the derivative financial instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in income during the period of change in fair value.

Hedges of the variable cash flows of a recognized variable-rate asset or liability, or the forecasted acquisition of such an asset or liability (a cash flow hedge); for these hedges, the effective portion of the gain or loss from the derivative financial instrument is recognized in Accumulated other comprehensive loss and reclassified to income in the same period when the gain or loss on the hedged item is included in income.



Hedges of the currency exposure related to a net investment in a foreign operation (a net investment hedge); for these hedges, the effective portion of the gain or loss from the derivative financial instrument is recognized in Accumulated other comprehensive loss and reclassified to income in the same period when the gain or loss related to the net investment in the foreign operation is included in income.

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The gain or loss from a derivative financial instrument designated as a hedge that is effective is classified in the same line of the Consolidated Statements of Income as the offsetting loss or gain on the hedged item. The change in fair value of a derivative financial instrument that is not effective as a hedge is immediately recognized in income.

For derivatives that are not designated as a hedge, any gain or loss is immediately recognized in income. The majority of derivatives used in this manner relate to risks resulting from assets or liabilities denominated in a foreign currency and certain commodity contracts that arise in the normal course of business. Gains and losses associated with commodity hedge contracts are classified in Cost of products sold.

Eaton uses certain of its debt denominated in foreign currency to hedge portions of its net investments in foreign operations against foreign currency exposure (net investment hedges). Foreign currency denominated debt designated on an after-tax basis as non-derivative net investment hedging instruments was \$82 at June 30, 2015 and \$84 at December 31, 2014.

## Derivative Financial Statement Impacts

The fair value of derivative financial instruments recognized in the Condensed Consolidated Balance Sheets follows:

|                                       | Notional amount | Other current assets | Other noncurrent assets | Other current liabilities | Other noncurrent liabilities | Type of hedge | Term           |
|---------------------------------------|-----------------|----------------------|-------------------------|---------------------------|------------------------------|---------------|----------------|
| June 30, 2015                         |                 |                      |                         |                           |                              |               |                |
| Derivatives designated as hedges      |                 |                      |                         |                           |                              |               |                |
| Fixed-to-floating interest rate swaps | \$3,440         | \$—                  | \$81                    | \$—                       | \$10                         | Fair value    | 2 to 19 years  |
| Currency exchange contracts           | 533             | 10                   | 1                       | 4                         | 2                            | Cash flow     | 1 to 36 months |
| Commodity contracts                   | 1               | —                    | —                       | —                         | —                            | Cash flow     | 1 to 12 months |
| Total                                 |                 | \$10                 | \$82                    | \$4                       | \$12                         |               |                |
| Derivatives not designated as hedges  |                 |                      |                         |                           |                              |               |                |
| Currency exchange contracts           | \$3,975         | \$25                 |                         | \$28                      |                              |               | 1 to 12 months |
| Total                                 |                 | \$25                 |                         | \$28                      |                              |               |                |
| December 31, 2014                     |                 |                      |                         |                           |                              |               |                |
| Derivatives designated as hedges      |                 |                      |                         |                           |                              |               |                |
| Fixed-to-floating interest rate swaps | \$3,440         | \$—                  | \$84                    | \$—                       | \$10                         | Fair value    | 2 to 19 years  |
| Currency exchange contracts           | 432             | 8                    | 1                       | 5                         | 3                            | Cash flow     | 1 to 36 months |
| Commodity contracts                   | 1               | —                    | —                       | —                         | —                            | Cash flow     | 1 to 12 months |
| Total                                 |                 | \$8                  | \$85                    | \$5                       | \$13                         |               |                |
| Derivatives not designated as hedges  |                 |                      |                         |                           |                              |               |                |
| Currency exchange contracts           | \$4,447         | \$47                 |                         | \$52                      |                              |               | 1 to 12 months |
| Total                                 |                 | \$47                 |                         | \$52                      |                              |               |                |

The currency exchange contracts shown in the table above as derivatives not designated as hedges are primarily contracts entered into to manage currency volatility or exposure on intercompany sales and loans. While Eaton does not elect hedge accounting treatment for these derivatives, Eaton targets managing 100% of the intercompany balance sheet exposure to minimize the effect of currency volatility related to the movement of goods and services in the normal course of its operations. This activity represents the great majority of these currency exchange contracts.



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Amounts recognized in Accumulated other comprehensive loss follow:

|  | Gain (loss) recognized in other comprehensive (loss) income |      | Location of gain reclassified from Accumulated other comprehensive loss | Gain (loss) reclassified from Accumulated other comprehensive loss |        |
|--|---|------|---|--|--------|
|  | Three months ended June 30                                  |      |   | Three months ended June 30   |        |
|  | 2015  | 2014 |   | 2015   | 2014   |
| Derivatives designated as cash flow hedges |   |      |   |  |        |
| Floating-to-fixed interest rate swaps      | \$—   | \$—  | Interest expense - net  | \$—  | \$(1 ) |
| Currency exchange contracts                | 8   | 3    | Cost of products sold   | 4  | 2      |
| Total                                      | \$8   | \$3  |   | \$4  | \$1    |

|  | Gain (loss) recognized in other comprehensive (loss) income |      | Location of gain reclassified from Accumulated other comprehensive loss | Gain (loss) reclassified from Accumulated other comprehensive loss |        |
|--|---|------|---|--|--------|
|  | Six months ended June 30                                    |      |   | Six months ended June 30   |        |
|  | 2015  | 2014 |   | 2015   | 2014   |
| Derivatives designated as cash flow hedges |   |      |   |  |        |
| Floating-to-fixed interest rate swaps      | \$—   | \$—  | Interest expense - net  | \$—  | \$(1 ) |
| Currency exchange contracts                | 10  | 5    | Cost of products sold   | 6  | 4      |
| Total                                      | \$10  | \$5  |   | \$6  | \$3    |

Amounts recognized in net income follow:

|  | Three months ended June 30                  |       | Six months ended June 30 |       |
|--|---|-------|--------------------------|-------|
|  | 2015  | 2014  | 2015                     | 2014  |
|  | Derivatives designated as fair value hedges |       |                          |       |
| Fixed-to-floating interest rate swaps  | \$(51 )                                     | \$44  | \$(3 )                   | \$73  |
| Related long-term debt converted to floating interest rates by interest rate swaps | 51  | (44 ) | 3                        | (73 ) |
|  | \$—   | \$—   | \$—                      | \$—   |

Gains and losses described above were recognized in Interest expense - net.

#### Note 12. INVENTORY

The components of inventory follow:

|                               | June 30, 2015 | December 31, 2014 |
|-------------------------------|---------------|-------------------|
| Raw materials                 | \$1,130       | \$924             |
| Work-in-process               | 279           | 422               |
| Finished goods                | 1,152         | 1,201             |
| Inventory at FIFO             | 2,561         | 2,547             |
| Excess of FIFO over LIFO cost | (122 )        | (119 )            |
| Total inventory               | \$2,439       | \$2,428           |



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## Note 13. BUSINESS SEGMENT INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance. Eaton's operating segments are Electrical Products, Electrical Systems and Services, Hydraulics, Aerospace and Vehicle. Operating profit includes the operating profit from intersegment sales. For additional information regarding Eaton's business segments, see Note 14 to the Consolidated Financial Statements contained in the 2014 Form 10-K.

|  | Three months ended |         | Six months ended |          |   |
|--|--------------------|---------|------------------|----------|---|
|  | June 30            |         | June 30          |          |   |
|  | 2015               | 2014    | 2015             | 2014     |   |
| Net sales  |                    |         |                  |          |   |
| Electrical Products                                    | \$1,784            | \$1,832 | \$3,475          | \$3,558  |   |
| Electrical Systems and Services                        | 1,502              | 1,628   | 2,950            | 3,152    |   |
| Hydraulics   | 643                | 787     | 1,308            | 1,569    |   |
| Aerospace  | 454                | 486     | 918              | 950      |   |
| Vehicle  | 989                | 1,034   | 1,944            | 2,030    |   |
| Total net sales  | \$5,372            | \$5,767 | \$10,595         | \$11,259 |   |
| Segment operating profit                               |                    |         |                  |          |   |
| Electrical Products                                    | \$276              | \$300   | \$536            | \$550    |   |
| Electrical Systems and Services                        | 223                | 194     | 409              | 363      |   |
| Hydraulics   | 74                 | 94      | 140              | 202      |   |
| Aerospace  | 77                 | 69      | 154              | 131      |   |
| Vehicle  | 190                | 155     | 354              | 306      |   |
| Total segment operating profit                         | 840                | 812     | 1,593            | 1,552    |   |
| Corporate  |                    |         |                  |          |   |
| Litigation settlements                                 | —                  | (644    | ) —              | (644     | ) |
| Amortization of intangible assets                      | (102               | ) (109  | ) (204           | ) (219   | ) |
| Interest expense - net                                 | (59                | ) (55   | ) (116           | ) (117   | ) |
| Pension and other postretirement benefits expense      | (33                | ) (32   | ) (61            | ) (83    | ) |
| Other corporate (expense) benefit - net                | (48                | ) 85    | (109             | ) 21     |   |
| Income before income taxes                             | 598                | 57      | 1,103            | 510      |   |
| Income tax expense (benefit)                           | 63                 | (115    | ) 101            | (103     | ) |
| Net income   | 535                | 172     | 1,002            | 613      |   |
| Less net income for noncontrolling interests           | —                  | (1      | ) (1             | ) (3     | ) |
| Net income attributable to Eaton ordinary shareholders | \$535              | \$171   | \$1,001          | \$610    |   |

## Note 14. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

On November 20, 2012, Eaton Corporation issued senior notes totaling \$4,900 to finance part of the cash portion of the acquisition of Cooper. On November 14, 2013, the senior notes were exchanged for senior notes registered under the Securities Act of 1933 (the Senior Notes). Eaton and certain other of Eaton's 100% owned direct and indirect subsidiaries (the Guarantors) fully and unconditionally guaranteed (subject, in the case of the Guarantors, other than Eaton, to customary release provisions as described below), on a joint and several basis, the Senior Notes. The following condensed consolidating financial statements are included so that separate financial statements of Eaton, Eaton Corporation and each of the Guarantors are not required to be filed with the Securities and Exchange Commission. The consolidating adjustments primarily relate to eliminations of investments in subsidiaries and intercompany balances and transactions. The condensed consolidating financial statements present investments in subsidiaries using the equity method of accounting.

The guarantee of a Guarantor that is not a parent of the issuer will be automatically and unconditionally released and discharged in the event of any sale of the Guarantor or of all or substantially all of its assets, or in connection with the release or termination of the Guarantor as a guarantor under all other U.S. debt securities or U.S. syndicated credit facilities, subject to limitations set forth in the indenture. The guarantee of a Guarantor that is a direct or indirect parent of the issuer will only be automatically and unconditionally released and discharged in connection with the release or termination of such Guarantor as a guarantor under all other debt securities or syndicated credit facilities (in both cases, U.S. or otherwise), subject to limitations set forth in the indenture.

During the third quarter of 2014, the Company undertook certain steps to restructure ownership of various subsidiaries. The transactions were entirely among wholly-owned subsidiaries under the common control of Eaton. This restructuring has been reflected as of the beginning of the earliest period presented below.

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED JUNE 30, 2015

|   | Eaton<br>Corporation<br>plc | Eaton<br>Corporation | Guarantors | Other<br>subsidiaries | Consolidating<br>adjustments | Total   |
|---|-----------------------------|----------------------|------------|-----------------------|------------------------------|---------|
| Net sales   | \$—                         | \$1,806              | \$1,705    | \$3,248               | \$(1,387)                    | \$5,372 |
| Cost of products sold                                     | —                           | 1,433                | 1,273      | 2,322                 | (1,353)                      | 3,675   |
| Selling and administrative<br>expense                     | 2                           | 368                  | 172        | 359                   | —                            | 901     |
| Research and development<br>expense                       | —                           | 66                   | 49         | 43                    | —                            | 158     |
| Interest expense (income) - net                           | —                           | 58                   | 5          | (2)                   | (2)                          | 59      |
| Other expense (income) - net                              | —                           | 11                   | (7)        | (23)                  | —                            | (19)    |
| Equity in earnings of<br>subsidiaries, net of tax         | (619)                       | (62)                 | (805)      | (129)                 | 1,615                        | —       |
| Intercompany expense (income)<br>- net                    | 82                          | (267)                | 481        | (296)                 | —                            | —       |
| Income before income taxes                                | 535                         | 199                  | 537        | 974                   | (1,647)                      | 598     |
| Income tax expense (benefit)                              | —                           | 41                   | (38)       | 75                    | (15)                         | 63      |
| Net income  | 535                         | 158                  | 575        | 899                   | (1,632)                      | 535     |
| Less net income for<br>noncontrolling interests           | —                           | —                    | —          | (1)                   | 1                            | —       |
| Net income attributable to<br>Eaton ordinary shareholders | \$535                       | \$158                | \$575      | \$898                 | \$(1,631)                    | \$535   |
| Other comprehensive income                                | \$230                       | \$16                 | \$234      | \$282                 | \$(532)                      | \$230   |
| Total comprehensive income<br>attributable to Eaton       | \$765                       | \$174                | \$809      | \$1,180               | \$(2,163)                    | \$765   |

ordinary shareholders

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CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED JUNE 30, 2014

|   | Eaton<br>Corporation<br>plc | Eaton<br>Corporation | Guarantors | Other<br>subsidiaries | Consolidating<br>adjustments | Total   |
|---|-----------------------------|----------------------|------------|-----------------------|------------------------------|---------|
| Net sales   | \$—                         | \$1,750              | \$1,779    | \$3,354               | \$(1,116 )                   | \$5,767 |
| Cost of products sold   | —                           | 1,378                | 1,288      | 2,473                 | (1,114 )                     | 4,025   |
| Selling and administrative<br>expense   | (2 )                        | 370                  | 193        | 423                   | —                            | 984     |
| Litigation settlements  | —                           | 644                  | —          | —                     | —                            | 644     |
| Research and development<br>expense   | —                           | 62                   | 52         | 54                    | —                            | 168     |
| Interest expense (income) - net   | —                           | 55                   | 6          | (8 )                  | 2                            | 55      |
| Other income - net  | —                           | (50 )                | (95 )      | (21 )                 | —                            | (166 )  |
| Equity in (earnings) loss of<br>subsidiaries, net of tax                            | (231 )                      | (194 )               | (256 )     | 214                   | 467                          | —       |
| Intercompany expense (income)<br>- net  | 62                          | (47 )                | 146        | (161 )                | —                            | —       |
| Income (loss) before income<br>taxes  | 171                         | (468 )               | 445        | 380                   | (471 )                       | 57      |
| Income tax (benefit) expense  | —                           | (255 )               | 78         | 63                    | (1 )                         | (115 )  |
| Net income (loss)   | 171                         | (213 )               | 367        | 317                   | (470 )                       | 172     |
| Less net income for<br>noncontrolling interests                                     | —                           | —                    | —          | (1 )                  | —                            | (1 )    |
| Net income (loss) attributable to<br>Eaton ordinary shareholders                    | \$171                       | \$(213 )             | \$367      | \$316                 | \$(470 )                     | \$171   |
| Other comprehensive income  | \$83                        | \$37                 | \$90       | \$116                 | \$(243 )                     | \$83    |
| Total comprehensive income<br>(loss) attributable to Eaton<br>ordinary shareholders | \$254                       | \$(176 )             | \$457      | \$432                 | \$(713 )                     | \$254   |

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2015

|   | Eaton<br>Corporation<br>plc | Eaton<br>Corporation | Guarantors | Other<br>subsidiaries | Consolidating<br>adjustments | Total    |
|---|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net sales   | \$—                         | \$3,508              | \$3,401    | \$6,364               | \$(2,678 )                   | \$10,595 |
| Cost of products sold                             | —                           | 2,743                | 2,568      | 4,599                 | (2,642 )                     | 7,268    |
| Selling and administrative<br>expense             | 4                           | 745                  | 348        | 719                   | —                            | 1,816    |
| Research and development<br>expense               | —                           | 137                  | 94         | 85                    | —                            | 316      |
| Interest expense (income) - net                   | —                           | 112                  | 11         | (7 )                  | —                            | 116      |
| Other expense (income) - net                      | —                           | 6                    | (8 )       | (22 )                 | —                            | (24 )    |
| Equity in earnings of<br>subsidiaries, net of tax | (1,164 )                    | (273 )               | (1,518 )   | (258 )                | 3,213                        | —        |
| Intercompany expense (income)<br>- net            | 159                         | (308 )               | 752        | (603 )                | —                            | —        |

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|  |         |        |         |          |           |           |   |
|--|---------|--------|---------|----------|-----------|-----------|---|
| Income before income taxes   | 1,001   | 346    | 1,154   | 1,851    | (3,249    | ) 1,103   |   |
| Income tax expense (benefit)   | —       | 19     | (17     | ) 116    | (17       | ) 101     |   |
| Net income   | 1,001   | 327    | 1,171   | 1,735    | (3,232    | ) 1,002   |   |
| Less net income for<br>noncontrolling interests                              | —       | —      | —       | (2       | ) 1       | (1        | ) |
| Net income attributable to<br>Eaton ordinary shareholders                    | \$1,001 | \$327  | \$1,171 | \$1,733  | \$ (3,231 | ) \$1,001 |   |
| Other comprehensive (loss)<br>income   | \$(404  | ) \$62 | \$(386  | ) \$(464 | ) \$788   | \$(404    | ) |
| Total comprehensive income<br>attributable to Eaton<br>ordinary shareholders | \$597   | \$389  | \$785   | \$1,269  | \$ (2,443 | ) \$597   |   |

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CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2014

|   | Eaton<br>Corporation<br>plc | Eaton<br>Corporation | Guarantors | Other<br>subsidiaries | Consolidating<br>adjustments | Total    |
|---|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net sales   | \$—                         | \$3,417              | \$3,420    | \$6,645               | \$ (2,223 )                  | \$11,259 |
| Cost of products sold   | —                           | 2,720                | 2,506      | 4,865                 | (2,208 )                     | 7,883    |
| Selling and administrative<br>expense   | —                           | 731                  | 393        | 822                   | —                            | 1,946    |
| Litigation settlements  | —                           | 644                  | —          | —                     | —                            | 644      |
| Research and development<br>expense   | —                           | 122                  | 102        | 106                   | —                            | 330      |
| Interest expense (income) - net   | —                           | 114                  | 13         | (14 )                 | 4                            | 117      |
| Other income- net   | —                           | (45 )                | (92 )      | (34 )                 | —                            | (171 )   |
| Equity in (earnings) loss of<br>subsidiaries, net of tax                            | (700 )                      | (187 )               | (747 )     | 259 )                 | 1,375                        | —        |
| Intercompany expense (income)<br>- net  | 90                          | (117 )               | 278        | (251 )                | —                            | —        |
| Income (loss) before income<br>taxes  | 610                         | (565 )               | 967        | 892                   | (1,394 )                     | 510      |
| Income tax (benefit) expense  | —                           | (269 )               | 71         | 101                   | (6 )                         | (103 )   |
| Net income (loss)   | 610                         | (296 )               | 896        | 791                   | (1,388 )                     | 613      |
| Less net income for<br>noncontrolling interests                                     | —                           | —                    | —          | (3 )                  | —                            | (3 )     |
| Net income (loss) attributable to<br>Eaton ordinary shareholders                    | \$610                       | \$(296 )             | \$896      | \$788                 | \$(1,388 )                   | \$610    |
| Other comprehensive income  | \$86                        | \$67                 | \$115      | \$70                  | \$(252 )                     | \$86     |
| Total comprehensive income<br>(loss) attributable to Eaton<br>ordinary shareholders | \$696                       | \$(229 )             | \$1,011    | \$858                 | \$(1,640 )                   | \$696    |

CONDENSED CONSOLIDATING BALANCE SHEETS  
JUNE 30, 2015

|   | Eaton<br>Corporation<br>plc | Eaton<br>Corporation | Guarantors | Other<br>subsidiaries | Consolidating<br>adjustments | Total    |
|---|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| <b>Assets</b>                                   |                             |                      |            |                       |                              |          |
| <b>Current assets</b>                           |                             |                      |            |                       |                              |          |
| Cash  | \$—                         | \$14                 | \$8        | \$281                 | \$—                          | \$303    |
| Short-term investments                          | —                           | —                    | 1          | 126                   | —                            | 127      |
| Accounts receivable - net                       | —                           | 549                  | 1,075      | 2,216                 | —                            | 3,840    |
| Intercompany accounts<br>receivable             | 2                           | 816                  | 3,751      | 3,063                 | (7,632 )                     | —        |
| Inventory                                       | —                           | 356                  | 691        | 1,479                 | (87 )                        | 2,439    |
| Deferred income taxes                           | —                           | 348                  | 128        | 77                    | —                            | 553      |
| Prepaid expenses and<br>other current assets    | —                           | 108                  | 43         | 212                   | 19                           | 382      |
| Total current assets                            | 2                           | 2,191                | 5,697      | 7,454                 | (7,700 )                     | 7,644    |
| Property, plant and<br>equipment - net          | —                           | 950                  | 752        | 1,978                 | —                            | 3,680    |
| <b>Other noncurrent assets</b>                  |                             |                      |            |                       |                              |          |
| Goodwill  | —                           | 1,355                | 6,256      | 6,087                 | —                            | 13,698   |
| Other intangible assets                         | —                           | 189                  | 3,717      | 2,376                 | —                            | 6,282    |
| Deferred income taxes                           | —                           | 873                  | 5          | 162                   | (790 )                       | 250      |
| Investment in subsidiaries                      | 28,861                      | 12,461               | 58,835     | 9,831                 | (109,988 )                   | —        |
| Intercompany loans receivable                   | —                           | 7,656                | 1,430      | 42,492                | (51,578 )                    | —        |
| Other assets                                    | —                           | 559                  | 132        | 334                   | —                            | 1,025    |
| Total assets                                    | \$28,863                    | \$26,234             | \$76,824   | \$70,714              | \$(170,056 )                 | \$32,579 |
| <b>Liabilities and<br/>shareholders' equity</b> |                             |                      |            |                       |                              |          |
| <b>Current liabilities</b>                      |                             |                      |            |                       |                              |          |
| Short-term debt                                 | \$—                         | \$125                | \$—        | \$14                  | \$—                          | \$139    |
| Current portion of<br>long-term debt            | —                           | 601                  | 241        | —                     | —                            | 842      |
| Accounts payable                                | —                           | 468                  | 325        | 1,138                 | —                            | 1,931    |
| Intercompany accounts payable                   | 84                          | 4,023                | 2,429      | 1,096                 | (7,632 )                     | —        |
| Accrued compensation                            | —                           | 58                   | 44         | 225                   | —                            | 327      |
| Other current liabilities                       | —                           | 605                  | 312        | 911                   | (11 )                        | 1,817    |
| Total current liabilities                       | 84                          | 5,880                | 3,351      | 3,384                 | (7,643 )                     | 5,056    |
| <b>Noncurrent liabilities</b>                   |                             |                      |            |                       |                              |          |
| Long-term debt                                  | —                           | 7,069                | 683        | 18                    | —                            | 7,770    |
| Pension liabilities                             | —                           | 587                  | 140        | 825                   | —                            | 1,552    |
| Other postretirement<br>benefits liabilities    | —                           | 280                  | 136        | 91                    | —                            | 507      |
| Deferred income taxes                           | —                           | 14                   | 1,105      | 547                   | (790 )                       | 876      |
| Intercompany loans payable                      | 13,026                      | 1,801                | 35,774     | 977                   | (51,578 )                    | —        |
| Other noncurrent liabilities                    | —                           | 424                  | 172        | 419                   | —                            | 1,015    |

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|                              |          |          |          |          |               |          |
|------------------------------|----------|----------|----------|----------|---------------|----------|
| Total noncurrent liabilities | 13,026   | 10,175   | 38,010   | 2,877    | (52,368 )     | 11,720   |
| Shareholders' equity         |          |          |          |          |               |          |
| Eaton shareholders' equity   | 15,753   | 10,179   | 35,463   | 64,410   | (110,052 )    | 15,753   |
| Noncontrolling interests     | —        | —        | —        | 43       | 7             | 50       |
| Total equity                 | 15,753   | 10,179   | 35,463   | 64,453   | (110,045 )    | 15,803   |
| Total liabilities and equity | \$28,863 | \$26,234 | \$76,824 | \$70,714 | \$ (170,056 ) | \$32,579 |

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CONDENSED CONSOLIDATING BALANCE SHEETS  
DECEMBER 31, 2014

|  | Eaton<br>Corporation<br>plc | Eaton<br>Corporation | Guarantors | Other<br>subsidiaries | Consolidating<br>adjustments | Total    |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Assets                                       |                             |                      |            |                       |                              |          |
| Current assets                               |                             |                      |            |                       |                              |          |
| Cash   | \$1                         | \$173                | \$13       | \$594                 | \$—                          | \$781    |
| Short-term investments                       | —                           | —                    | 1          | 244                   | —                            | 245      |
| Accounts receivable - net                    | —                           | 500                  | 955        | 2,212                 | —                            | 3,667    |
| Intercompany accounts<br>receivable          | 2                           | 759                  | 3,820      | 4,101                 | (8,682 )                     | —        |
| Inventory                                    | —                           | 397                  | 637        | 1,445                 | (51 )                        | 2,428    |
| Deferred income taxes                        | —                           | 368                  | 132        | 93                    | —                            | 593      |
| Prepaid expenses and<br>other current assets | —                           | 96                   | 39         | 247                   | 4                            | 386      |
| Total current assets                         | 3                           | 2,293                | 5,597      | 8,936                 | (8,729 )                     | 8,100    |
| Property, plant and<br>equipment - net       | —                           | 972                  | 756        | 2,022                 | —                            | 3,750    |
| Other noncurrent assets                      |                             |                      |            |                       |                              |          |
| Goodwill                                     | —                           | 1,355                | 6,256      | 6,282                 | —                            | 13,893   |
| Other intangible assets                      | —                           | 196                  | 3,811      | 2,549                 | —                            | 6,556    |
| Deferred income taxes                        | —                           | 889                  | 10         | 137                   | (808 )                       | 228      |
| Investment in subsidiaries                   | 26,612                      | 12,179               | 58,687     | 9,145                 | (106,623 )                   | —        |
| Intercompany loans receivable                | —                           | 7,542                | 2,249      | 40,635                | (50,426 )                    | —        |
| Other assets                                 | —                           | 533                  | 141        | 328                   | —                            | 1,002    |
| Total assets                                 | \$26,615                    | \$25,959             | \$77,507   | \$70,034              | \$ (166,586 )                | \$33,529 |
| Liabilities and<br>shareholders' equity      |                             |                      |            |                       |                              |          |
| Current liabilities                          |                             |                      |            |                       |                              |          |
| Short-term debt                              | \$—                         | \$—                  | \$—        | \$2                   | \$—                          | \$2      |
| Current portion of<br>long-term debt         | —                           | 702                  | 304        | 2                     | —                            | 1,008    |
| Accounts payable                             | —                           | 475                  | 340        | 1,125                 | —                            | 1,940    |
| Intercompany accounts payable                | 117                         | 4,125                | 3,449      | 991                   | (8,682 )                     | —        |
| Accrued compensation                         | —                           | 112                  | 59         | 249                   | —                            | 420      |
| Other current liabilities                    | 1                           | 674                  | 340        | 984                   | (14 )                        | 1,985    |
| Total current liabilities                    | 118                         | 6,088                | 4,492      | 3,353                 | (8,696 )                     | 5,355    |
| Noncurrent liabilities                       |                             |                      |            |                       |                              |          |
| Long-term debt                               | —                           | 7,079                | 932        | 13                    | —                            | 8,024    |
| Pension liabilities                          | —                           | 726                  | 183        | 903                   | —                            | 1,812    |
| Other postretirement<br>benefits liabilities | —                           | 283                  | 136        | 94                    | —                            | 513      |
| Deferred income taxes                        | —                           | —                    | 1,160      | 549                   | (808 )                       | 901      |
| Intercompany loans payable                   | 10,711                      | 2,723                | 36,162     | 830                   | (50,426 )                    | —        |
| Other noncurrent liabilities                 | —                           | 457                  | 183        | 445                   | —                            | 1,085    |

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|                              |          |          |          |          |               |          |
|------------------------------|----------|----------|----------|----------|---------------|----------|
| Total noncurrent liabilities | 10,711   | 11,268   | 38,756   | 2,834    | (51,234 )     | 12,335   |
| Shareholders' equity         |          |          |          |          |               |          |
| Eaton shareholders' equity   | 15,786   | 8,603    | 34,259   | 63,802   | (106,664 )    | 15,786   |
| Noncontrolling interests     | —        | —        | —        | 45       | 8             | 53       |
| Total equity                 | 15,786   | 8,603    | 34,259   | 63,847   | (106,656 )    | 15,839   |
| Total liabilities and equity | \$26,615 | \$25,959 | \$77,507 | \$70,034 | \$ (166,586 ) | \$33,529 |

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2015

|  | Eaton<br>Corporation<br>plc | Eaton<br>Corporation | Guarantors | Other<br>subsidiaries | Consolidating<br>adjustments | Total  |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|--------|
| Net cash (used in) provided by operating activities            | \$(84 )                     | \$(272 )             | \$95       | \$917                 | \$—                          | \$656  |
| Investing activities   |                             |                      |            |                       |                              |        |
| Cash paid for acquisitions of businesses, net of cash acquired | —                           | —                    | —          | (38 )                 | —                            | (38 )  |
| Capital expenditures for property, plant and equipment         | —                           | (47 )                | (63 )      | (136 )                | —                            | (246 ) |
| Sales of short-term investments - net                          | —                           | —                    | —          | 109                   | —                            | 109    |
| Investments in affiliates                                      | (1,482 )                    | —                    | (1,176 )   | (1,482 )              | 4,140                        | —      |
| Loans to affiliates  | —                           | (307 )               | (39 )      | (6,027 )              | 6,373                        | —      |
| Repayments of loans from affiliates                            | —                           | 306                  | 11         | 4,720                 | (5,037 )                     | —      |
| Proceeds from sale of business                                 | —                           | —                    | —          | 1                     | —                            | 1      |
| Other - net  | —                           | (31 )                | 28         | (30 )                 | —                            | (33 )  |
| Net cash used in investing activities                          | (1,482 )                    | (79 )                | (1,239 )   | (2,883 )              | 5,476                        | (207 ) |
| Financing activities   |                             |                      |            |                       |                              |        |
| Proceeds from borrowings                                       | —                           | 125                  | —          | 12                    | —                            | 137    |
| Payments on borrowings   | —                           | (101 )               | (301 )     | (2 )                  | —                            | (404 ) |
| Proceeds from borrowings from affiliates                       | 2,242                       | 3,775                | 314        | 42                    | (6,373 )                     | —      |
| Payments on borrowings from affiliates                         | (39 )                       | (3,824 )             | (1,160 )   | (14 )                 | 5,037                        | —      |
| Capital contributions from affiliates                          | —                           | 1,176                | 1,482      | 1,482                 | (4,140 )                     | —      |
| Other intercompany financing activities                        | —                           | (959 )               | 804        | 155                   | —                            | —      |
| Cash dividends paid  | (514 )                      | —                    | —          | —                     | —                            | (514 ) |
| Exercise of employee stock options                             | 46                          | —                    | —          | —                     | —                            | 46     |
| Repurchase of shares   | (170 )                      | —                    | —          | —                     | —                            | (170 ) |
| Other - net  | —                           | —                    | —          | (7 )                  | —                            | (7 )   |
| Net cash provided by (used in) financing activities            | 1,565                       | 192                  | 1,139      | 1,668                 | (5,476 )                     | (912 ) |
| Effect of currency on cash                                     | —                           | —                    | —          | (15 )                 | —                            | (15 )  |
| Total decrease in cash   | (1 )                        | (159 )               | (5 )       | (313 )                | —                            | (478 ) |
| Cash at the beginning of the period                            | 1                           | 173                  | 13         | 594                   | —                            | 781    |
| Cash at the end of the period                                  | \$—                         | \$14                 | \$8        | \$281                 | \$—                          | \$303  |





CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2014

|  | Eaton<br>Corporation<br>plc | Eaton<br>Corporation | Guarantors | Other<br>subsidiaries | Consolidating<br>adjustments | Total    |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net cash provided by (used in) operating activities    | \$8                         | \$(229 )             | \$7        | \$859                 | \$—                          | \$645    |
| Investing activities                                   |                             |                      |            |                       |                              |          |
| Capital expenditures for property, plant and equipment | —                           | (51 )                | (61 )      | (124 )                | —                            | (236 )   |
| (Purchases) sales of short-term investments - net      | —                           | —                    | (155 )     | 317                   | —                            | 162      |
| Loans to affiliates                                    | —                           | (151 )               | —          | (3,191 )              | 3,342                        | —        |
| Repayments of loans from affiliates                    | —                           | 176                  | 187        | 2,454                 | (2,817 )                     | —        |
| Proceeds from sale of businesses                       | —                           | 93                   | 175        | 5                     | —                            | 273      |
| Other - net  | —                           | (26 )                | 5          | (30 )                 | —                            | (51 )    |
| Net cash provided by (used in) investing activities    | —                           | 41                   | 151        | (569 )                | 525                          | 148      |
| Financing activities                                   |                             |                      |            |                       |                              |          |
| Payments on borrowings                                 | —                           | (551 )               | (1 )       | (24 )                 | —                            | (576 )   |
| Proceeds from borrowings from affiliates               | 327                         | 2,754                | 254        | 7                     | (3,342 )                     | —        |
| Payments on borrowings from affiliates                 | (15 )                       | (2,125 )             | (320 )     | (357 )                | 2,817                        | —        |
| Other intercompany financing activities                | 219                         | 84                   | (81 )      | (222 )                | —                            | —        |
| Cash dividends paid                                    | (467 )                      | —                    | —          | —                     | —                            | (467 )   |
| Exercise of employee stock options                     | 44                          | —                    | —          | —                     | —                            | 44       |
| Repurchase of shares                                   | (99 )                       | —                    | —          | —                     | —                            | (99 )    |
| Excess tax benefit from equity-based compensation      | —                           | 20                   | —          | —                     | —                            | 20       |
| Net cash provided by (used in) financing activities    | 9                           | 182                  | (148 )     | (596 )                | (525 )                       | (1,078 ) |
| Effect of currency on cash                             | —                           | —                    | —          | 1                     | —                            | 1        |
| Total increase (decrease) in cash                      | 17                          | (6 )                 | 10         | (305 )                | —                            | (284 )   |
| Cash at the beginning of the period                    | 3                           | 51                   | 10         | 851                   | —                            | 915      |
| Cash at the end of the period                          | \$20                        | \$45                 | \$20       | \$546                 | \$—                          | \$631    |

Table of ContentsITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS.

Amounts are in millions of dollars or shares unless indicated otherwise (per share data assume dilution).

## COMPANY OVERVIEW

Eaton Corporation plc (Eaton or the Company) is a power management company with 2014 net sales of \$22.6 billion. The Company provides energy-efficient solutions that help its customers effectively manage electrical, hydraulic, and mechanical power more efficiently, safely, and sustainably. Eaton has approximately 102,000 employees in over 60 countries and sells products to customers in more than 175 countries.

## Summary of Results of Operations

A summary of Eaton's Net sales, Net income attributable to Eaton ordinary shareholders, and Net income per ordinary share-diluted follows:

|  | Three months ended |         | Six months ended |          |
|--|--------------------|---------|------------------|----------|
|  | June 30            |         | June 30          |          |
|  | 2015               | 2014    | 2015             | 2014     |
| Net sales  | \$5,372            | \$5,767 | \$10,595         | \$11,259 |
| Net income attributable to Eaton ordinary shareholders | 535                | 171     | 1,001            | 610      |
| Net income per ordinary share - diluted                | \$1.14             | \$0.36  | \$2.13           | \$1.27   |

During the second quarter of 2014, the Company's results of operations were impacted by the litigation settlements, partially offset by the gain on the divestiture of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses. Additional information on the litigation settlements and sale of businesses is presented in Note 7 and Note 2, respectively, to the Condensed Consolidated Financial Statements.

## RESULTS OF OPERATIONS

## Non-GAAP Financial Measures

The following discussion of Consolidated Financial Results and Business Segment Results of Operations includes certain non-GAAP financial measures. These financial measures include operating earnings, operating earnings per ordinary share, and operating profit before acquisition integration charges for each business segment as well as corporate, each of which excludes amounts that differ from the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). A reconciliation of operating earnings and operating earnings per ordinary share to the most directly comparable GAAP measure is included in the table below. Operating profit before acquisition integration charges is reconciled in the discussion of the operating results of each business segment. Management believes that these financial measures are useful to investors because they exclude transactions of an unusual nature, allowing investors to more easily compare Eaton's financial performance period to period. Management uses this information in monitoring and evaluating the on-going performance of Eaton and each business segment. For additional information on acquisition integration charges, see Note 3 to the Condensed Consolidated Financial Statements.

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## Consolidated Financial Results

|   | Three months ended |         | Increase<br>(decrease) | Six months ended |          | Increase<br>(decrease) |   |
|---|--------------------|---------|------------------------|------------------|----------|------------------------|---|
|   | June 30<br>2015    | 2014    |                        | June 30<br>2015  | 2014     |                        |   |
| Net sales   | \$5,372            | \$5,767 | (7 )%                  | \$10,595         | \$11,259 | (6 )%                  |   |
| Gross profit  | 1,697              | 1,742   | (3 )%                  | 3,327            | 3,376    | (1 )%                  |   |
| Percent of net sales  | 31.6               | % 30.2  | %                      | 31.4             | % 30.0   | %                      |   |
| Income before income taxes  | 598                | 57      | 949                    | % 1,103          | 510      | 116                    | % |
| Net income  | \$535              | \$172   | 211                    | % \$1,002        | \$613    | 63                     | % |
| Less net income for noncontrolling interests                                    | —                  | (1 )    |                        | (1 )             | (3 )     |                        |   |
| Net income attributable to Eaton ordinary shareholders                          | 535                | 171     | 213                    | % 1,001          | 610      | 64                     | % |
| Excluding acquisition integration charges (after-tax)                           | 8                  | 23      |                        | 15               | 67       |                        |   |
| Operating earnings  | \$543              | \$194   | 180                    | % \$1,016        | \$677    | 50                     | % |
| Net income per ordinary share - diluted   | \$1.14             | \$0.36  | 217                    | % \$2.13         | \$1.27   | 68                     | % |
| Excluding per share impact of acquisition integration charges costs (after-tax) | 0.02               | 0.05    |                        | 0.03             | 0.14     |                        |   |
| Operating earnings per ordinary share   | \$1.16             | \$0.41  | 183                    | % \$2.16         | \$1.41   | 53                     | % |

## Net Sales

Net sales decreased in the second quarter and first six months of 2015 compared to the second quarter and first six months of 2014 due to a decrease of 6% from the impact of currency translation. Organic sales declined 1% during the second quarter of 2015 compared to the second quarter of 2014. The decrease in organic sales is primarily due to weakening demand in several of the Company's end markets.

## Gross Profit

Gross profit margin increased from 30.2% in the second quarter of 2014 to 31.6% in the second quarter of 2015. Gross profit margin during the first six months increased from 30.0% in 2014 to 31.4% in 2015. The increase in the gross profit margin in the second quarter and first six months of 2015 was primarily due to actions taken over the past year to realize greater efficiencies and the beneficial impact of new product introductions.

## Income Taxes

The effective income tax rate for the second quarter and first six months of 2015 was expense of 11% and 9%, respectively. The effective income tax rate for the second quarter and first six months of 2014 was a benefit of 203% and 20%, respectively. Excluding the litigation settlements and related legal costs, as well as the gain on the sale of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses, which represents a total pre-tax expense of \$494 and occurred in the second quarter of 2014, the effective income tax rate was expense of 8% and 6% for the second quarter and first six months of 2014, respectively. See Note 7 and Note 2 for additional information about legal contingencies and the sale of businesses, respectively. The increase in the effective tax rate in the second quarter and first six months of 2015 is primarily due to more income earned in higher tax jurisdictions including the United States.

## Operating Earnings

Operating earnings, a non-GAAP measure discussed on page 22, of \$543 in the second quarter of 2015 increased 180% compared to Operating earnings of \$194 in the second of 2014. Operating earnings for the first six months of 2015 were \$1,016, an increase of 50% compared to Operating earnings of \$677 in the first six months of 2014. The increase in Operating earnings in the second quarter and first six months of 2015 was primarily due to lower income in the second quarter of 2014 as a result of the litigation settlements, which was partially offset by the gain on the sale of the Aerospace businesses. Excluding litigation settlements and gain on sale, operating earnings improved due to higher segment operating margins and lower corporate costs, offset by the impact of currency translation and a higher

effective tax rate.

Operating earnings per ordinary share increased to \$1.16 in the second quarter of 2015 compared to \$0.41 in the second quarter of 2014. Operating earnings per ordinary share increased to \$2.16 in the first six months of 2015 compared to \$1.41 in the first six months of 2014. The increase in Operating earnings per ordinary share is due to higher Operating earnings and the impact of the Company's share repurchases over the last year.

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## Business Segment Results of Operations

The following is a discussion of Net sales, operating profit and operating margin by business segment, which includes a discussion of operating profit and operating profit margin before acquisition integration charges. For additional information related to acquisition integration charges, see Note 3 to the Condensed Consolidated Financial Statements.

## Electrical Products

|                                 | Three months ended |         |      | Decrease | Six months ended |         |      |          |
|---------------------------------|--------------------|---------|------|----------|------------------|---------|------|----------|
|                                 | June 30            |         | 2014 |          | June 30          |         | 2014 | Decrease |
|                                 | 2015               | 2014    |      |          | 2015             | 2014    |      |          |
| Net sales                       | \$1,784            | \$1,832 | (3)  | )%       | \$3,475          | \$3,558 | (2)  | )%       |
| Operating profit                | \$276              | \$300   | (8)  | )%       | \$536            | \$550   | (3)  | )%       |
| Operating margin                | 15.5               | % 16.4  | %    |          | 15.4             | % 15.5  | %    |          |
| Acquisition integration charges | \$6                | \$12    |      |          | \$12             | \$41    |      |          |

## Before acquisition integration charges

|                  |       |        |      |    |       |        |     |    |
|------------------|-------|--------|------|----|-------|--------|-----|----|
| Operating profit | \$282 | \$312  | (10) | )% | \$548 | \$591  | (7) | )% |
| Operating margin | 15.8  | % 17.0 | %    |    | 15.8  | % 16.6 | %   |    |

Net sales decreased 3% in the second quarter of 2015 compared to the second quarter of 2014 due to a decrease of 6% from the impact of currency translation, partially offset by an increase in organic sales of 3%. Net sales decreased 2% in the first six months of 2015 due to a decrease of 5% from the impact of currency translation, partially offset by an increase in organic sales of 3%. Organic sales growth in the second quarter and first six months of 2015 was due to strength in the Americas region.

Operating margin before acquisition integration charges decreased from 17.0% in the second quarter of 2014 to 15.8% in the second quarter of 2015. Operating margin before acquisition integration charges decreased from 16.6% in the first six months of 2014 to 15.8% in the first six months of 2015. The decrease in operating margin during 2015 was primarily due to unfavorable mix and the impact of exchange on sales to Canada.

## Electrical Systems and Services

|                                 | Three months ended |         |      | Increase<br>(decrease) | Six months ended |         |      |                        |
|---------------------------------|--------------------|---------|------|------------------------|------------------|---------|------|------------------------|
|                                 | June 30            |         | 2014 |                        | June 30          |         | 2014 | Increase<br>(decrease) |
|                                 | 2015               | 2014    |      |                        | 2015             | 2014    |      |                        |
| Net sales                       | \$1,502            | \$1,628 | (8)  | )%                     | \$2,950          | \$3,152 | (6)  | )%                     |
| Operating profit                | \$223              | \$194   | 15   | %                      | \$409            | \$363   | 13   | %                      |
| Operating margin                | 14.8               | % 11.9  | %    |                        | 13.9             | % 11.5  | %    |                        |
| Acquisition integration charges | \$4                | \$13    |      |                        | \$7              | \$39    |      |                        |

## Before acquisition integration charges

|                  |       |        |    |   |       |        |   |   |
|------------------|-------|--------|----|---|-------|--------|---|---|
| Operating profit | \$227 | \$207  | 10 | % | \$416 | \$402  | 3 | % |
| Operating margin | 15.1  | % 12.7 | %  |   | 14.1  | % 12.8 | % |   |

Net sales decreased 8% in the second quarter of 2015 compared to the second quarter of 2014 due to a decrease of 4% from the impact of currency translation and a decrease in organic sales of 4%. Net sales decreased 6% in the first six months of 2015 compared to 2014 due to a decrease of 4% from the impact of currency translation and a decrease in organic sales of 2%. The organic sales decline during the second quarter of 2015 was primarily due to weakness in global oil and gas and other industrial markets.

Operating margin before acquisition integration charges increased from 12.7% in the second quarter of 2014 to 15.1% in the second quarter of 2015. Operating margin before integration charges increased from 12.8% in the first six

months of 2014 to 14.1% in 2015. The increase in operating margin in the second and first six months of 2015 was primarily due to operational efficiency improvements.

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## Hydraulics

|                                 | Three months ended |        |        | Decrease | Six months ended |        |          |
|---------------------------------|--------------------|--------|--------|----------|------------------|--------|----------|
|                                 | June 30            |        |        |          | June 30          |        | Decrease |
|                                 | 2015               | 2014   |        | 2015     | 2014             |        |          |
| Net sales                       | \$643              | \$787  | (18 )% | \$1,308  | \$1,569          | (17 )% |          |
| Operating profit                | \$74               | \$94   | (21 )% | \$140    | \$202            | (31 )% |          |
| Operating margin                | 11.5               | % 11.9 | %      | 10.7     | % 12.9           | %      |          |
| Acquisition integration charges | \$1                | \$5    |        | \$2      | \$9              |        |          |

## Before acquisition integration charges

|                  |      |        |        |       |        |        |
|------------------|------|--------|--------|-------|--------|--------|
| Operating profit | \$75 | \$99   | (24 )% | \$142 | \$211  | (33 )% |
| Operating margin | 11.7 | % 12.6 | %      | 10.9  | % 13.4 | %      |

Net sales decreased 18% in the second quarter of 2015 compared to the second quarter of 2014 due to a decrease of organic sales of 11% and a decrease of 7% from the impact of currency translation. Net sales decreased 17% in the first six months 2015 compared to 2014 due to a decrease of organic sales of 10% and a decrease of 7% from the impact of currency translation. The decrease in organic sales in the second quarter and first six months of 2015 was primarily due to weakness in the global agricultural and the China construction equipment markets.

Operating margin before acquisition integration charges decreased from 12.6% in the second quarter of 2014 to 11.7% in the second quarter of 2015. Operating margin before acquisition integration charges decreased from 13.4% in the first six months of 2014 to 10.9% in 2015. The decrease in operating margin in the second quarter and first six months of 2015 was primarily due to lower sales volumes.

## Aerospace

|                  | Three months ended |        |       | Increase<br>(decrease) | Six months ended |       |                        |
|------------------|--------------------|--------|-------|------------------------|------------------|-------|------------------------|
|                  | June 30            |        |       |                        | June 30          |       | Increase<br>(decrease) |
|                  | 2015               | 2014   |       | 2015                   | 2014             |       |                        |
| Net sales        | \$454              | \$486  | (7 )% | \$918                  | \$950            | (3 )% |                        |
| Operating profit | \$77               | \$69   | 12 %  | \$154                  | \$131            | 18 %  |                        |
| Operating margin | 17.0               | % 14.2 | %     | 16.8                   | % 13.8           | %     |                        |

Net sales in the second quarter of 2015 decreased 7% compared to the second quarter of 2014 due to a decrease of 3% from the impact of currency translation, a decrease of 2% from the divestiture of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses in 2014, and a 2% decrease in organic sales. The decrease in organic sales in the second quarter of 2015 reflects the very strong sales in the second quarter of 2014 as a result of cost reimbursements on certain engineering programs. Without these reimbursements in 2014, organic sales in the second quarter 2015 increased 3% over the second quarter of 2014. Net sales decreased 3% during the first six months of 2015 compared to 2014 due to a decrease of 3% from the impact of currency translation and a decrease of 3% from the Aerospace divestitures, as noted above, which was partially offset by a 3% increase in organic sales. The increase in organic sales during 2015 related to higher aftermarket sales and strength in commercial OEM markets.

Operating margin increased from 14.2% in the second quarter of 2014 to 17.0% in the second quarter of 2015. Operating margin increased from 13.8% in the first six months of 2014 compared to 16.8% in the first six months of 2015. The increase in operating margin in the second quarter and first six months of 2015 was primarily due to favorable mix.



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## Vehicle

|                  | Three months ended |         | Increase<br>(decrease) | Six months ended |         | Increase<br>(decrease) |
|------------------|--------------------|---------|------------------------|------------------|---------|------------------------|
|                  | June 30            |         |                        | June 30          |         |                        |
|                  | 2015               | 2014    |                        | 2015             | 2014    |                        |
| Net sales        | \$989              | \$1,034 | (4 )%                  | \$1,944          | \$2,030 | (4 )%                  |
| Operating profit | \$190              | \$155   | 23 %                   | \$354            | \$306   | 16 %                   |
| Operating margin | 19.2 %             | 15.0 %  |                        | 18.2 %           | 15.1 %  |                        |

Net sales decreased 4% in the second quarter and first six months of 2015 compared to the second quarter and first six months of 2014 due to a decrease of 8% from the impact of currency translation partially offset by an increase in organic sales of 4%. The increase in organic sales in 2015 was primarily due to improved demand in the North American truck and automotive markets, partially offset by weakness in South American markets.

Operating margin increased from 15.0% in the second quarter of 2014 to 19.2% in the second quarter of 2015.

Operating margin increased from 15.1% in the first six months of 2014 to 18.2% in the first six months of 2015. The increase in operating margin in the second quarter and first six months of 2015 was primarily due to higher organic sales, favorable mix and the impact of certain restructuring activities taken in 2014 to generate ongoing efficiencies.

## Corporate Expense

|   | Three months ended |        | Increase<br>(decrease) | Six months ended |         | Decrease |
|---|--------------------|--------|------------------------|------------------|---------|----------|
|   | June 30            |        |                        | June 30          |         |          |
|   | 2015               | 2014   |                        | 2015             | 2014    |          |
| Litigation settlements                            | \$—                | \$644  | (100 )%                | \$—              | \$644   | (100 )%  |
| Amortization of intangible assets                 | 102                | 109    | (6 )%                  | 204              | 219     | (7 )%    |
| Interest expense - net                            | 59                 | 55     | 7 %                    | 116              | 117     | (1 )%    |
| Pension and other postretirement benefits expense | 33                 | 32     | 3 %                    | 61               | 83      | (27 )%   |
| Gain on divestiture of Aerospace businesses       | —                  | (156 ) | (100 )%                | —                | (156 )  | (100 )%  |
| Other corporate expense - net                     | 48                 | 71     | (32 )%                 | 109              | 135     | (19 )%   |
| Total corporate expense                           | \$242              | \$755  | (68 )%                 | \$490            | \$1,042 | (53 )%   |

Total Corporate expense decreased 68% from \$755 in the second quarter of 2014 to \$242 in the second quarter of 2015. Total Corporate expense decreased 53% from \$1,042 in the first six months of 2014 to \$490 in first six months of 2015. The decrease was primarily due to litigation settlements of \$644, partially offset by a gain of \$156 on the divestiture of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses. Excluding the litigation settlement charge and gain on sale, corporate expenses decreased 9% and 12% for the three and six months ending June 30, 2015 as compared to three and six months ended June 30, 2014, respectively. The decrease for the three months ended June 30, 2015 is primarily due to corporate cost reduction actions. The decrease for the six months ending June 30, 2015 is also due to lower Pension and other postretirement benefits expense related to lower lump sum settlements in the first quarter of 2015.

## LIQUIDITY, CAPITAL RESOURCES AND CHANGES IN FINANCIAL CONDITION

## Financial Condition and Liquidity

Eaton's objective is to finance its business through operating cash flow and an appropriate mix of equity and long-term and short-term debt. By diversifying its debt maturity structure, Eaton reduces liquidity risk. The Company maintains access to the commercial paper markets through a commercial paper program, which is supported by credit facilities in the aggregate principal amount of \$2,000. There were no borrowings outstanding under these revolving credit facilities at June 30, 2015. Over the course of a year, cash, short-term investments and short-term debt may fluctuate in order to manage global liquidity. Eaton believes it has the operating flexibility, cash flow, cash and short-term investment balances, and access to capital markets in excess of the liquidity necessary to meet future operating needs of the business as well as scheduled payments of long-term debt.

Eaton was in compliance with each of its debt covenants for all periods presented.



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### Sources and Uses of Cash

#### Operating Cash Flow

Net cash provided by operating activities was \$656 in the first six months of 2015, an increase of \$11 compared to \$645 in the first six months of 2014.

#### Investing Cash Flow

Net cash used in investing activities was \$207 in the first six months of 2015, a decrease of \$355 compared to net cash provided by investing activities of \$148 in the first six months of 2014. Investing cash flows were impacted by the absence of proceeds from the sale of businesses totaling \$273 in 2014, which primarily related to the Aerospace divestitures in 2014. The remaining decrease is due to cash paid for acquisitions of businesses of \$38 in 2015 and a \$53 decline in proceeds from the sale of short-term investments, which was \$162 in 2014 to \$109 in 2015.

#### Financing Cash Flow

Net cash used in financing activities was \$912 in the first six months of 2015, a decrease of \$166 in the use of cash compared to \$1,078 in the first six months of 2014. The lower use of cash was primarily due to proceeds obtained from short-term borrowings, which totaled \$137 in 2015 and a decrease of \$172 in payments on long-term borrowings, offset by increase of \$71 in share repurchases and \$47 in dividends.

### FORWARD-LOOKING STATEMENTS

This Form 10-Q Report contains forward-looking statements concerning litigation developments, capital expenditures and restructuring charges, among other matters. These statements may discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to Eaton, based on current beliefs of management as well as assumptions made by, and information currently available to, management. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “guidance,” “intend,” “may,” “possible,” “potential,” “predict,” “project” or other similar words or expressions. These statements should be used with caution and are subject to various risks and uncertainties, many of which are outside Eaton’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; the availability of credit to customers and suppliers; competitive pressures on sales and pricing; unanticipated changes 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; strikes or other labor unrest; the impact of acquisitions and divestitures; unanticipated difficulties integrating acquisitions; new laws and governmental regulations; interest rate changes; tax rate changes or exposure to additional income tax liability; stock market and currency fluctuations; war, civil or political unrest or terrorism; and unanticipated deterioration of economic and financial conditions in the United States and around the world. Eaton does not assume any obligation to update these forward-looking statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in exposures to market risk since December 31, 2014.

### ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures - Pursuant to SEC Rule 13a-15, an evaluation was performed under the supervision and with the participation of Eaton’s management, including Alexander M. Cutler - Principal Executive Officer; and Richard H. Fearon - Principal Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based on that evaluation, management concluded that Eaton’s disclosure controls and procedures were effective as of June 30, 2015.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in Eaton’s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Eaton’s

reports filed under the Exchange Act is accumulated and communicated to management, including Eaton's Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure. During the second quarter of 2015, there was no change in Eaton's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Information regarding the Company's current legal proceedings is presented in Note 7 of the Notes to the Condensed Consolidated Financial Statements.

ITEM 1A. RISK FACTORS.

“Item 1A. Risk Factors” in Eaton's 2014 Form 10-K includes a discussion of the Company's risk factors. There have been no material changes from the risk factors described in the 2014 Form 10-K.

ITEM 6. EXHIBITS.

Exhibits — See Exhibit Index attached.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EATON CORPORATION plc  
Registrant

Date: July 29, 2015

By: /s/ Richard H. Fearon  
Richard H. Fearon  
Principal Financial Officer  
(On behalf of the registrant and as Principal Financial Officer)

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Eaton Corporation plc

Second Quarter 2015 Report on Form 10-Q

Exhibit Index

|         |  |
|---------|--|
| 3 (i)   | Certificate of Incorporation - Incorporated by reference to the Form S-8 filed November 30, 2012   |
| 3 (ii)  | Amended and restated Memorandum and Articles of Incorporation - Incorporated by reference to the Form 10-Q Report for the three months ended September 30, 2012                            |
| 4 (a)   | Pursuant to Regulation S-K Item 601(b)(4), Eaton agrees to furnish to the SEC, upon request, a copy of the instruments defining the rights of holders of its other long-term debt          |
| 12      | Ratio of Earnings to Fixed Charges — Filed in conjunction with this Form 10-Q Report *   |
| 31.1    | Certification of Principal Executive Officer (Pursuant to Rule 13a-14(a)) — Filed in conjunction with this Form 10-Q Report *  |
| 31.2    | Certification of Principal Financial Officer (Pursuant to Rule 13a-14(a)) — Filed in conjunction with this Form 10-Q Report *  |
| 32.1    | Certification of Principal Executive Officer (Pursuant to Rule 13a-14(b) as adopted pursuant to Section 906 of the Sarbanes-Oxley Act) — Filed in conjunction with this Form 10-Q Report * |
| 32.2    | Certification of Principal Financial Officer (Pursuant to Rule 13a-14(b) as adopted pursuant to Section 906 of the Sarbanes-Oxley Act) — Filed in conjunction with this Form 10-Q Report * |
| 91.1    | FRS 102 Notification *   |
| 101.INS | XBRL Instance Document *   |
| 101.SCH | XBRL Taxonomy Extension Schema Document *  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document *  |
| 101.DEF | XBRL Taxonomy Extension Label Definition Document *  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document *  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document *   |

\* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Income for the three months ended June 30, 2015 and 2014, (ii) Consolidated Statements of Comprehensive Income for the three months ended June 30, 2015 and 2014, (iii) Condensed Consolidated Balance Sheets at June 30, 2015 and December 31, 2014, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014 and (v) Notes to Condensed Consolidated Financial Statements for the six months ended June 30, 2015.