

Eaton Corp plc
Form 10-Q
October 30, 2018
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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 September 30, 2018
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 D04 Y0C2
(Address of principal executive offices) (Zip Code)

+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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company (Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Act.

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 433.4 million Ordinary Shares outstanding as of September 30, 2018.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

EATON CORPORATION plc
CONSOLIDATED STATEMENTS OF INCOME

	Three months ended		Nine months ended	
	September 30 2018	September 30 2017	September 30 2018	September 30 2017
(In millions except for per share data)				
Net sales	\$5,412	\$5,211	\$16,150	\$15,191
Cost of products sold	3,597	3,466	10,841	10,221
Selling and administrative expense	889	902	2,679	2,669
Research and development expense	138	147	439	440
Interest expense - net	67	60	205	181
Gain on sale of business	—	1,077	—	1,077
Arbitration decision expense	275	—	275	—
Other expense - net	7	19	13	24
Income before income taxes	439	1,694	1,698	2,733
Income tax expense	23	293	184	381
Net income	416	1,401	1,514	2,352
Less net income for noncontrolling interests	—	—	—	(1)
Net income attributable to Eaton ordinary shareholders	\$416	\$1,401	\$1,514	\$2,351
Net income per share attributable to Eaton ordinary shareholders				
Diluted	\$0.95	\$3.14	\$3.45	\$5.24
Basic	0.96	3.16	3.47	5.27
Weighted-average number of ordinary shares outstanding				
Diluted	436.3	445.2	438.4	448.3
Basic	433.5	442.6	435.8	445.9
Cash dividends declared per ordinary share	\$0.66	\$0.60	\$1.98	\$1.80

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)	Three months ended		Nine months ended	
	September 30 2018	September 30 2017	September 30 2018	September 30 2017
Net income	\$416	\$1,401	\$1,514	\$2,352
Less net income for noncontrolling interests	—	—	—	(1)
Net income attributable to Eaton ordinary shareholders	416	1,401	1,514	2,351
Other comprehensive (loss) income, net of tax				
Currency translation and related hedging instruments	(132)	195	(546)	743
Pensions and other postretirement benefits	40	16	122	53
Cash flow hedges	(6)	(12)	(2)	(11)
Other comprehensive (loss) income attributable to Eaton ordinary shareholders	(98)	199	(426)	785
Total comprehensive income attributable to Eaton ordinary shareholders	\$318	\$1,600	\$1,088	\$3,136

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash	\$ 327	\$ 561
Short-term investments	178	534
Accounts receivable - net	4,027	3,943
Inventory	2,835	2,620
Prepaid expenses and other current assets	500	679
Total current assets	7,867	8,337
Property, plant and equipment		
Land and buildings	2,470	2,491
Machinery and equipment	6,030	6,014
Gross property, plant and equipment	8,500	8,505
Accumulated depreciation	(5,054)	(5,003)
Net property, plant and equipment	3,446	3,502
Other noncurrent assets		
Goodwill	13,385	13,568
Other intangible assets	4,949	5,265
Deferred income taxes	241	253
Other assets	1,740	1,698
Total assets	\$ 31,628	\$ 32,623
Liabilities and shareholders' equity		
Current liabilities		
Short-term debt	\$ 82	\$ 6
Current portion of long-term debt	426	578
Accounts payable	2,165	2,166
Accrued compensation	427	453
Other current liabilities	2,167	1,872
Total current liabilities	5,267	5,075
Noncurrent liabilities		
Long-term debt	6,737	7,167
Pension liabilities	1,160	1,226
Other postretirement benefits liabilities	344	362
Deferred income taxes	347	538
Other noncurrent liabilities	984	965
Total noncurrent liabilities	9,572	10,258
Shareholders' equity		
Eaton shareholders' equity	16,754	17,253
Noncontrolling interests	35	37
Total equity	16,789	17,290

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Total liabilities and equity \$ 31,628 \$ 32,623

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

Table of ContentsEATON CORPORATION plc
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30	
(In millions)	2018	2017
Operating activities		
Net income	\$1,514	\$2,352
Adjustments to reconcile to net cash provided by operating activities		
Depreciation and amortization	680	685
Deferred income taxes	(211)	(178)
Pension and other postretirement benefits expense	123	161
Contributions to pension plans	(99)	(447)
Contributions to other postretirement benefits plans	(26)	(14)
Gain on sale of business	—	(843)
Changes in working capital	62	(152)
Other - net	(205)	223
Net cash provided by operating activities	1,838	1,787
Investing activities		
Capital expenditures for property, plant and equipment	(411)	(351)
Proceeds from sale of business	—	600
Sales (purchases) of short-term investments - net	329	(621)
Payments for settlement of currency exchange contracts not designated as hedges - net	(122)	—
Other - net	(52)	(63)
Net cash used in investing activities	(256)	(435)
Financing activities		
Proceeds from borrowings	80	1,000
Payments on borrowings	(486)	(553)
Cash dividends paid	(864)	(803)
Exercise of employee stock options	28	59
Repurchase of shares	(600)	(789)
Employee taxes paid from shares withheld	(24)	(21)
Other - net	(2)	(8)
Net cash used in financing activities	(1,868)	(1,115)
Effect of currency on cash	52	11
Total increase (decrease) in cash	(234)	248
Cash at the beginning of the period	561	543
Cash at the end of the period	\$327	\$791

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 2017 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.

During the first quarter of 2018, Eaton re-segmented certain reportable operating segments due to a reorganization of the Company's businesses. The new reportable business segment is eMobility (which includes certain legacy Electrical Products and Vehicle product lines). See Note 14 for additional information related to these segments.

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

Revenue Recognition

Sales are recognized when control of promised goods or services are transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Control is transferred when the customer has the ability to direct the use of and obtain benefits from the goods or services. The majority of the Company's sales agreements contain performance obligations satisfied at a point in time when control is transferred to the customer. Sales recognized over time are generally accounted for using an input measure to determine progress completed at the end of the period. Sales for service contracts generally are recognized as the services are provided. For agreements with multiple performance obligations, judgment is required to determine whether performance obligations specified in these agreements are distinct and should be accounted for as separate revenue transactions for recognition purposes. In these types of agreements, we generally allocate sales price to each distinct obligation based on the price of each item sold in separate transactions.

Payment terms vary by the type and location of the customer and the products or services offered. Generally, the time between when revenue is recognized and payment is due is not significant. Eaton does not evaluate whether the selling price includes a financing interest component for contracts that are less than a year. Sales, value added, and other taxes collected concurrent with revenue are excluded from sales. Shipping and handling costs are treated as fulfillment costs and are included in Cost of products sold.

Eaton records reductions to sales for returns, and customer and distributor incentives, primarily comprised of rebates, at the time of the initial sale. Rebates are estimated based on sales terms, historical experience, trend analysis, and projected market conditions in the various markets served. The rebate programs offered vary across businesses due to the numerous markets Eaton serves, but the most common incentives relate to amounts paid or credited to customers for achieving defined volume levels. Returns are estimated at the time of the sale primarily based on historical experience and recorded gross on the Consolidated Balance Sheet. See Note 4 for additional information.

Adoption of New Accounting Standards

Eaton adopted Accounting Standard Update 2014-09, Revenue from Contracts with Customers, at the start of the first quarter of 2018 using the modified retrospective approach and recorded a cumulative effect adjustment to retained earnings based on the current terms and conditions for open contracts as of January 1, 2018. The adoption of the standard did not have a material impact on the Company's Consolidated financial statements. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

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Consolidated Balance Sheet	Balance at December 31, 2017	Adjustments due to ASU 2014-09	Balance at January 1, 2018
Assets			
Accounts receivable - net	\$ 3,943	\$ (99)	\$ 3,844
Prepaid expenses and other current assets	679	129	808
Deferred income taxes	253	1	254
Liabilities and shareholders' equity			
Other current liabilities	\$ 1,872	\$ 33	\$ 1,905
Eaton shareholders' equity	17,253	(2)	17,251

Eaton adopted Accounting Standards Update 2016-16, Intra-Entity Transfers of Assets Other Than Inventory (ASU 2016-16), at the start of the first quarter of 2018. This accounting standard requires companies to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period in which the transfer occurs. The previous accounting standard required companies to defer the income tax effects of intercompany transfers of assets by recording a prepaid tax, until such assets were sold to an outside party or otherwise recognized. ASU 2016-16 requires companies to write off any income tax amounts that had been deferred as prepaid taxes from past intercompany transactions, and record deferred tax balances for amounts that have not been recognized, through a cumulative-effect adjustment to retained earnings. Upon adoption, the Company recorded a cumulative-effect adjustment of \$199 to reduce retained earnings.

Eaton adopted Accounting Standards Update 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07), at the start of the first quarter of 2018. The new standard requires companies to present service costs consistent with other employee compensation costs on the income statement and separate from all other elements of pension costs. The retrospective adoption of this standard resulted in an increase in selling and administrative expense with a corresponding decrease in Other expense - net of \$2 for the nine months ended September 30, 2018, and a reduction in selling and administrative expense with a corresponding increase in Other expense - net of \$34 for the nine months ended September 30, 2017.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842), (ASU 2016-02). This accounting standard requires that a lessee recognize a lease asset and a lease liability on its balance sheet for all leases, including operating leases, with a term greater than 12 months. ASU 2016-02 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, 2018. The Company plans to adopt the standard, and related amendments, as of the first quarter of 2019 using the optional transition method that allows for a cumulative-effect adjustment to be recorded at adoption, and will not restate prior periods. A project team has been formed to evaluate and implement the new standard. The project team has been collecting and validating the data required to account for leases under the new standard, and continues to test the functionality of a new lease accounting system being developed by a third-party. In addition, the Company is in the process of identifying and implementing the appropriate changes to business processes and controls to support recognition and disclosure under the new standard. Eaton is evaluating the impact of ASU 2016-02 and expects to recognize a significant lease asset and lease liability for operating leases on the Consolidated Balance Sheet, but does not expect a material impact to the Consolidated Statements of Income or Cash Flows.

Note 2. SALE OF A BUSINESS

Sale of heavy-duty and medium-duty commercial vehicle automated transmission business

On July 31, 2017, Eaton sold a 50% interest in its heavy-duty and medium-duty commercial vehicle automated transmission business for \$600 in cash to Cummins, Inc. The new joint venture is named Eaton Cummins Automated Transmission Technologies (ECATT). In 2017, the Company recognized a pre-tax gain of \$1,077, of which \$533

related to the pre-tax gain from the \$600 proceeds from the sale and \$544 related to the Company's remaining 50% investment in the joint venture being remeasured to fair value. The after-tax gain was \$843. The fair value is based on the price paid to Eaton for the 50% interest sold to Cummins, Inc. and further supported by a discounted cash flow model. Eaton accounts for its investment on the equity method of accounting.

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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 September 30 2018	Nine months ended September 30 2017	Three months ended September 30 2018	Nine months ended September 30 2017
Electrical Products	\$ —	\$ 1	\$ —	\$ 3
Total acquisition integration charges before income tax	—	1	—	3
Income taxes	—	—	—	1
Total after income taxes	\$ —	\$ 1	\$ —	\$ 2
Per ordinary share - diluted	\$ —	\$ —	\$ —	\$ —

Business segment acquisition integration charges in 2017 related to the integration of Ephesus Lighting, Inc. (Ephesus), which was acquired in 2015. The charges associated with Ephesus were included in Selling and administrative expense. In Business Segment Information, the charges reduced Operating profit of the related business segment. See Note 14 for additional information about business segments.

Note 4. REVENUE RECOGNITION

Sales are recognized when obligations under the terms of the contract are satisfied and control of promised goods or services have transferred to our customers. Sales are measured at the amount of consideration the Company expects to be paid in exchange for these products or services.

The majority of the Company's sales agreements contain performance obligations satisfied at a point in time when title and risk and rewards of ownership have transferred to the customer. Sales recognized over time are less than 5% of Eaton's Consolidated Net Sales. Sales recognized over time are generally accounted for using an input measure to determine progress completed at the end of the period. Sales for service contracts generally are recognized as the services are provided. For agreements with multiple performance obligations, judgment is required to determine whether performance obligations specified in these agreements are distinct and should be accounted for as separate revenue transactions for recognition purposes. In these types of agreements, we generally allocate sales price to each distinct obligation based on the price of each item sold in separate transactions.

Due to the nature of the work required to be performed for obligations recognized over time, Eaton estimates total costs by contract. The estimate of total costs are subject to judgment. Estimated amounts are included in the recognized sales price to the extent it is not probable that a significant reversal of cumulative sales will occur. Additionally, contracts can be modified to account for changes in contract specifications, requirements or sale price. The effect of a contract modification on the sales price or adjustments to the measure of completion under the input method are recognized as adjustments to revenue on a cumulative catch-up basis.

Payment terms vary by the type and location of the customer and the products or services offered. Generally, the time between when revenue is recognized and when payment is due is not significant. Eaton does not evaluate whether the selling price includes a financing interest component for contracts that are less than a year. Sales, value added, and other taxes collected concurrent with revenue are excluded from sales. Shipping and handling costs are treated as fulfillment costs and are included in Cost of products sold.

Eaton records reductions to sales for returns, and customer and distributor incentives, primarily comprised of rebates, at the time of the initial sale. Rebates are estimated based on sales terms, historical experience, trend analysis, and projected market conditions in the various markets served. The rebate programs offered vary across businesses due to the numerous markets Eaton serves, but the most common incentives relate to amounts paid or credited to customers for achieving defined volume levels. Returns are estimated at the time of the sale primarily based on historical experience and are recorded gross on the Condensed Consolidated Balance Sheet.

Sales commissions are expensed when the amortization period is less than a year and are generally not capitalized as they are typically earned at the completion of the contract when the customer is invoiced or when the customer pays

Eaton.

Sales of products and services varies by segment and are discussed in Note 15 of Eaton's 2017 Form 10-K and in Note 14.

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In the Electrical Products segment, sales contracts are primarily for electrical components, industrial components, residential products, single phase power quality, emergency lighting, fire detection, wiring devices, structural support systems, circuit protection, and lighting products. These sales contracts are primarily based on a customer's purchase order followed by our order acknowledgement, and may also include a master supply or distributor agreement. In this segment, performance obligations are generally satisfied at a point in time either when we ship the product from our facility, or when it arrives at the customer's facility.

In the Electrical Systems and Services segment, sales contracts are primarily for power distribution and assemblies, three phase power quality, hazardous duty electrical equipment, intrinsically safe explosion-proof instrumentation, utility power distribution, power reliability equipment, and services. The majority of the sales contracts in this segment contain performance obligations satisfied at a point in time either when we ship the product from our facility, or when it arrives at the customer's facility; however, certain power distribution and power quality services are recognized over time.

Many of the products and services in power distribution and power quality services meet the definition of continuous transfer of control to customers and are recognized over time. These products are engineered to a customer's design specifications, have no alternative use to Eaton, and are controlled by the customer as evidenced by the customer's contractual ownership of the work in process or our right to payment for work performed to date plus a reasonable margin. As control is transferring over time, sales are recognized based on the extent of progress towards completion of the obligation. Eaton generally uses an input method to determine the progress completed and sales are recorded proportionally as costs are incurred. Incurred cost represent work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer.

In the Hydraulics segment, sales contracts are primarily for hydraulic components and systems for industrial and mobile equipment. These sales contracts are primarily based on a customer's purchase order. In this segment, performance obligations are generally satisfied at a point in time when we ship the product from our facility.

In the Aerospace segment, sales contracts are primarily for aerospace fuel, hydraulics, and pneumatic systems for commercial and military use. These sales contracts are primarily based on a customer's purchase order, and frequently covered by terms and conditions included in a long-term agreement. In this segment, performance obligations are generally satisfied at a point in time either when we ship the product from our facility, or when it arrives at the customer's facility. Our military contracts are primarily fixed-price contracts that are not subject to performance-based payments or progress payments from the customer.

In the Vehicle segment, sales contracts are primarily for drivetrains, powertrain systems and critical components that reduce emissions and improve fuel economy, stability, performance, and safety of cars, light trucks and commercial vehicles. These sales contracts are primarily based on a customer's purchase order or a blanket purchase order subject to firm releases, frequently covered by terms and conditions included in a master supply agreement. In this segment, performance obligations are generally satisfied at a point in time either when we ship the product from our facility, or when it arrives at the customer's facility.

In the eMobility segment, sales contracts are primarily for electronic and mechanical components and systems that improves the power management and performance of both on-road and off-road vehicles. These sales contracts are primarily based on a customer's purchase order. In this segment, performance obligations are generally satisfied at a point in time either when we ship the product from our facility, or when it arrives at the customer's facility.

In limited circumstances, primarily in the Electrical and Vehicle segments, Eaton sells separately-priced warranties that extend the warranty coverage beyond the standard coverage offered on specific products. Sales for these separately-priced warranties are recorded based on their stand-alone selling price and are recognized as revenue over the length of the warranty period.

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The Company's six operating segments and the following tables disaggregate sales by lines of businesses, geographic destination, market channel or end market.

Net sales	Three months ended September 30, 2018		
	United States	Rest of World	Total
Electrical Products	\$1,055	\$ 734	\$1,789
Electrical Systems and Services	1,000	519	1,519
Hydraulics	301	369	670

Aerospace	Original Equipment Manufacturers Aftermarket, Distribution and End User		
	\$269	\$ 209	478
Vehicle	\$451	\$ 425	876
eMobility			80
Total			\$5,412

Net sales	Nine months ended September 30, 2018		
	United States	Rest of World	Total
Electrical Products	\$3,048	\$ 2,279	\$5,327
Electrical Systems and Services	2,877	1,536	4,413
Hydraulics	907	1,196	2,103

Aerospace	Original Equipment Manufacturers Aftermarket, Distribution and End User		
	\$799	\$ 600	1,399
Vehicle	\$1,333	\$ 1,335	2,668
eMobility			240
Total			\$16,150

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (revenue recognized exceeds amount billed to the customer), and deferred revenue (advance payments and billings in excess of revenue recognized). Accounts receivables from customers were \$3,566 and \$3,399 at

September 30, 2018 and December 31, 2017, respectively. Amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. These assets and liabilities are reported on the Condensed Consolidated Balance Sheets on a contract-by-contract basis at the end of each reporting period. Unbilled receivables were \$91 and \$117 at September 30, 2018 and January 1, 2018, respectively, and are recorded in Prepaid expenses and other current assets. The decrease in unbilled receivables was primarily due to billings to customers for amounts previously recognized as revenue, partially offset by revenue recognized and not yet billed.

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Changes in the deferred revenue liabilities are as follows:

	Deferred Revenue
Balance at January 1, 2018	\$ 227
Customer deposits and billings	696
Revenue recognized in the period	(676)
Translation	(6)
Balance at September 30, 2018	\$ 241

A significant portion of open orders placed with Eaton are by original equipment manufacturers or distributors. These open orders are not considered firm as they have been historically subject to releases by customers. In measuring backlog of unsatisfied or partially satisfied obligations, only the amount of orders to which customers are firmly committed are included. Using this criterion, total backlog at September 30, 2018 was approximately \$5.4 billion. Eaton expects to recognize approximately 88% of this backlog in the next twelve months and the rest thereafter.

Impact of new accounting standard

In accordance with the new revenue accounting requirements, the impact of the adoption on the financial statement line items within the accompanying financial statements was as follows:

	Three months ended September 30, 2018		
Consolidated Statements of Income	As Reported	Adjustment	Balances without Adoption of ASC 606
Net sales	\$5,412	\$ (5)	\$ 5,407
Cost of products sold	3,597	(4)	3,593
Income before income taxes	439	(1)	438
Income tax expense	23	—	23
Net income	416	(1)	415
Net income attributable to Eaton ordinary shareholders	\$416	\$ (1)	\$ 415
	Nine months ended September 30, 2018		
Consolidated Statements of Income	As Reported	Adjustment	Balances without Adoption of ASC 606
Net sales	\$16,150	\$ (23)	\$ 16,127
Cost of products sold	10,841	(14)	10,827
Income before income taxes	1,698	(9)	1,689
Income tax expense	184	(2)	182
Net income	1,514	(7)	1,507
Net income attributable to Eaton ordinary shareholders	\$1,514	\$ (7)	\$ 1,507

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Condensed Consolidated Balance Sheets	September 30, 2018		
	As Reported	Adjustment	Balances without Adoption of ASC 606
Assets			
Accounts receivable - net	\$4,027	\$ 58	\$ 4,085
Inventory	2,835	13	2,848
Prepaid expenses and other current assets	500	(105)	395
Deferred income taxes	241	(1)	240
Liabilities and shareholders' equity			
Other current liabilities	\$2,167	\$ (30)	\$ 2,137
Eaton shareholders' equity	\$16,789	\$ (5)	\$ 16,784

Note 5. RESTRUCTURING CHARGES

During 2015, Eaton announced its commitment to undertake actions to reduce its cost structure in all business segments and at corporate. The multi-year initiative concluded at the end of 2017.

A summary of liabilities related to workforce reductions, plant closings and other associated costs announced as part of this program follows:

	Workforce reductions	Plant closings and other	Total
Balance at December 31, 2016	\$ 113	\$ 1	\$114
Liability recognized	57	59	116
Payments	(102)	(39)	(141)
Other adjustments	(1)	(16)	(17)
Balance at December 31, 2017	67	5	72
Payments	(29)	(4)	(33)
Other adjustments	(14)	—	(14)
Balance at September 30, 2018	\$ 24	\$ 1	\$25

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Note 6. GOODWILL

Change in the carrying amount of goodwill by segment follows:

	December 31, 2017	Translation	September 30, 2018
Electrical Products	\$ 6,678	\$ (87)	\$ 6,591
Electrical Systems and Services	4,311	(40)	4,271
Hydraulics	1,257	(50)	1,207
Aerospace	947	(4)	943
Vehicle	294	(2)	292
eMobility	81	—	81
Total	\$ 13,568	\$ (183)	\$ 13,385

Eaton re-segmented certain reportable operating segments due to a reorganization of the Company's businesses. The new reportable business segment is eMobility (which includes certain legacy Electrical Products and Vehicle product lines). The Company used the relative fair value method to reallocate goodwill to the associated reporting units.

Note 7. RETIREMENT BENEFITS PLANS

The components of retirement benefits expense follow:

	United States pension benefit expense		Non-United States pension benefit expense		Other postretirement benefits expense	
	Three months ended		September 30			
	2018	2017	2018	2017	2018	2017
Service cost	\$25	\$24	\$16	\$18	\$ 1	\$ 1
Interest cost	30	30	13	14	3	4
Expected return on plan assets	(63)	(61)	(27)	(24)	—	(1)
Amortization	24	21	9	13	(4)	(3)
	16	14	11	21	—	1
Settlements	13	17	1	4	—	—
Total expense	\$29	\$31	\$12	\$25	\$ —	\$ 1

	United States pension benefit expense		Non-United States pension benefit expense		Other postretirement benefits expense	
	Nine months ended		September 30			
	2018	2017	2018	2017	2018	2017
Service cost	\$75	\$72	\$48	\$53	\$ 2	\$ 2
Interest cost	91	92	40	41	10	11
Expected return on plan assets	(190)	(183)	(80)	(70)	(2)	(3)
Amortization	71	62	29	38	(10)	(9)
	47	43	37	62	—	1
Settlements	38	51	1	4	—	—
Total expense	\$85	\$94	\$38	\$66	\$ —	\$ 1

The components of retirement benefits expense other than service costs are included in Other expense - net.

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Note 8. 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. Insurance may cover some of the costs associated with these claims and proceedings. 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 December 2011, Pepsi-Cola Metropolitan Bottling Company, Inc. (“Pepsi”) filed an action against (a) Cooper Industries, LLC, Cooper Industries, Ltd., Cooper Holdings, Ltd., Cooper US, Inc., and Cooper Industries plc (collectively, “Cooper”), (b) M&F Worldwide Corp., Mafco Worldwide Corp., Mafco Consolidated Group LLC, and PCT International Holdings, Inc. (collectively, “Mafco”), and (c) the Pneumo Abex Asbestos Claims Settlement Trust (the “Trust”) in Texas state court. Pepsi alleged that it was harmed by a 2011 settlement agreement (“2011 Settlement”) among Cooper, Mafco, and Pneumo Abex, LLC (“Pneumo,” which prior to the 2011 Settlement was a Mafco subsidiary), which settlement resolved litigation that Pneumo had previously brought against Cooper involving, among other things, a guaranty related to Pneumo’s friction products business. In November 2015, after a Texas court ruled that Pepsi’s claims should be heard in arbitration, Pepsi filed a demand for arbitration against Cooper, Mafco, the Trust, and Pneumo. Pepsi subsequently dropped claims against all parties except Cooper. An arbitration under the auspices of the American Arbitration Association commenced in October 2017. Pepsi’s experts opined, among other things, that the value contributed to the Trust for a release of the guaranty was below reasonably equivalent value, and that an inability of Pneumo to satisfy future liabilities could result in plaintiffs suing Pepsi under various theories. Cooper submitted various expert reports and, among other things, Cooper’s experts opined that Pepsi had no basis to seek any damages and that Cooper paid reasonably equivalent value for the release of its indemnity obligations under the guaranty. The arbitration proceedings closed in December 2017. On July 11, 2018, the arbitration panel made certain findings and concluded that the value contributed to the Trust did not constitute reasonably equivalent value, but ordered the parties to recalculate the amount that should have been contributed to the Trust as of the date of the 2011 transaction. Based on the findings made by the panel and the recalculation ordered by the panel, Cooper believed that no additional amount should be contributed. Pepsi argued that an additional \$347 should be contributed. Cooper and its expert disagreed with Pepsi’s argument and believed that Pepsi’s recalculation was flawed and failed to comply with the instructions of the panel. On August 23, 2018, the panel issued its final award and ordered Cooper to pay \$293 to Pneumo Abex. On August 30, 2018, Pepsi sought to confirm the award in Texas state court, which Cooper opposed on October 9, 2018. Cooper further requested that the court vacate the award on various grounds, including that Cooper was prejudiced by the conduct of the proceedings, the panel exceeded its powers, and because the panel denied Cooper a full and fair opportunity to present certain evidence. The court confirmed the award at the confirmation hearing, which was held on October 12, 2018. The Company is considering its options, including an appeal.

Note 9. INCOME TAXES

The effective income tax rate for the third quarter and the first nine months of 2018 was expense of 5.2% and 10.8% compared to expense of 17.3% and 13.9% for the third quarter and first nine months of 2017. The tax rate for the third quarter and first nine months of 2018 includes \$69 of tax benefit on the arbitration decision expense which was recorded during the third quarter and is discussed in Note 8. The tax rate for the third quarter and first nine months of 2017 includes \$234 of tax expense on the gain related to the sale of a business discussed in Note 2, which closed during the third quarter of 2017. Excluding the one-time impacts of the 2018 arbitration decision and the 2017 sale of a business, the effective income tax rate for both the third quarter and first nine months of 2018 was expense of 12.8% compared to expense of 9.6% and 8.9% for the third quarter and first nine months of 2017. The increase in the effective tax rate in the third quarter and first nine months of 2018 was due to greater levels of income in higher tax

jurisdictions.

The U.S. Tax Cuts and Jobs Act (“TCJA”) was enacted on December 22, 2017 and the Company recorded a provisional tax benefit amount of \$62 in the fourth quarter of 2017 for the remeasurement of deferred tax balances, including valuation allowances related to the realization of deferred tax assets, and the one-time transition tax. The Company continues to analyze aspects of the TCJA, including additional regulations and guidance which may impact the provisional amounts recorded for the remeasurement of deferred tax balances and related valuation allowances, and the one-time transition tax. The Company recorded a \$17 tax expense adjustment to the 2017 provisional tax amounts in the third quarter of 2018, primarily related to the one-time transition tax, resulting in a cumulative provisional tax benefit amount of \$45 related to the enactment of the TCJA. The Company will finalize its accounting for the 2017 tax impact of the TCJA in the fourth quarter of 2018.

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During the third quarter of 2018, the United States Internal Revenue Service (“IRS”) completed its examination of the consolidated income tax returns of the Company’s United States subsidiaries for tax years 2011 through 2013 and has proposed adjustments to certain transfer pricing tax positions, including adjustments similar to those proposed and previously disclosed for prior audit periods for products manufactured in the Company’s facilities in Puerto Rico and the Dominican Republic and sold to affiliated companies located in the U.S. The IRS also proposed adjustments involving the recognition of income for several of the Company’s controlled foreign corporations, which is the same issue that has been previously disclosed and is currently in litigation for tax years 2007-2010. The Company intends to pursue its administrative appeals alternatives with respect to each of the IRS adjustments and believes that final resolution of the proposed adjustments will not have a material impact on its consolidated financial statements.

During 2010, the Company received a tax assessment of \$42 (translated at the September 30, 2018 exchange rate), plus interest and penalties, in Brazil for the tax years 2005 through 2008 that relates to the amortization of certain goodwill generated from the acquisition of third-party businesses and corporate reorganizations. On August 31, 2018, the Company received an unfavorable result at the final tax administrative appeals level, resulting in an alleged tax deficiency of \$42 plus \$128 of interest and penalties (translated at the September 30, 2018 exchange rate). The Company plans to challenge the assessment in the judicial system, which is expected to take up to 10 years to resolve. During 2014, the Company received a tax assessment of \$32 (translated at the September 30, 2018 exchange rate), plus interest and penalties, for the 2009 through 2012 tax years (primarily relating to the same issues concerning the 2005 through 2008 tax years), which the Company is also contesting and remains under review at the final tax administrative appeals level. The Company continues to believe that final resolution of both of the assessments will not have a material impact on its consolidated financial statements.

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Note 10. EQUITY

During the nine months ended September 30, 2018, 7.7 million ordinary shares were repurchased under the 2016 Program in the open market at a total cost of \$600. No ordinary shares were repurchased during the three months ended September 30, 2018. During the three and nine months ended September 30, 2017, 4.4 million and 10.7 million ordinary shares, respectively, were repurchased under the 2016 Program in the open market at a total cost of \$324 and \$789, respectively.

The changes in Shareholders' equity follow:

	Eaton shareholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2017	\$ 17,253	\$ 37	\$ 17,290
Cumulative-effect adjustment upon adoption of ASU 2014-09	(2)	—	(2)
Cumulative-effect adjustment upon adoption of ASU 2016-16	(199)	—	(199)
Net income	1,514	—	1,514
Other comprehensive loss	(426)	—	(426)
Cash dividends paid	(864)	(1)	(865)
Issuance of shares under equity-based compensation plans - net	78	—	78
Repurchase of shares	(600)	—	(600)
Changes in noncontrolling interest - net	—	(1)	(1)
Balance at September 30, 2018	\$ 16,754	\$ 35	\$ 16,789

The changes in Accumulated other comprehensive loss follow:

	Currency translation and related hedging instruments	Pensions and other postretirement benefits	Cash flow hedges	Total
Balance at December 31, 2017	\$ (2,255)	\$ (1,139)	\$ (10)	\$ (3,404)
Other comprehensive (loss) income before reclassifications	(546)	20	(11)	(537)
Amounts reclassified from Accumulated other comprehensive loss	—	102	9	111
Net current-period Other comprehensive (loss) income	(546)	122	(2)	(426)
Balance at September 30, 2018	\$ (2,801)	\$ (1,017)	\$ (12)	\$ (3,830)

The reclassifications out of Accumulated other comprehensive loss follow:

	Nine months ended September 30, 2018	Consolidated statements of income classification
Amortization of defined benefit pensions and other postretirement benefits items		
Actuarial loss and prior service cost	\$ (129) ¹	
Tax benefit	27	
Total, net of tax	(102)	
Gains and (losses) on cash flow hedges		
Currency exchange contracts	(12)	Cost of products sold
Tax benefit	3	
Total, net of tax	(9)	

Total reclassifications for the period \$ (111)

¹ These components of Accumulated other comprehensive loss are included in the computation of net periodic benefit cost. See Note 7 for additional information about pension and other postretirement benefits items.

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Net Income Per Share Attributable to Eaton Ordinary Shareholders

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

	Three months ended		Nine months ended	
	September 30		September 30	
(Shares in millions)	2018	2017	2018	2017
Net income attributable to Eaton ordinary shareholders	\$416	\$1,401	\$1,514	\$2,351
Weighted-average number of ordinary shares outstanding - diluted	436.3	445.2	438.4	448.3
Less dilutive effect of equity-based compensation	2.8	2.6	2.6	2.4
Weighted-average number of ordinary shares outstanding - basic	433.5	442.6	435.8	445.9

Net income per share attributable to Eaton ordinary shareholders

Diluted	\$0.95	\$3.14	\$3.45	\$5.24
Basic	0.96	3.16	3.47	5.27

For the third quarter and first nine months of 2018, 0.5 million and 0.4 million stock options, respectively, were excluded from the calculation of diluted net income per share attributable to Eaton ordinary shareholders 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 third quarter and first nine months of 2017, 0.2 million and 0.6 million stock options, respectively, were excluded from the calculation of diluted net income per share attributable to Eaton ordinary shareholders 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 11. 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:

	Total	Level 1	Level 2	Level 3
September 30, 2018				
Cash	\$327	\$327	\$ —	\$ —
Short-term investments	178	178	—	—
Net derivative contracts (59)	—	—	(59)	—
December 31, 2017				
Cash	\$561	\$561	\$ —	\$ —
Short-term investments	534	534	—	—
Net derivative contracts	36	—	36	—

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 \$7,163 and fair value of \$7,137 at September 30, 2018 compared to \$7,745 and \$8,048, respectively, at December 31, 2017. 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.

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Note 12. 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.

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. The cash flows resulting from these financial instruments are classified in operating activities on the Condensed Consolidated Statements of Cash Flows.

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 as non-derivative net investment hedging instruments on an after-tax basis was \$88 at September 30, 2018 and \$88 at December 31, 2017, and designated on a pre-tax basis was \$631 at September 30, 2018 and \$652 at December 31, 2017.

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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
September 30, 2018							
Derivatives designated as hedges							
Fixed-to-floating interest rate swaps	\$ 2,550	\$ 1	\$ 16	\$ 1	\$ 62	Fair value	9 months to 16 years
Currency exchange contracts	954	12	2	21	5	Cash flow	1 to 36 months
Total		\$ 13	\$ 18	\$ 22	\$ 67		
Derivatives not designated as hedges							
Currency exchange contracts	\$ 7,616	\$ 33		\$ 33			1 to 12 months
Commodity contracts	13	—		1			1 to 12 months
Total		\$ 33		\$ 34			
December 31, 2017							
Derivatives designated as hedges							
Fixed-to-floating interest rate swaps	\$ 2,965	\$ 1	\$ 41	\$ —	\$ 17	Fair value	6 months to 17 years
Currency exchange contracts	924	7	7	22	2	Cash flow	1 to 36 months
Total		\$ 8	\$ 48	\$ 22	\$ 19		
Derivatives not designated as hedges							
Currency exchange contracts	\$ 3,719	\$ 39		\$ 19			1 to 12 months
Commodity contracts	13	1		—			1 to 12 months
Total		\$ 40		\$ 19			

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 receivables, payables 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. For the nine months ended September 30, 2018, \$122 of cash outflow resulting from the settlement of these derivatives has been classified in investing activities on the Condensed Consolidated Statement of Cash Flows. The cash flow from the settlement of these derivatives has been presented in operating activities in prior periods and have not been restated as such amounts are not material.

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The impact of derivative instruments to the Consolidated Statement of Income and Comprehensive Income follow:

	Gain (loss) recognized in other comprehensive (loss) income		Location of gain (loss) reclassified from Accumulated other comprehensive loss	Gain (loss) reclassified from Accumulated other comprehensive loss	
	Three months ended September 30			Three months ended September 30	
	2018	2017		2018	2017
Derivatives designated as cash flow hedges					
Forward starting floating-to-fixed interest rate swaps	\$ —	\$ (10)	Interest expense - net	\$ —	\$ —
Interest rate locks	—	(9)	Interest expense - net	—	—
Currency exchange contracts	(12)	(6)	Cost of products sold	(4)	(7)
Total	\$ (12)	\$ (25)		\$ (4)	\$ (7)

	Gain (loss) recognized in other comprehensive (loss) income		Location of gain (loss) reclassified from Accumulated other comprehensive loss	Gain (loss) reclassified from Accumulated other comprehensive loss	
	Nine months ended September 30			Nine months ended September 30	
	2018	2017		2018	2017
Derivatives designated as cash flow hedges					
Forward starting floating-to-fixed interest rate swaps	\$ —	\$ (15)	Interest expense - net	\$ —	\$ —
Interest rate locks	—	(9)	Interest expense - net	—	—
Currency exchange contracts	(14)	(5)	Cost of products sold	(12)	(12)
Total	\$ (14)	\$ (29)		\$ (12)	\$ (12)

Amounts recognized in net income follow:

Three months	Nine months
--------------	-------------

	ended		ended	
	September		September	
	30		30	
	2018	2017	2018	2017
Derivatives designated as fair value hedges				
Fixed-to-floating interest rate swaps	\$(12)	\$(4)	\$(71)	\$(7)
Related long-term debt converted to floating interest rates by interest rate swaps	12	4	71	7
	\$—	\$—	\$—	\$—

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

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Note 13. INVENTORY

Inventory is carried at lower of cost or net realizable value. The components of inventory follow:

	September 30, December 31,	
	2018	2017
Raw materials	\$ 1,094	\$ 953
Work-in-process	531	471
Finished goods	1,210	1,196
Total inventory	\$ 2,835	\$ 2,620

Note 14. 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.

During the first quarter of 2018, Eaton re-segmented certain reportable operating segments due to a reorganization of the Company's businesses. The new reportable business segment is eMobility (which includes certain legacy Electrical Products and Vehicle product lines).

The eMobility segment designs, manufactures, markets, and supplies electrical and electronic components and systems that improve the power management and performance of both on-road and off-road vehicles. Products include high voltage inverters, converters, fuses, onboard chargers, circuit protection units, vehicle controls, power distribution, fuel tank isolation valves, and commercial vehicle hybrid systems. The principal markets for the eMobility segment are original equipment manufacturers and aftermarket customers of passenger cars, commercial vehicles, and construction, agriculture, and mining equipment.

Eaton's operating segments are Electrical Products, Electrical Systems and Services, Hydraulics, Aerospace, Vehicle, and eMobility. Operating profit includes the operating profit from intersegment sales. For additional information regarding Eaton's business segments, see Note 15 to the Consolidated Financial Statements contained in the 2017 Form 10-K.

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	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
Net sales				
Electrical Products	\$1,789	\$1,785	\$5,327	\$5,167
Electrical Systems and Services	1,519	1,421	4,413	4,168
Hydraulics	670	634	2,103	1,854
Aerospace	478	438	1,399	1,303
Vehicle	876	858	2,668	2,489
eMobility	80	75	240	210
Total net sales	\$5,412	\$5,211	\$16,150	\$15,191
Segment operating profit				
Electrical Products	\$343	\$330	\$984	\$915
Electrical Systems and Services	234	196	628	545
Hydraulics	94	80	285	214
Aerospace	105	84	284	244
Vehicle	166	150	464	399
eMobility	10	16	35	40
Total segment operating profit	952	856	2,680	2,357
Corporate				
Amortization of intangible assets	(95	) (98	) (289	) (288
Interest expense - net	(67	) (60	) (205	) (181
Pension and other postretirement benefits expense	(3	) (16	) (4	) (38
Gain on sale of business	—	1,077	—	1,077
Arbitration decision expense	(275	) —	(275) —
Other corporate expense - net	(73	) (65	) (209	) (194
Income before income taxes	439	1,694	1,698	2,733
Income tax expense	23	293	184	381
Net income	416	1,401	1,514	2,352
Less net income for noncontrolling interests	—	—	—	(1
Net income attributable to Eaton ordinary shareholders	\$416	\$1,401	\$1,514	\$2,351

Note 15. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The Registered Senior Notes issued by Eaton Corporation are registered under the Securities Act of 1933. Eaton and certain 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 Registered 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. See Note 6 of Eaton's 2017 Form 10-K for additional information related to the Registered Senior Notes.

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 2018 and 2017, 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. These restructurings have been reflected as of the beginning of the earliest period presented below.

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net sales	\$ —	\$ 1,808	\$ 1,814	\$ 3,134	\$ (1,344)	\$ 5,412
Cost of products sold	—	1,417	1,322	2,202	(1,344)	3,597
Selling and administrative expense	2	355	197	335	—	889
Research and development expense	—	33	37	68	—	138
Interest expense (income) - net	—	68	3	(4)	—	67
Arbitration decision expense	—	—	275	—	—	275
Other expense (income) - net	(3)	11	4	(5)	—	7
Equity in loss (earnings) of subsidiaries, net of tax	(430)	(212)	(915)	(446)	2,003	—
Intercompany expense (income) - net	15	33	579	(627)	—	—
Income (loss) before income taxes	416	103	312	1,611	(2,003)	439
Income tax expense (benefit)	—	(10)	(91)	124	—	23
Net income (loss)	416	113	403	1,487	(2,003)	416
Less net loss (income) for noncontrolling interests	—	—	—	—	—	—
Net income (loss) attributable to Eaton ordinary shareholders	\$ 416	\$ 113	\$ 403	\$ 1,487	\$ (2,003)	\$ 416
Other comprehensive income (loss)	\$ (98)	\$ (10)	\$ (94)	\$ (239)	\$ 343	\$ (98)
Total comprehensive income (loss) attributable to Eaton ordinary shareholders	\$ 318	\$ 103	\$ 309	\$ 1,248	\$ (1,660)	\$ 318

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net sales	\$ —	\$ 1,695	\$ 1,732	\$ 3,160	\$ (1,376)	\$ 5,211
Cost of products sold	—	1,321	1,263	2,255	(1,373)	3,466
Selling and administrative expense	3	347	203	349	—	902
Research and development expense	—	45	46	56	—	147
Interest expense (income) - net	—	62	4	(6)	—	60
Gain on sale of business	—	560	—	517	—	1,077
Other expense (income) - net	23	10	(31)	17	—	19
Equity in loss (earnings) of subsidiaries, net of tax	(1,575)	(221)	(1,768)	(1,699)	5,263	—
Intercompany expense (income) - net	148	(39)	349	(458)	—	—
Income (loss) before income taxes	1,401	730	1,666	3,163	(5,266)	1,694
Income tax expense (benefit)	—	191	9	94	(1)	293
Net income (loss)	1,401	539	1,657	3,069	(5,265)	1,401
Less net loss (income) for noncontrolling interests	—	—	—	—	—	—
Net income (loss) attributable to Eaton ordinary shareholders	\$ 1,401	\$ 539	\$ 1,657	\$ 3,069	\$ (5,265)	\$ 1,401
Other comprehensive income (loss)	\$ 199	\$ (18)	\$ 202	\$ 443	\$ (627)	\$ 199
Total comprehensive income (loss) attributable to Eaton ordinary shareholders	\$ 1,600	\$ 521	\$ 1,859	\$ 3,512	\$ (5,892)	\$ 1,600

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net sales	\$ —	\$ 5,306	\$ 5,304	\$ 9,567	\$ (4,027)	\$ 16,150
Cost of products sold	—	4,196	3,847	6,824	(4,026)	10,841
Selling and administrative expense	8	1,093	575	1,003	—	2,679
Research and development expense	—	109	113	217	—	439
Interest expense (income) - net	—	203	11	(11)	2	205
Arbitration decision expense	—	—	275	—	—	275
Other expense (income) - net	(22)	25	31	(21)	—	13
Equity in loss (earnings) of subsidiaries, net of tax	(1,531)	(709)	(2,652)	(1,760)	6,652	—
Intercompany expense (income) - net	31	35	1,623	(1,689)	—	—
Income (loss) before income taxes	1,514	354	1,481	5,004	(6,655)	1,698
Income tax expense (benefit)	—	(23)	(119)	327	(1)	184
Net income (loss)	1,514	377	1,600	4,677	(6,654)	1,514
Less net loss (income) for noncontrolling interests	—	—	—	—	—	—
Net income (loss) attributable to Eaton ordinary shareholders	\$ 1,514	\$ 377	\$ 1,600	\$ 4,677	\$ (6,654)	\$ 1,514
Other comprehensive income (loss)	\$ (426)	\$ (40)	\$ (407)	\$ (1,012)	\$ 1,459	\$ (426)
Total comprehensive income (loss) attributable to Eaton ordinary shareholders	\$ 1,088	\$ 337	\$ 1,193	\$ 3,665	\$ (5,195)	\$ 1,088

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net sales	\$ —	\$ 4,963	\$ 5,114	\$ 9,199	\$ (4,085)	\$ 15,191
Cost of products sold	—	3,944	3,753	6,604	(4,080)	10,221
Selling and administrative expense	9	1,056	601	1,003	—	2,669
Research and development expense	—	139	134	167	—	440
Interest expense (income) - net	—	180	15	(14)	—	181
Gain on sale of a business	—	560	—	517	—	1,077
Other expense (income) - net	71	35	(68)	(14)	—	24
Equity in loss (earnings) of subsidiaries, net of tax	(2,863)	(554)	(3,410)	(3,098)	9,925	—
Intercompany expense (income) - net	432	(133)	1,046	(1,345)	—	—
Income (loss) before income taxes	2,351	856	3,043	6,413	(9,930)	2,733
Income tax expense (benefit)	—	191	28	164	(2)	381
Net income (loss)	2,351	665	3,015	6,249	(9,928)	2,352
Less net loss (income) for noncontrolling interests	—	—	—	(2)	1	(1)
Net income (loss) attributable to Eaton ordinary shareholders	\$ 2,351	\$ 665	\$ 3,015	\$ 6,247	\$ (9,927)	\$ 2,351
Other comprehensive income (loss)	\$ 785	\$ 67	\$ 787	\$ 1,668	\$ (2,522)	\$ 785
Total comprehensive income (loss) attributable to Eaton ordinary shareholders	\$ 3,136	\$ 732	\$ 3,802	\$ 7,915	\$ (12,449)	\$ 3,136

CONDENSED CONSOLIDATING BALANCE SHEETS
SEPTEMBER 30, 2018

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Assets						
Current assets						
Cash	\$ 1	\$ 36	\$ 14	\$ 276	\$ —	\$327
Short-term investments	—	—	—	178	—	178
Accounts receivable - net	—	532	1,430	2,065	—	4,027
Intercompany accounts receivable	5	1,573	1,901	3,194	(6,673)	—
Inventory	—	553	789	1,577	(84)	2,835
Prepaid expenses and other current assets	—	115	35	333	17	500
Total current assets	6	2,809	4,169	7,623	(6,740)	7,867
Property, plant and equipment - net	—	839	683	1,924	—	3,446
Other noncurrent assets						
Goodwill	—	1,330	6,705	5,350	—	13,385
Other intangible assets	—	131	3,091	1,727	—	4,949
Deferred income taxes	—	313	—	236	(308)	241
Investment in subsidiaries	15,997	9,689	54,498	25,524	(105,708)	—
Intercompany loans receivable	2,622	3,693	6,987	63,179	(76,481)	—
Other assets	—	720	172	848	—	1,740
Total assets	\$ 18,625	\$ 19,524	\$ 76,305	\$ 106,411	\$(189,237)	\$31,628
Liabilities and shareholders' equity						
Current liabilities						
Short-term debt	\$ 4	\$ 65	\$ —	\$ 13	\$ —	\$82
Current portion of long-term debt	—	426	—	—	—	426
Accounts payable	—	459	458	1,248	—	2,165
Intercompany accounts payable	23	1,255	3,756	1,639	(6,673)	—
Accrued compensation	—	106	58	263	—	427
Other current liabilities	1	539	594	1,034	(1)	2,167
Total current liabilities	28	2,850	4,866	4,197	(6,674)	5,267
Noncurrent liabilities						
Long-term debt	—	5,772	953	8	4	6,737
Pension liabilities	—	325	87	748	—	1,160
Other postretirement benefits liabilities	—	183	90	71	—	344
Deferred income taxes	—	1	480	174	(308)	347
Intercompany loans payable	1,843	4,585	68,714	1,339	(76,481)	—
Other noncurrent liabilities	—	355	265	364	—	984
Total noncurrent liabilities	1,843	11,221	70,589	2,704	(76,785)	9,572

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Shareholders' equity						
Eaton shareholders' equity	16,754	5,453	850	99,475	(105,778) 16,754
Noncontrolling interests	—	—	—	35	—	35
Total equity	16,754	5,453	850	99,510	(105,778) 16,789
Total liabilities and equity	\$ 18,625	\$ 19,524	\$ 76,305	\$ 106,411	\$ (189,237) \$31,628

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CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2017

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Assets						
Current assets						
Cash	\$ —	\$ 183	\$ 18	\$ 360	\$ —	\$561
Short-term investments	—	—	—	534	—	534
Accounts receivable - net	—	482	1,376	2,085	—	3,943
Intercompany accounts receivable	8	2,864	5,117	2,715	(10,704)	—
Inventory	—	473	737	1,493	(83)	2,620
Prepaid expenses and other current assets	—	229	145	277	28	679
Total current assets	8	4,231	7,393	7,464	(10,759)	8,337
Property, plant and equipment - net	—	859	702	1,941	—	3,502
Other noncurrent assets						
Goodwill	—	1,316	6,705	5,547	—	13,568
Other intangible assets	—	138	3,206	1,921	—	5,265
Deferred income taxes	—	356	6	215	(324)	253
Investment in subsidiaries	15,045	9,466	73,737	39,873	(138,121)	—
Intercompany loans receivable	3,122	7,089	2,909	61,427	(74,547)	—
Other assets	—	748	166	784	—	1,698
Total assets	\$ 18,175	\$ 24,203	\$ 94,824	\$ 119,172	\$ (223,751)	\$32,623
Liabilities and shareholders' equity						
Current liabilities						
Short-term debt	\$ —	\$ —	\$ —	\$ 6	\$ —	\$6
Current portion of long-term debt	—	542	36	—	—	578
Accounts payable	—	533	328	1,305	—	2,166
Intercompany accounts payable	4	4,916	4,381	1,403	(10,704)	—
Accrued compensation	—	128	65	260	—	453
Other current liabilities	1	566	317	989	(1)	1,872
Total current liabilities	5	6,685	5,127	3,963	(10,705)	5,075
Noncurrent liabilities						
Long-term debt	—	6,180	976	9	2	7,167
Pension liabilities	—	341	89	796	—	1,226
Other postretirement benefits liabilities	—	192	96	74	—	362
Deferred income taxes	—	—	607	255	(324)	538
Intercompany loans payable	917	3,808	68,685	1,137	(74,547)	—
Other noncurrent liabilities	—	314	273	378	—	965
Total noncurrent liabilities	917	10,835	70,726	2,649	(74,869)	10,258

Shareholders' equity						
Eaton shareholders' equity	17,253	6,683	18,971	112,523	(138,177	) 17,253
Noncontrolling interests	—	—	—	37	—	37
Total equity	17,253	6,683	18,971	112,560	(138,177	) 17,290
Total liabilities and equity	\$ 18,175	\$ 24,203	\$ 94,824	\$ 119,172	\$ (223,751	) \$32,623

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net cash provided by (used in) operating activities	\$ (12)	\$ (163)	\$ 394	\$ 1,707	\$ (88)	\$ 1,838
Investing activities						
Capital expenditures for property, plant and equipment	—	(75)	(74)	(262)	—	(411)
Sales (purchases) of short-term investments - net	—	—	—	329	—	329
Investments in affiliates	—	(36)	—	—	36	—
Loans to affiliates	—	(100)	(84)	(4,764)	4,948	—
Repayments of loans from affiliates	—	647	957	3,892	(5,496)	—
Proceeds from sale of business	—	—	—	—	—	—
Payments for settlement of currency exchange contracts not designated as hedges - net	—	11	—	(133)	—	(122)
Other - net	—	(26)	3	(29)	—	(52)
Net cash provided by (used in) investing activities	—	421	802	(967)	(512)	(256)
Financing activities						
Proceeds from borrowings	4	65	—	11	—	80
Payments on borrowings	—	(450)	(35)	(1)	—	(486)
Proceeds from borrowings from affiliates	2,671	1,995	182	100	(4,948)	—
Payments on borrowings from affiliates	(1,226)	(2,775)	(655)	(840)	5,496	—
Capital contributions from affiliates	—	—	—	36	(36)	—
Other intercompany financing activities	—	777	(687)	(90)	—	—
Cash dividends paid	(864)	—	—	—	—	(864)
Cash dividends paid to affiliates	—	—	—	(88)	88	—
Exercise of employee stock options	28	—	—	—	—	28
Repurchase of shares	(600)	—	—	—	—	(600)
Employee taxes paid from shares withheld	—	(16)	(5)	(3)	—	(24)
Other - net	—	(1)	—	(1)	—	(2)
Net cash provided by (used in) financing activities	13	(405)	(1,200)	(876)	600	(1,868)
Effect of currency on cash	—	—	—	52	—	52
Total increase (decrease) in cash	1	(147)	(4)	(84)	—	(234)
Cash at the beginning of the period	—	183	18	360	—	561
Cash at the end of the period	\$ 1	\$ 36	\$ 14	\$ 276	\$ —	\$ 327

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net cash provided by (used in) operating activities	\$ 528	\$ (228)	\$ 1,063	\$ 2,036	\$ (1,612)	\$ 1,787
Investing activities						
Capital expenditures for property, plant and equipment	—	(63)	(77)	(211)	—	(351)
Cash received from (paid for) acquisitions of affiliates	—	—	(92)	92	—	—
Sales (purchases) of short-term investments - net	—	—	(50)	(571)	—	(621)
Investments in affiliates	(90)	(108)	—	(90)	288	—
Return of investments in affiliates	—	—	20	—	(20)	—
Loans to affiliates	—	(17)	(283)	(4,471)	4,771	—
Repayments of loans from affiliates	—	291	384	3,478	(4,153)	—
Proceeds from sale of businesses	—	330	—	270	—	600
Other - net	—	(36)	1	(28)	—	(63)
Net cash provided by (used in) investing activities	(90)	397	(97)	(1,531)	886	(435)
Financing activities						
Proceeds from borrowings	—	1,000	—	—	—	1,000
Payments on borrowings	—	(250)	(297)	(6)	—	(553)
Proceeds from borrowings from affiliates	1,917	1,873	966	15	(4,771)	—
Payments on borrowings from affiliates	(822)	(2,904)	(352)	(75)	4,153	—
Capital contributions from affiliates	—	—	90	198	(288)	—
Return of capital to affiliates	—	—	—	(20)	20	—
Other intercompany financing activities	—	219	(486)	267	—	—
Cash dividends paid	(803)	—	—	—	—	(803)
Cash dividends paid to affiliates	—	—	(803)	(809)	1,612	—
Exercise of employee stock options	59	—	—	—	—	59
Repurchase of shares	(789)	—	—	—	—	(789)
Employee taxes paid from shares withheld	—	(14)	(4)	(3)	—	(21)
Other - net	—	(4)	(1)	(3)	—	(8)
Net cash provided by (used in) financing activities	(438)	(80)	(887)	(436)	726	(1,115)
Effect of currency on cash	—	—	—	11	—	11
Total increase (decrease) in cash	—	89	79	80	—	248
Cash at the beginning of the period	1	92	12	438	—	543
Cash at the end of the period	\$ 1	\$ 181	\$ 91	\$ 518	\$ —	\$ 791

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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 2017 net sales of \$20.4 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 98,000 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 share attributable to Eaton ordinary shareholders - diluted follows:

	Three months ended September 30 2018		Nine months ended September 30 2017	
Net sales	\$5,412	\$5,211	\$16,150	\$15,191
Net income attributable to Eaton ordinary shareholders	416	1,401	1,514	2,351
Net income per share attributable to Eaton ordinary shareholders - diluted	\$0.95	\$3.14	\$3.45	\$5.24

As discussed in Note 8, certain Eaton subsidiaries acquired in the 2012 acquisition of Cooper Industries have been ordered to pay \$293 by an arbitration panel. The panel's award, issued on August 23, 2018, relate to claims brought by Pepsi-Cola Metropolitan Bottling Company, Inc. ("Pepsi") in 2011. A Texas state court confirmed the arbitration award at the confirmation hearing, which was held on October 12, 2018. The Company is considering its options, including an appeal. The impact of the arbitration award was an after-tax expense of \$206 in the third quarter 2018, reducing third quarter earnings per share by \$0.48.

During the first quarter of 2018, Eaton re-segmented certain reportable operating segments due to a reorganization of the Company's businesses. The new reportable business segment is eMobility (which includes certain legacy Electrical Products and Vehicle product lines). For those reportable segments that were re-segmented, previously reported segment financial information has been updated for 2017. For additional information regarding the re-segmentation, see Note 14 to the Condensed Consolidated Financial Statements. The re-segmentation did not impact previously reported consolidated results of operations. For additional information regarding Eaton's business segments, see Note 15 to the Consolidated Financial Statements contained in the 2017 Form 10-K.

On July 31, 2017, Eaton sold a 50% interest in its heavy-duty and medium-duty commercial vehicle automated transmission business for \$600 in cash to Cummins, Inc. In 2017, the Company recognized a pre-tax gain of \$1,077, of which \$533 related to the pre-tax gain from the \$600 proceeds from the sale and \$544 related to the Company's remaining 50% investment in the joint venture being remeasured to fair value. The after-tax gain was \$843. Eaton accounts for its investment on the equity method of accounting.

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 adjusted earnings, adjusted earnings per ordinary share, and operating profit before acquisition integration charges for each business segment as well as corporate, each of which differs from the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). A reconciliation of adjusted earnings and adjusted 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, and excludes acquisition integration expense related to integration of Ephesus Lighting, Inc. in 2017. Management believes that these financial measures are useful to investors because they exclude certain transactions, 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 (decrease)	Nine months ended		Increase (decrease)
	September 30			September 30		
	2018	2017		2018	2017	
Net sales	\$5,412	\$5,211	4 %	\$16,150	\$15,191	6 %
Gross profit	1,815	1,745	4 %	5,309	4,970	7 %
Percent of net sales	33.5 %	33.5 %		32.9 %	32.7 %	
Income before income taxes	439	1,694	(74)%	1,698	2,733	(38)%
Net income	416	1,401	(70)%	1,514	2,352	(36)%
Less net income for noncontrolling interests	—	—		—	(1)	
Net income attributable to Eaton ordinary shareholders	416	1,401	(70)%	1,514	2,351	(36)%
Excluding acquisition integration charges, after-tax (Note 3)	—	1		—	2	
Adjusted earnings	\$416	\$1,402	(70)%	\$1,514	\$2,353	(36)%
Net income per share attributable to Eaton ordinary shareholders - diluted	\$0.95	\$3.14	(70)%	\$3.45	\$5.24	(34)%
Excluding per share impact of acquisition integration charges, after-tax (Note 3)	—	—		—	—	
Adjusted earnings per ordinary share	\$0.95	\$3.14	(70)%	\$3.45	\$5.24	(34)%

Net Sales

Net sales increased 4% in the third quarter of 2018 compared to the third quarter of 2017 due to an increase of 6% in organic sales, partially offset by a decrease of 1% from the impact of negative currency translation and a decrease of 1% from the sale of a business as part of the formation of the Eaton Cummins joint venture and a stake in a small electrical joint venture in the second half of 2017. Net sales increased 6% in the first nine months of 2018 compared to the first nine months of 2017 due to an increase of 6% in organic sales and an increase of 1% from the impact of positive currency translation, partially offset by a decrease of 1% from the sale of a business and a stake in a joint venture in the second half of 2017. The increase in organic sales in the third quarter and first nine months of 2018 was primarily due to higher sales volumes in all business segments.

Gross Profit

Gross profit margin was flat at 33.5% in the third quarter of 2018 compared to the third quarter of 2017. Gross profit margin increased from 32.7% in the first nine months of 2017 to 32.9% in the first nine months of 2018 primarily due to higher sales volumes and savings from restructuring actions, partially offset by commodity inflation and increased freight costs.

Income Taxes

The effective income tax rate for the third quarter and the first nine months of 2018 was expense of 5.2% and 10.8% compared to expense of 17.3% and 13.9% for the third quarter and first nine months of 2017. The tax rate for the third quarter and first nine months of 2018 includes \$69 of tax benefit on the arbitration decision expense which was recorded during the third quarter and is discussed in Note 8. The tax rate for the third quarter and first nine months of 2017 includes \$234 of tax expense on the gain related to the sale of a business discussed in Note 2, which closed during the third quarter of 2017. Excluding the one-time impacts of the 2018 arbitration decision and the 2017 sale of a business, the effective income tax rate for both the third quarter and first nine months of 2018 was expense of 12.8% compared to expense of 9.6% and 8.9% for the third quarter and first nine months of 2017. The increase in the effective tax rate in the third quarter and first nine months of 2018 was due to greater levels of income in higher tax jurisdictions.

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Net Income

Net income attributable to Eaton ordinary shareholders of \$416 in the third quarter of 2018 decreased 70% compared to Net income attributable to Eaton ordinary shareholders of \$1,401 in the third quarter of 2017. Net income attributable to Eaton ordinary shareholders of \$1,514 in the first nine months of 2018 decreased 36% compared to Net income attributable to Eaton ordinary shareholders of \$2,351 in the first nine months of 2017. Net income in 2018 included after-tax expense of \$206 from the arbitration decision discussed in Note 8, and 2017 included \$843 from the after-tax gain on the sale of the business discussed in Note 2. Excluding these items, the increase in Net income attributable to Eaton ordinary shareholders in the third quarter and first nine months of 2018 was primarily due to higher sales volumes, savings from restructuring actions and lower restructuring costs, partially offset by commodity inflation and increased freight costs.

Net income per ordinary share decreased to \$0.95 in the third quarter of 2018 compared to \$3.14 in the third quarter of 2017. Net income per ordinary share decreased to \$3.45 in the first nine months of 2018 compared to \$5.24 in the first nine months of 2017. Net income per ordinary share in the third quarter and first nine months of 2018 both included an unfavorable \$0.48 from the arbitration decision expense discussed in Note 8. Net income per ordinary share in the third quarter and first nine months of 2017 included \$1.89 and \$1.88, respectively from the gain on sale of business discussed in Note 2. Excluding these items, Net income per ordinary share increased in the third quarter and first nine months of 2018 due to higher Net income attributable to Eaton ordinary shareholders and the Company's share repurchases over the past year.

Adjusted Earnings

There were no acquisition integration charges in the third quarter and first nine months of 2018 compared to \$1 and \$2 in the third quarter and first nine months of 2017, which resulted in the same percent decrease for both Net income attributable to Eaton ordinary shareholders and Adjusted earnings for the respective periods.

There was no impact of excluding the per share impact of acquisition integration charges from Net income attributable to Eaton ordinary shareholders to arrive at Adjusted earnings per ordinary share for the third quarter and first nine months of 2018 and 2017.

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		Increase (decrease)		Nine months ended		Increase (decrease)	
	September 30 2018	September 30 2017			September 30 2018	September 30 2017		
Net sales	\$1,789	\$1,785	—	%	\$5,327	\$5,167	3	%
Operating profit	\$343	\$330	4	%	\$984	\$915	8	%
Operating margin	19.2	% 18.5	%		18.5	% 17.7	%	
Acquisition integration charges	\$—	\$1			\$—	\$3		
Before acquisition integration charges								
Operating profit	\$343	\$331	4	%	\$984	\$918	7	%
Operating margin	19.2	% 18.5	%		18.5	% 17.8	%	

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Net sales were flat in the third quarter of 2018 compared to the third quarter of 2017 with an increase of 1% in organic sales, offset by a decrease of 1% from the impact of negative currency translation. Net sales increased 3% in the first nine months of 2018 compared to the first nine months of 2017 due to an increase of 2% in organic sales and an increase of 1% from the impact of positive currency translation. Organic sales grew in the third quarter of 2018 in North America, primarily driven by growth in products going into industrial applications, partially offset by weakness in North American lighting sales. Organic sales grew in the first nine months of 2018 in North America and Europe, primarily driven by growth in products going into industrial applications, partially offset by weakness in North American lighting sales.

The operating margin increased from 18.5% in the third quarter of 2017 to 19.2% in the third quarter of 2018 and from 17.7% in the first nine months of 2017 to 18.5% in the first nine months of 2018 primarily due to higher sales volumes, savings from restructuring actions, and lower restructuring costs, partially offset by commodity inflation and increased freight costs.

The operating margin before acquisition integration charges increased from 18.5% in the third quarter of 2017 to 19.2% in the third quarter of 2018 and from 17.8% in the first nine months of 2017 to 18.5% in the first nine months of 2018 primarily due to an increase in the operating margin.

Electrical Systems and Services

	Three months ended		Increase (decrease)		Nine months ended		Increase (decrease)	
	September 30				September 30			
	2018	2017			2018	2017		
Net sales	\$1,519	\$1,421	7	%	\$4,413	\$4,168	6	%
Operating profit	\$234	\$196	19	%	\$628	\$545	15	%
Operating margin	15.4	% 13.8	%		14.2	% 13.1	%	

Net sales increased 7% in the third quarter of 2018 compared to the third quarter of 2017 due to an increase of 9% in organic sales, partially offset by a decrease of 1% from the impact of negative currency translation and a decrease of 1% from the sale of a stake in a joint venture in the fourth quarter of 2017. Net sales increased 6% in the first nine months of 2018 compared to the first nine months of 2017 due to an increase of 6% in organic sales and an increase of 1% from the impact of positive currency translation, partially offset by a decrease of 1% from the sale of a stake in a joint venture in the fourth quarter of 2017. The increase in organic sales in the third quarter and first nine months 2018 was primarily due to strength in large industrial projects and commercial construction markets in the United States, data centers, and oil and gas markets.

The operating margin increased from 13.8% in the third quarter of 2017 to 15.4% in the third quarter of 2018 and from 13.1% in the first nine months of 2017 to 14.2% in the first nine months of 2018 primarily due to higher sales volumes and savings from restructuring actions, partially offset by commodity inflation and increased freight costs.

Hydraulics

	Three months ended		Increase (decrease)		Nine months ended		Increase (decrease)	
	September 30				September 30			
	2018	2017			2018	2017		
Net sales	\$670	\$634	6	%	\$2,103	\$1,854	13	%
Operating profit	\$94	\$80	18	%	\$285	\$214	33	%
Operating margin	14.0	% 12.6	%		13.6	% 11.5	%	

Net sales increased 6% in the third quarter of 2018 compared to the third quarter of 2017 due to an increase of 7% in organic sales, partially offset by a decrease of 1% from the impact of negative currency translation. Net sales increased 13% in the first nine months of 2018 compared to the first nine months of 2017 due to an increase of 12% in organic sales and an increase of 1% from the impact of positive currency translation. The increase in organic sales in the third quarter and first nine months of 2018 was due to strength in global mobile OEM markets and distribution

channels.

The operating margin increased from 12.6% in the third quarter of 2017 to 14.0% in the third quarter of 2018 and from 11.5% in the first nine months of 2017 to 13.6% in the first nine months of 2018 primarily due to higher sales volumes, savings from restructuring actions, and lower restructuring costs, partially offset by unfavorable product mix, commodity inflation and increased freight costs.

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Aerospace

	Three months ended		Increase (decrease)		Nine months ended		Increase (decrease)	
	September 30				September 30			
	2018	2017			2018	2017		
Net sales	\$478	\$438	9	%	\$1,399	\$1,303	7	%
Operating profit	\$105	\$84	25	%	\$284	\$244	16	%
Operating margin	22.0	19.2		%	20.3	18.7		%

Net sales increased 9% in the third quarter of 2018 compared to the third quarter of 2017 due to an increase of 9% in organic sales. Net sales increased 7% in the first nine months of 2018 compared to the first nine months of 2017 due to an increase of 7% in organic sales. The increase in organic sales in the third quarter and first nine months of 2018 was primarily due to higher sales in the military OEM market, business and regional jets, and the commercial and military aftermarkets.

The operating margin increased from 19.2% in the third quarter of 2017 to 22.0% in third quarter of 2018 primarily due to higher sales volumes and favorable product mix. The operating margin increased from 18.7% in the first nine months of 2017 to 20.3% in the first nine months of 2018 primarily due to higher sales volumes.

Vehicle

	Three months ended		Increase (decrease)		Nine months ended		Increase (decrease)	
	September 30				September 30			
	2018	2017			2018	2017		
Net sales	\$876	\$858	2	%	\$2,668	\$2,489	7	%
Operating profit	\$166	\$150	11	%	\$464	\$399	16	%
Operating margin	18.9	17.5		%	17.4	16.0		%

Net sales increased 2% in the third quarter of 2018 compared to the third quarter of 2017 due to an increase of 7% in organic sales, partially offset by a decrease of 3% from the impact of negative currency translation and a decrease of 2% from the sale of a business as part of the formation of the Eaton Cummins joint venture in the third quarter of 2017. Net sales increased 7% in the first nine months of 2018 compared to the first nine months of 2017 due to an increase of 10% in organic sales, partially offset by a decrease of 3% from the sale of a business in the third quarter of 2017. The increase in organic sales in the third quarter and first nine months of 2018 was driven by growth in the Americas and Asia Pacific regions, with particular strength in the North American Class 8 truck market, partially offset by weakness in light vehicle markets in the European region.

The operating margin increased from 17.5% in the third quarter of 2017 to 18.9% in the third quarter of 2018 and from 16.0% in the first nine months of 2017 to 17.4% in the first nine months of 2018 primarily due to higher sales volumes, partially offset by unfavorable product mix, commodity inflation and increased freight costs.

eMobility

	Three months ended		Increase (decrease)		Nine months ended		Increase (decrease)	
	September 30				September 30			
	2018	2017			2018	2017		
Net sales	\$80	\$75	7	%	\$240	\$210	14	%
Operating profit	\$10	\$16	(38)	%	\$35	\$40	(13)	%
Operating margin	12.5	21.3		%	14.6	19.0		%

Net sales increased 7% in the third quarter of 2018 compared to the third quarter of 2017 due to an increase of 7% in organic sales. Net sales increased 14% in the first nine months of 2018 compared to the first nine months of 2017 due to an increase of 13% in organic sales and an increase of 1% from the impact of positive currency translation. The

increase in organic sales in the third quarter and first nine months of 2018 was due to strength in North America and Europe.

The operating margin decreased from 21.3% in the third quarter of 2017 to 12.5% in the third quarter of 2018 and from 19.0% in the first nine months of 2017 to 14.6% in the first nine months of 2018 primarily due to increased research and development costs.

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Corporate Expense (Income)

	Three months ended		Increase (decrease)		Nine months ended		Increase (decrease)	
	September 30	2017			September 30	2017		
Amortization of intangible assets	\$95	\$98	(3)	)%	\$289	\$288	—	%
Interest expense - net	67	60	12	%	205	181	13	%
Pension and other postretirement benefits expense	3	16	(81)	)%	4	38	(89))%
Gain on sale of business	—	(1,077)	NM		—	(1,077)	NM	
Arbitration decision expense	275	—	NM		275	—	NM	
Other corporate expense - net	73	65	12	%	209	194	8	%
Total corporate expense (income)	\$513	\$(838)	(161)	)%	\$982	\$(376)	(361))%

Corporate results were expense of \$513 in the third quarter of 2018 compared to income of \$838 in the third quarter of 2017. Corporate results were expense of \$982 in the first nine months of 2018 compared to income of \$376 in the first nine months of 2017. The change in Total corporate expense (income) for the third quarter and first nine months of 2018 was primarily due to the 2018 arbitration decision discussed in Note 8 and the 2017 gain from the sale of a business discussed in Note 2.

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 \$2,000 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 September 30, 2018. 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.

Sources and Uses of Cash

Operating Cash Flow

Net cash provided by operating activities was \$1,838 in the first nine months of 2018, an increase of \$51 in the source of cash compared to \$1,787 in the first nine months of 2017. The increase in net cash provided by operating activities in the first nine months of 2018 was driven by lower pension contributions and higher net income compared to 2017, excluding the after-tax expense from the arbitration decision in 2018 and the after-tax gain on the sale of the business in 2017. Other-net includes the impact of foreign currency gains and losses related to the remeasurement of intercompany balance sheet exposures, which have no impact on Operating cash flow.

Investing Cash Flow

Net cash used in investing activities was \$256 in the first nine months of 2018, a decrease in the use of cash of \$179 compared to \$435 in the first nine months of 2017. The decrease in the use of cash was primarily driven by net sales of short-term investments of \$329 in 2018 compared to net purchases of \$621 in 2017, partially offset by proceeds from the sale of a business as part of the formation of the Eaton Cummins joint venture in 2017 and \$122 in payments for the settlement of currency exchange contracts not designated as hedges.

Financing Cash Flow

Net cash used in financing activities was \$1,868 in the first nine months of 2018, an increase of \$753 in the use of cash compared to \$1,115 in the first nine months of 2017. The increase in the use of cash was primarily due to a

decrease of \$920 in proceeds from borrowings, which totaled \$80 in 2018 and \$1,000 in 2017, partially offset by a decrease of \$189 in share repurchases during the first nine months of 2018 compared to the first nine months of 2017.

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FORWARD-LOOKING STATEMENTS

This Form 10-Q Report contains forward-looking statements concerning legal contingencies, 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, phrases 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 potential effects on our businesses from natural disasters; 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, 2017.

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 Craig Arnold - 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 September 30, 2018.

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 third quarter of 2018, 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 8 of the Notes to the Condensed Consolidated Financial Statements.

ITEM 1A. RISK FACTORS.

“Item 1A. Risk Factors” in Eaton's 2017 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 2017 Form 10-K.

ITEM 5. OTHER INFORMATION.

Disclosure Pursuant to Section 13r of the Exchange Act

Set forth below is a description of all matters reported by us pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 and Section 13(r) of the Exchange Act. Concurrently with the filing of this Quarterly Report, we are filing a notice pursuant to Section 13(r) of the Exchange Act that such matters have been disclosed in this Quarterly Report.

During the third quarter 2018, certain of our wholly-owned non-U.S. subsidiaries sold various products to customers in Iran. We received total revenue of approximately 900,842 Euros and realized net profits of approximately 271,304 Euros from the sales (approximately \$1,049,560 and \$316,093 in whole U.S. dollars, respectively). Eaton has determined not to take any future orders for sales to Iran. Our non-U.S. subsidiaries currently doing business in Iran will wind down sales over the remainder of 2018.

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ITEM 6. EXHIBITS.

Eaton Corporation plc

Third Quarter 2018 Report on Form 10-Q

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 8-K filed
on May 1, 2017

4.1 Indenture dated
as of November
20, 2012, among
Turlock
Corporation, the
guarantors
named therein
and The Bank of
New York
Mellon Trust
Company, N.A.,
as trustee
(incorporated by
reference to
Exhibit 4.1 of
Eaton
Corporation
plc's Form 8-K
Current Report
filed on
November 26,
2012
(Commission
File No.
333-182303))

4.2 Supplemental
Indenture No. 1.

dated as of
November 30,
2012, among
Eaton
Corporation, the
guarantors
named therein
and The Bank of
New York
Mellon Trust
Company, N.A.,
as trustee
(incorporated by
reference to
Exhibit 4.2 of
the registrant's
Form S-4 filed
on September 6,
2013)

4.3 Supplemental
Indenture No. 2,
dated as of
January 8, 2013,
among Eaton
Corporation, the
guarantors
named therein
and The Bank of
New York
Mellon Trust
Company, N.A.,
as trustee
(incorporated by
reference
Exhibit 4.3 of
the registrant's
Form S-4 filed
on September 6,
2013)

4.4 Supplemental
Indenture No. 3,
dated as of
December 20,
2013, among
Eaton
Corporation, the
guarantors
named therein
and The Bank of

New York Mellon Trust Company, N.A., as trustee (incorporated by reference Exhibit 4.4 of the registrant's Form 10-K filed on February 28, 2018)

4.5 Supplemental Indenture No. 4, dated as of December 20, 2017 and effective as of January 1, 2018, among Eaton Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference Exhibit 4.5 of the registrant's Form 10-K filed on February 28, 2018)

4.6 Supplemental Indenture No. 5, dated as of February 16, 2018, among Eaton Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by

reference
Exhibit 4.6 of
the registrant's
Form 10-K filed
on February 28,
2018)

4.7 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 long-term
debt other than
those set forth in
Exhibits (4.1 -
4.6) hereto

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 *

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 September 30, 2018 and 2017, (ii) Consolidated Statements of Comprehensive Income for the three months ended September 30, 2018 and 2017, (iii) Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 and (v) Notes to Condensed Consolidated Financial Statements for the nine months ended September 30, 2018.

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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: October 30, 2018 By: /s/ Richard H. Fearon

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