

Eaton Corp plc
Form 10-Q
November 01, 2016
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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, 2016
Commission file number 000-54863

EATON CORPORATION plc
(Exact name of registrant as specified in its charter)
Ireland 98-1059235
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification Number)

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

+353 1637
2900
(Registrant's
telephone
number,
including
area code)

Not
applicable
(Former
name,
former
address and
former
fiscal year if
changed
since last
report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting
company)

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

There were 451.7 million Ordinary Shares outstanding as of September 30, 2016.

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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 | | September 30 | |
| (In millions except for per share data) | 2016 | 2015 | 2016 | 2015 |
| Net sales | \$4,987 | \$5,203 | \$14,880 | \$15,798 |
| Cost of products sold | 3,371 | 3,597 | 10,081 | 10,865 |
| Selling and administrative expense | 853 | 907 | 2,642 | 2,723 |
| Research and development expense | 146 | 156 | 444 | 472 |
| Interest expense - net | 59 | 59 | 173 | 175 |
| Other income - net | (15) | (3) | (28) | (27) |
| Income before income taxes | 573 | 487 | 1,568 | 1,590 |
| Income tax expense | 51 | 42 | 151 | 143 |
| Net income | 522 | 445 | 1,417 | 1,447 |
| Less net loss for noncontrolling interests | 1 | 1 | 1 | — |
| Net income attributable to Eaton ordinary shareholders | \$523 | \$446 | \$1,418 | \$1,447 |
| Net income per share attributable to Eaton ordinary shareholders | | | | |
| Diluted | \$1.15 | \$0.96 | \$3.09 | \$3.09 |
| Basic | 1.15 | 0.96 | 3.10 | 3.10 |
| Weighted-average number of ordinary shares outstanding | | | | |
| Diluted | 455.6 | 466.4 | 457.9 | 468.5 |
| Basic | 453.9 | 465.1 | 456.5 | 466.8 |
| Cash dividends declared per ordinary share | \$0.57 | \$0.55 | \$1.71 | \$1.65 |

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

Table of ContentsEATON CORPORATION plc
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (In millions) | Three months ended | | Nine months ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | September 30 2016 | September 30 2015 | September 30 2016 | September 30 2015 |
| Net income | \$522 | \$445 | \$1,417 | \$1,447 |
| Less net loss for noncontrolling interests | 1 | 1 | 1 | — |
| Net income attributable to Eaton ordinary shareholders | 523 | 446 | 1,418 | 1,447 |
| Other comprehensive (loss) income, net of tax | | | | |
| Currency translation and related hedging instruments | (22) | (372) | (57) | (883) |
| Pensions and other postretirement benefits | 45 | 60 | 132 | 164 |
| Cash flow hedges | 1 | — | (33) | 3 |
| Other comprehensive (loss) income attributable to Eaton ordinary shareholders | 24 | (312) | 42 | (716) |
| Total comprehensive income attributable to Eaton ordinary shareholders | \$547 | \$134 | \$1,460 | \$731 |

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

Table of ContentsEATON CORPORATION plc
CONDENSED CONSOLIDATED BALANCE SHEETS

| (In millions) | September 30, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 494 | \$ 268 |
| Short-term investments | 213 | 177 |
| Accounts receivable - net | 3,659 | 3,479 |
| Inventory | 2,328 | 2,323 |
| Prepaid expenses and other current assets | 393 | 369 |
| Total current assets | 7,087 | 6,616 |
| Property, plant and equipment - net | 3,506 | 3,565 |
| Other noncurrent assets | | |
| Goodwill | 13,434 | 13,479 |
| Other intangible assets | 5,689 | 6,014 |
| Deferred income taxes | 412 | 362 |
| Other assets | 1,109 | 960 |
| Total assets | \$ 31,237 | \$ 30,996 |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Short-term debt | \$ 1 | \$ 426 |
| Current portion of long-term debt | 550 | 242 |
| Accounts payable | 1,790 | 1,758 |
| Accrued compensation | 388 | 366 |
| Other current liabilities | 1,866 | 1,833 |
| Total current liabilities | 4,595 | 4,625 |
| Noncurrent liabilities | | |
| Long-term debt | 7,881 | 7,746 |
| Pension liabilities | 1,532 | 1,586 |
| Other postretirement benefits liabilities | 429 | 440 |
| Deferred income taxes | 366 | 390 |
| Other noncurrent liabilities | 988 | 978 |
| Total noncurrent liabilities | 11,196 | 11,140 |
| Shareholders' equity | | |
| Eaton shareholders' equity | 15,404 | 15,186 |
| Noncontrolling interests | 42 | 45 |
| Total equity | 15,446 | 15,231 |
| Total liabilities and equity | \$ 31,237 | \$ 30,996 |

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In millions) | Nine months ended | |
|--|----------------------|----------|
| | September 30 2016 | 2015 |
| Operating activities | | |
| Net income | \$1,417 | \$1,447 |
| Adjustments to reconcile to net cash provided by operating activities | | |
| Depreciation and amortization | 700 | 692 |
| Deferred income taxes | (105) | (101) |
| Pension and other postretirement benefits expense | 177 | 244 |
| Contributions to pension plans | (114) | (290) |
| Contributions to other postretirement benefits plans | (26) | (24) |
| Changes in working capital | (224) | (184) |
| Other - net | 89 | (155) |
| Net cash provided by operating activities | 1,914 | 1,629 |
| Investing activities | | |
| Capital expenditures for property, plant and equipment | (346) | (368) |
| Cash received from (paid for) acquisitions of businesses, net of cash acquired | 1 | (38) |
| Sales (purchases) of short-term investments - net | (29) | 76 |
| Proceeds from sale of businesses | — | 1 |
| Other - net | 3 | (44) |
| Net cash used in investing activities | (371) | (373) |
| Financing activities | | |
| Proceeds from borrowings | 633 | 1 |
| Payments on borrowings | (666) | (405) |
| Cash dividends paid | (780) | (771) |
| Exercise of employee stock options | 60 | 48 |
| Repurchase of shares | (567) | (454) |
| Other - net | (5) | (8) |
| Net cash used in financing activities | (1,325) | (1,589) |
| Effect of currency on cash | 8 | (30) |
| Total increase (decrease) in cash | 226 | (363) |
| Cash at the beginning of the period | 268 | 781 |
| Cash at the end of the period | \$494 | \$418 |

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 2015 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 2016, the Company adopted Accounting Standards Update 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the related debt liability rather than an asset. The Company has applied this standard retrospectively. The adoption of ASU 2015-03 resulted in the reclassification of \$36 and \$35 within the Company's Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, respectively, from Other noncurrent assets to a reduction in Long-term debt.

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

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (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. Eaton is evaluating the impact of ASU 2016-02 and an estimate of the impact to the consolidated financial statements cannot be made at this time.

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (ASU 2014-09). This accounting standard supersedes all existing US GAAP revenue recognition guidance. Under ASU 2014-09, a company will recognize revenue when it transfers the control of promised goods or services to customers in an amount that reflects the consideration which the company expects to collect in exchange for those goods or services. ASU 2014-09 will require additional disclosures in the notes to the consolidated financial statements and is effective for annual and interim reporting periods beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date (ASU 2015-14). This accounting standard defers the effective date of ASU 2014-09 for one year and permits early adoption as of the original effective date. Eaton is evaluating the impact of ASU 2014-09 and an estimate of the impact to the consolidated financial statements cannot be made at this time.

Note 2. ACQUISITIONS OF BUSINESSES

Acquisition of Ephesus Lighting, Inc.

On October 28, 2015, Eaton acquired Ephesus Lighting, Inc. (Ephesus). Ephesus is a leader in LED lighting for stadiums and other high lumen outdoor and industrial applications. Its sales for the 12 months ended September 30, 2015 were \$23. Ephesus is reported within the Electrical Products business segment.

Acquisition of UK Safety Technology Manufacturer Oxalis Group Ltd.

On January 12, 2015, Eaton acquired Oxalis Group Ltd. (Oxalis). Oxalis is a manufacturer of closed-circuit television camera stations, public address and general alarm systems and other electrical products for the hazardous area, marine and industrial communications markets. Its sales for the 12 months ended December 31, 2014 were \$9. Oxalis is

reported within the Electrical Systems and Services business segment.

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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 2016 | | Nine months ended September 30 2015 | |
|---|---|--------|--|--------|
| Electrical Products | \$1 | \$5 | \$2 | \$17 |
| Electrical Systems and Services | — | 3 | 1 | 10 |
| Hydraulics | — | — | — | 2 |
| Total business segments | 1 | 8 | 3 | 29 |
| Corporate | — | 2 | — | 4 |
| Total acquisition integration charges before income taxes | 1 | 10 | 3 | 33 |
| Income taxes | — | 3 | 1 | 11 |
| Total after income taxes | \$1 | \$7 | \$2 | \$22 |
| Per ordinary share - diluted | \$— | \$0.01 | \$— | \$0.05 |

Business segment acquisition integration charges in 2016 related to the integration of Ephesus Lighting, Inc. (Ephesus) and

Oxalis Group Ltd. (Oxalis), which were acquired in 2015. The charges associated with Ephesus were included in Cost of

products sold and Selling and administrative expense, while the charges associated with Oxalis were included in Cost of

products sold. Business segment acquisition integration charges in 2015 related primarily to the integration of Cooper Industries plc (Cooper), which was acquired in 2012. These charges were included in Cost of products sold or Selling and

administrative expense, as appropriate. In Business Segment Information, the charges reduced Operating profit of the related

business segment. See Note 14 for additional information about business segments.

Corporate acquisition integration charges in 2015 also related to the integration of Cooper. These charges were included in Selling and administrative expense. In Business Segment Information, the charges were included in Other corporate expense - net.

Note 4. RESTRUCTURING CHARGES

During 2015, Eaton announced its intention to undertake actions to reduce its cost structure in all business segments and at corporate. Restructuring charges for the three and nine months ended September 30, 2016, were \$23 and \$121, respectively, and were \$113 and \$127 for the three and nine months ended September 30, 2015, respectively. The charges associated with restructuring activities are anticipated to be \$145 in 2016 and \$180 in 2017.

A summary of restructuring charges by type follows:

| | Three months ended September 30 2016 | | Nine months ended September 30 2015 | |
|--------------------------|---|-------|--|-------|
| Workforce reductions | \$18 | \$99 | \$95 | \$111 |
| Plant closings and other | 5 | 14 | 26 | 16 |
| Total | \$23 | \$113 | \$121 | \$127 |

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A summary of restructuring charges by segment follows:

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
|-------------------------------|---------------------------------------|-------|--------------------------------------|-------|
| Electrical Products | \$1 | \$11 | \$27 | \$12 |
| Electrical Systems & Services | 7 | 26 | 20 | 26 |
| Hydraulics | 10 | 25 | 44 | 34 |
| Aerospace | (1) | 5 | 3 | 5 |
| Vehicle | 5 | 29 | 22 | 33 |
| Corporate | 1 | 17 | 5 | 17 |
| Total | \$23 | \$113 | \$121 | \$127 |

A summary of liabilities related to workforce reductions, plant closings and other associated costs follows:

| | Workforce reductions | Plant closings and other | Total |
|-------------------------------|----------------------|--------------------------|-------|
| Balance at December 31, 2014 | \$ — | \$ — | \$— |
| Liability recognized | 112 | 17 | 129 |
| Payments | (59) | (3) | (62) |
| Other adjustments | 1 | (14) | (13) |
| Balance at December 31, 2015 | 54 | — | 54 |
| Liability recognized | 95 | 26 | 121 |
| Payments | (89) | (11) | (100) |
| Other adjustments | (1) | (14) | (15) |
| Balance at September 30, 2016 | \$ 59 | \$ 1 | \$60 |

These charges were included in Cost of products sold, Selling and administrative expenses or Other income-net, as appropriate. In Business Segment Information, the charges reduced Operating profit of the related business segment. See Note 14 for additional information about business segments.

Note 5. GOODWILL

A summary of goodwill follows:

| | Electrical Products | Electrical Systems and Services | Hydraulics | Aerospace | Vehicle | Total |
|--------------------|---------------------|---------------------------------|------------|-----------|---------|----------|
| December 31, 2015 | \$ 6,642 | \$ 4,279 | \$ 1,259 | \$ 956 | \$ 343 | \$13,479 |
| Translation | (24) | (12) | 2 | (13) | 2 | (45) |
| September 30, 2016 | \$ 6,618 | \$ 4,267 | \$ 1,261 | \$ 943 | \$ 345 | \$13,434 |

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Note 6. DEBT

On September 20, 2016, a subsidiary of Eaton issued Euro denominated notes (Euro Notes) with a face value of €550 (\$615 based on the September 20, 2016 spot rate), in accordance with Regulation S promulgated under the Securities Act of 1933, as amended. The Euro Notes mature in 2024 with interest payable annually at a rate of 0.75%. The issuer received proceeds totaling €544 (\$609 based on the September 20, 2016 spot rate) from the issuance, net of financing costs and discounts. The senior Euro Notes are fully and unconditionally guaranteed on an unsubordinated, unsecured basis by Eaton and certain of its direct and indirect subsidiaries. The Euro Notes contain an optional redemption provision by which the Company may make an offer to purchase all or any part of the Euro Notes prior to June 20, 2024 at a purchase price of the greater of (a) 100% of the principal amount of the respective Euro Notes being redeemed, or (b) the sum of the present values of the respective remaining scheduled payments of principal and interest, discounted to the redemption date on an annual basis at the benchmark Bund Rate plus 20 basis points. In each case, the redemption price will include any accrued and unpaid interest on the Euro Notes being redeemed. At any time on or after June 20, 2024, the Company may redeem the Euro Notes, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed plus accrued and unpaid interest. The Euro Notes also contain a change of control provision which requires the Company to make an offer to purchase all or any part of the Euro Notes at a purchase price of 101% of the principal amount plus accrued and unpaid interest. The capitalized deferred financing fees and discounts are amortized in Interest expense - net over the respective terms of the Euro Notes. The Euro Notes are subject to customary non-financial covenants.

On October 14, 2016, Eaton refinanced a \$750, five-year revolving credit facility with a \$750, five-year revolving credit facility that will expire October 14, 2021. Eaton also maintains a \$500, four-year revolving credit facility that will expire on October 3, 2018 and a \$750, five-year credit facility that will expire October 3, 2019. This refinancing maintains long-term revolving credit facilities at a total of \$2,000. The revolving credit facilities are used to support commercial paper borrowings and are fully and unconditionally guaranteed by Eaton and certain of its direct and indirect subsidiaries on an unsubordinated, unsecured basis. There were no borrowings outstanding under these revolving credit facilities at September 30, 2016 or October 14, 2016.

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 | |
|--------------------------------|---------------------------------------|-------|---|-------|---------------------------------------|------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Service cost | \$28 | \$31 | \$16 | \$18 | \$ 1 | \$ 2 |
| Interest cost | 31 | 39 | 16 | 18 | 4 | 6 |
| Expected return on plan assets | (63) | (65) | (23) | (25) | (2) | (2) |
| Amortization | 23 | 29 | 8 | 10 | (2) | — |
| | 19 | 34 | 17 | 21 | 1 | 6 |
| Settlements | 24 | 25 | — | — | — | — |
| Total expense | \$43 | \$59 | \$17 | \$21 | \$ 1 | \$ 6 |
| | United States pension benefit expense | | Non-United States pension benefit expense | | Other postretirement benefits expense | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | | | | | | |

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| | | | | | | |
|--------------------------------|--------|--------|-------|-------|------|-------|
| Service cost | \$83 | \$92 | \$49 | \$55 | \$ 3 | \$ 5 |
| Interest cost | 94 | 117 | 48 | 54 | 13 | 18 |
| Expected return on plan assets | (188) | (196) | (71) | (75) | (5) | (4) |
| Amortization | 69 | 89 | 25 | 30 | (6) | 1 |
| | 58 | 102 | 51 | 64 | 5 | 20 |
| Settlements and curtailments | 63 | 58 | — | — | — | — |
| Total expense | \$121 | \$160 | \$51 | \$64 | \$ 5 | \$ 20 |

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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. 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 2010, a Brazilian court held that a judgment obtained by a Brazilian company, Raysul, against another Brazilian company, Saturnia, which was sold by Eaton in 2006, could be enforced against Eaton Ltda. The judgment was based on an alleged violation of an agency agreement between Raysul and Saturnia. At March 31, 2016, the Company had a total accrual of 100 Brazilian Reais related to this matter (\$31 based on June 2016 exchange rates). In June 2016, Eaton signed a settlement agreement and resolved the matter, which did not have a material impact on the consolidated financial statements.

Note 9. INCOME TAXES

The effective income tax rate for the third quarter and first nine months of 2016 was expense of 9%, and 10%, respectively, compared to an expense of 9% for the third quarter and first nine months of 2015. The increase in the effective tax rate in the first nine months of 2016 was primarily due to more income earned in higher tax jurisdictions.

Note 10. EQUITY

On October 22, 2013, Eaton's Board of Directors adopted a share repurchase program (2013 Program) that authorizes the repurchase of 40 million ordinary shares. During the first quarter of 2016, 1.5 million ordinary shares were repurchased under the 2013 Program in the open market at a total cost of \$82. During the three and nine months ended September 30, 2015, 4.8 million and 7.2 million ordinary shares were repurchased under the 2013 Program in the open market at a total cost of \$284 and \$454, respectively. On February 24, 2016, the Board of Directors approved a new share repurchase program for share repurchases up to \$2,500 of ordinary shares (2016 Program). Under the 2016 Program, the ordinary shares are expected to be repurchased over time, depending on market conditions, the market price of ordinary shares, capital levels, and other considerations. During the three and nine months ended September 30, 2016, 3.7 million and 7.7 million ordinary shares, respectively, were purchased on the open market under the 2016 Program for a total cost of \$243 and \$485, respectively.

The changes in Shareholders' equity follow:

| | Eaton shareholders' equity | Noncontrolling interests | Total equity |
|--|----------------------------------|-----------------------------|-----------------|
| Balance at December 31, 2015 | \$ 15,186 | \$ 45 | \$ 15,231 |
| Net income (loss) | 1,418 | (1) | 1,417 |
| Other comprehensive income | 42 | — | 42 |
| Cash dividends paid | (780) | (2) | (782) |
| Issuance of shares under equity-based compensation plans - net | 105 | — | 105 |
| Repurchase of shares | (567) | — | (567) |
| Balance at September 30, 2016 | \$ 15,404 | \$ 42 | \$ 15,446 |

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, 2015 | \$ (2,492) | \$ (1,374) | \$ 3 | \$(3,863) |
| Other comprehensive (loss) income | (57) | 33 | (35) | (59) |

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| | | | | |
|---|-----------|-------------|----------|-------------|
| before reclassifications | | | | |
| Amounts reclassified from Accumulated other comprehensive loss (income) | — | 99 | 2 | 101 |
| Net current-period Other comprehensive income (loss) | (57 |) 132 | (33 |) 42 |
| Balance at September 30, 2016 | \$ (2,549 |) \$ (1,242 |) \$ (30 |) \$(3,821) |

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The reclassifications out of Accumulated other comprehensive loss follow:

| | Nine months ended September 30, 2016 | Consolidated statements of income classification |
|--|--|---|
| Amortization of defined benefit pensions and other postretirement benefits items | | |
| Actuarial loss and prior service cost | \$ (151) ¹ | |
| Tax benefit | 52 | |
| Total, net of tax | (99) | |
| Gains and (losses) on cash flow hedges | | |
| Currency exchange contracts | (3) | Cost of products sold |
| Tax benefit | 1 | |
| Total, net of tax | (2) | |
| Total reclassifications for the period | \$ (101) | |

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.

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 September 30 | | Nine months ended September 30 | |
|--|---|--------|--------------------------------------|---------|
| (Shares in millions) | 2016 | 2015 | 2016 | 2015 |
| Net income attributable to Eaton ordinary shareholders | \$523 | \$446 | \$1,418 | \$1,447 |
| Weighted-average number of ordinary shares outstanding - diluted | 455.6 | 466.4 | 457.9 | 468.5 |
| Less dilutive effect of equity-based compensation | 1.7 | 1.3 | 1.4 | 1.7 |
| Weighted-average number of ordinary shares outstanding - basic | 453.9 | 465.1 | 456.5 | 466.8 |
| Net income per share attributable to Eaton ordinary shareholders | | | | |
| Diluted | \$1.15 | \$0.96 | \$3.09 | \$3.09 |
| Basic | 1.15 | 0.96 | 3.10 | 3.10 |

For the third quarter and first nine months of 2016, 1.5 million and 1.8 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 2015, 1.8 million and 1.3 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 periods 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.

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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, 2016 | | | | |
| Cash | \$494 | \$494 | \$ — | \$ — |
| Short-term investments | 213 | 213 | — | — |
| Net derivative contracts | 148 | — | 148 | — |
| Long-term debt converted to floating interest rates by interest rate swaps - net | (172) | — | (172) | — |
| December 31, 2015 | | | | |
| Cash | \$268 | \$268 | \$ — | \$ — |
| Short-term investments | 177 | 177 | — | — |
| Net derivative contracts | 86 | — | 86 | — |
| Long-term debt converted to floating interest rates by interest rate swaps - net | (94) | — | (94) | — |

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

Other Fair Value Measurements

Long-term debt and the current portion of long-term debt had a carrying value of \$8,431 and fair value of \$9,050 at September 30, 2016 compared to \$7,988 and \$8,231, respectively, at December 31, 2015. The fair value of Eaton's debt instruments were estimated using prevailing market interest rates on debt with similar creditworthiness, terms and maturities, and are considered a Level 2 fair value measurement.

Note 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.

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

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

Eaton uses certain of its debt denominated in foreign currency to hedge portions of its net investments in foreign operations against foreign currency exposure (net investment hedges). Foreign currency denominated debt designated as non-derivative net investment hedging instruments on an after-tax basis was \$99 at September 30, 2016 and \$83 at December 31, 2015, and designated on a pre-tax basis was \$607 at September 30, 2016.

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, 2016 | | | | | | | |
| Derivatives designated as hedges | | | | | | | |
| Fixed-to-floating interest rate swaps | \$ 3,765 | \$ — | \$ 172 | \$ — | \$ — | Fair value | 1 month to 19 years |
| Forward starting floating-to-fixed interest rate swaps | 450 | — | — | — | 18 | Cash flow | 12 years |
| Currency exchange contracts | 826 | 5 | 1 | 19 | 14 | Cash flow | 1 to 36 months |
| Total | | \$ 5 | \$ 173 | \$ 19 | \$ 32 | | |
| Derivatives not designated as hedges | | | | | | | |
| Currency exchange contracts | \$ 3,991 | \$ 34 | \$ — | \$ 15 | \$ — | | 1 to 24 months |
| Commodity contracts | 41 | 2 | — | — | — | | 1 to 12 months |
| Total | | \$ 36 | \$ — | \$ 15 | \$ — | | |
| December 31, 2015 | | | | | | | |
| Derivatives designated as hedges | | | | | | | |
| Fixed-to-floating interest rate swaps | \$ 3,715 | \$ — | \$ 96 | \$ — | \$ 2 | Fair value | 2 to 19 years |
| Forward starting floating-to-fixed interest rate swaps | 50 | — | — | — | — | Cash flow | 12 years |
| Currency exchange contracts | 724 | 18 | 1 | 8 | 6 | Cash flow | 1 to 36 months |
| Commodity contracts | 1 | — | — | — | — | Cash flow | 1 to 12 months |
| Total | | \$ 18 | \$ 97 | \$ 8 | \$ 8 | | |
| Derivatives not designated as hedges | | | | | | | |
| Currency exchange contracts | \$ 4,198 | \$ 27 | — | \$ 40 | — | | |

1 to 12
months

Total \$ 27 \$ 40

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

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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 | |
| | 2016 | 2015 | | 2016 | 2015 |
| Derivatives designated as cash flow hedges | | | | | |
| Forward starting floating-to-fixed interest rate swaps | \$ 1 | \$ — | Interest expense - net | \$ — | \$ — |
| Currency exchange contracts | (3) | 6 | Cost of products sold | (4) | 5 |
| Total | \$ (2) | \$ 6 | | \$ (4) | \$ 5 |

| | 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 | |
| | 2016 | 2015 | | 2016 | 2015 |
| Derivatives designated as cash flow hedges | | | | | |
| Forward starting floating-to-fixed interest rate swaps | \$ (18) | \$ — | Interest expense - net | \$ — | \$ — |
| Currency exchange contracts | (35) | 16 | Cost of products sold | (3) | 11 |
| Total | \$ (53) | \$ 16 | | \$ (3) | \$ 11 |

Amounts recognized in net income follow:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---------------------------------|--------|--------------------------------|-------|
| | 2016 | 2015 | 2016 | 2015 |
| Derivatives designated as fair value hedges | | | | |
| Fixed-to-floating interest rate swaps | | \$(28) | \$65 | \$78 |
| Related long-term debt converted to floating interest | 28 | (65) | (78) | (62) |

rates by interest rate swaps

\$— \$— \$— \$—

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

Note 13. INVENTORY

The components of inventory follow:

| | September 30, 2016 | December 31, 2015 |
|-------------------------------|-----------------------|----------------------|
| Raw materials | \$ 910 | \$ 885 |
| Work-in-process | 431 | 412 |
| Finished goods | 1,083 | 1,131 |
| Inventory at FIFO | 2,424 | 2,428 |
| Excess of FIFO over LIFO cost | (96) | (105) |
| Total inventory | \$ 2,328 | \$ 2,323 |

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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. Eaton's operating segments are Electrical Products, Electrical Systems and Services, Hydraulics, Aerospace and Vehicle. Operating profit includes the operating profit from intersegment sales. For additional information regarding Eaton's business segments, see Note 15 to the Consolidated Financial Statements contained in the 2015 Form 10-K.

| | Three months ended | | Nine months ended | |
|--|--------------------|---------|-------------------|----------|
| | September 30 | | September 30 | |
| | 2016 | 2015 | 2016 | 2015 |
| Net sales | | | | |
| Electrical Products | \$1,767 | \$1,771 | \$5,231 | \$5,246 |
| Electrical Systems and Services | 1,436 | 1,487 | 4,207 | 4,437 |
| Hydraulics | 562 | 599 | 1,702 | 1,907 |
| Aerospace | 436 | 449 | 1,328 | 1,367 |
| Vehicle | 786 | 897 | 2,412 | 2,841 |
| Total net sales | \$4,987 | \$5,203 | \$14,880 | \$15,798 |
| Segment operating profit | | | | |
| Electrical Products | \$331 | \$322 | \$924 | \$858 |
| Electrical Systems and Services | 197 | 164 | 534 | 573 |
| Hydraulics | 61 | 44 | 161 | 184 |
| Aerospace | 88 | 79 | 251 | 233 |
| Vehicle | 122 | 136 | 377 | 490 |
| Total segment operating profit | 799 | 745 | 2,247 | 2,338 |
| Corporate | | | | |
| Amortization of intangible assets | (99 |) (102 |) (297 |) (306 |
| Interest expense - net | (59 |) (59 |) (173 |) (175 |
| Pension and other postretirement benefits expense | (18 |) (38 |) (45 |) (99 |
| Other corporate expense - net | (50 |) (59 |) (164 |) (168 |
| Income before income taxes | 573 | 487 | 1,568 | 1,590 |
| Income tax expense | 51 | 42 | 151 | 143 |
| Net income | 522 | 445 | 1,417 | 1,447 |
| Less net loss for noncontrolling interests | 1 | 1 | 1 | — |
| Net income attributable to Eaton ordinary shareholders | \$523 | \$446 | \$1,418 | \$1,447 |

Note 15. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

On November 14, 2013, Eaton Corporation registered senior notes under the Securities Act of 1933 (the Senior Notes). Eaton and certain other of Eaton's 100% owned direct and indirect subsidiaries (the Guarantors) fully and unconditionally guaranteed (subject, in the case of the Guarantors, other than Eaton, to customary release provisions as described below), on a joint and several basis, the Senior Notes. The following condensed consolidating financial statements are included so that separate financial statements of Eaton, Eaton Corporation and each of the Guarantors are not required to be filed with the Securities and Exchange Commission. The consolidating adjustments primarily relate to eliminations of investments in subsidiaries and intercompany balances and transactions. The condensed consolidating financial statements present investments in subsidiaries using the equity method of accounting. The guarantee of a Guarantor that is not a parent of the issuer will be automatically and unconditionally released and discharged in the event of any sale of the Guarantor or of all or substantially all of its assets, or in connection with the release or termination of the Guarantor as a guarantor under all other U.S. debt securities or U.S. syndicated credit facilities, subject to limitations set forth in the indenture. The guarantee of a Guarantor that is a direct or indirect parent of the issuer will only be automatically and unconditionally released and discharged in connection with the release or termination of such Guarantor as a guarantor under all other debt securities or syndicated credit facilities (in both cases, U.S. or otherwise), subject to limitations set forth in the indenture.

During 2015 and 2016, the Company undertook certain steps to restructure ownership of various subsidiaries. The transactions were entirely among wholly-owned subsidiaries under the common control of Eaton. This restructuring has been reflected as of the beginning of the earliest period presented below.

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|---|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net sales | \$ — | \$ 1,660 | \$ 1,583 | \$ 3,040 | \$ (1,296) | \$ 4,987 |
| Cost of products sold | — | 1,329 | 1,162 | 2,173 | (1,293) | 3,371 |
| Selling and administrative expense | 2 | 330 | 197 | 324 | — | 853 |
| Research and development expense | — | 59 | 43 | 44 | — | 146 |
| Interest expense (income) - net | — | 59 | 4 | (3) | (1) | 59 |
| Other expense (income) - net | (1) | 18 | — | (32) | — | (15) |
| Equity in loss (earnings) of subsidiaries, net of tax | (628) | (173) | (895) | (219) | 1,915 | — |
| Intercompany expense (income) - net | 104 | (47) | 336 | (393) | — | — |
| Income (loss) before income taxes | 523 | 85 | 736 | 1,146 | (1,917) | 573 |
| Income tax expense (benefit) | — | (11) | 10 | 53 | (1) | 51 |
| Net income (loss) | 523 | 96 | 726 | 1,093 | (1,916) | 522 |
| Less net loss (income) for noncontrolling interests | — | — | — | — | 1 | 1 |
| Net income (loss) attributable to Eaton ordinary shareholders | \$ 523 | \$ 96 | \$ 726 | \$ 1,093 | \$ (1,915) | \$ 523 |
| Other comprehensive income (loss) | \$ 24 | \$ 24 | \$ 29 | \$ 2 | \$ (55) | \$ 24 |
| Total comprehensive income (loss) attributable to Eaton ordinary shareholders | \$ 547 | \$ 120 | \$ 755 | \$ 1,095 | \$ (1,970) | \$ 547 |

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

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|---|-----------------------------|----------------------|------------|-----------------------|------------------------------|-----------|
| Net sales | \$ — | \$ 1,755 | \$ 1,664 | \$ 3,105 | \$ (1,321) | \$ 5,203 |
| Cost of products sold | — | 1,380 | 1,269 | 2,265 | (1,317) | 3,597 |
| Selling and administrative expense | 2 | 375 | 191 | 339 | — | 907 |
| Research and development expense | — | 65 | 51 | 40 | — | 156 |
| Interest expense (income) - net | — | 54 | 5 | (3) | 3 | 59 |
| Other expense (income) - net | — | 11 | 3 | (17) | — | (3) |
| Equity in loss (earnings) of subsidiaries, net of tax | (534) | (264) | (888) | (64) | 1,750 | — |
| Intercompany expense (income) - net | 86 | (54) | 258 | (290) | — | — |
| Income (loss) before income taxes | 446 | 188 | 775 | 835 | (1,757) | 487 |
| Income tax expense (benefit) | — | 17 | (15) | 38 | 2 | 42 |
| Net income (loss) | 446 | 171 | 790 | 797 | (1,759) | 445 |
| Less net loss (income) for noncontrolling interests | — | — | — | 1 | — | 1 |
| Net income (loss) attributable to Eaton ordinary shareholders | \$ 446 | \$ 171 | \$ 790 | \$ 798 | \$ (1,759) | \$ 446 |
| Other comprehensive income (loss) | \$ (312) | \$ (24) | \$ (305) | \$ (411) | \$ 740 | \$ (312) |
| Total comprehensive income (loss) attributable to Eaton ordinary shareholders | \$ 134 | \$ 147 | \$ 485 | \$ 387 | \$ (1,019) | \$ 134 |

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|-----------|
| Net sales | \$ — | \$ 4,842 | \$ 4,793 | \$ 8,983 | \$ (3,738) | \$ 14,880 |
| Cost of products sold | — | 3,788 | 3,554 | 6,478 | (3,739) | 10,081 |
| Selling and administrative expense | 6 | 1,048 | 583 | 1,005 | — | 2,642 |
| Research and development expense | — | 176 | 138 | 130 | — | 444 |
| Interest expense (income) - net | — | 169 | 13 | (13) | 4 | 173 |
| Other expense (income) - net | (1) | 34 | (3) | (58) | — | (28) |
| Equity in loss (earnings) of subsidiaries, net of tax | (1,726) | (495) | (2,384) | (434) | 5,039 | — |
| Intercompany expense (income) - net | 303 | (135) | 913 | (1,081) | — | — |
| Income (loss) before income taxes | 1,418 | 257 | 1,979 | 2,956 | (5,042) | 1,568 |
| Income tax expense (benefit) | — | 9 | 24 | 119 | (1) | 151 |
| Net income (loss) | 1,418 | 248 | 1,955 | 2,837 | (5,041) | 1,417 |
| Less net loss (income) for noncontrolling interests | — | — | — | (2) | 3 | 1 |
| Net income (loss) attributable to Eaton ordinary shareholders | \$ 1,418 | \$ 248 | \$ 1,955 | \$ 2,835 | \$ (5,038) | \$ 1,418 |

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| | | | | | | |
|---|----------|--------|----------|----------|-----------|-----------|
| Other comprehensive income (loss) | \$ 42 | \$ 68 | \$ 54 | \$ (21 |) \$ (101 |) \$42 |
| Total comprehensive income | | | | | | |
| (loss) attributable to Eaton ordinary shareholders | \$ 1,460 | \$ 316 | \$ 2,009 | \$ 2,814 | \$ (5,139 |) \$1,460 |

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CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|---|-----------------------------|----------------------|------------|-----------------------|------------------------------|-----------|
| Net sales | \$ — | \$ 5,263 | \$ 5,065 | \$ 9,469 | \$ (3,999) | \$ 15,798 |
| Cost of products sold | — | 4,123 | 3,837 | 6,864 | (3,959) | 10,865 |
| Selling and administrative expense | 6 | 1,120 | 539 | 1,058 | — | 2,723 |
| Research and development expense | — | 202 | 145 | 125 | — | 472 |
| Interest expense (income) - net | — | 166 | 16 | (10) | 3 | 175 |
| Other expense (income) - net | — | 17 | (5) | (39) | — | (27) |
| Equity in loss (earnings) of subsidiaries, net of tax | (1,698) | (529) | (2,403) | (315) | 4,945 | — |
| Intercompany expense (income) - net | 245 | (362) | 1,010 | (893) | — | — |
| Income (loss) before income taxes | 1,447 | 526 | 1,926 | 2,679 | (4,988) | 1,590 |
| Income tax expense (benefit) | — | 36 | (32) | 154 | (15) | 143 |
| Net income (loss) | 1,447 | 490 | 1,958 | 2,525 | (4,973) | 1,447 |
| Less net loss (income) for noncontrolling interests | — | — | — | (1) | 1 | — |
| Net income (loss) attributable to Eaton ordinary shareholders | \$ 1,447 | \$ 490 | \$ 1,958 | \$ 2,524 | \$ (4,972) | \$ 1,447 |
| Other comprehensive income (loss) | \$ (716) | \$ 39 | \$ (691) | \$ (875) | \$ 1,527 | \$ (716) |
| Total comprehensive income (loss) attributable to Eaton ordinary shareholders | \$ 731 | \$ 529 | \$ 1,267 | \$ 1,649 | \$ (3,445) | \$ 731 |

CONDENSED CONSOLIDATING BALANCE SHEETS
SEPTEMBER 30, 2016

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|---|-----------------------------|----------------------|------------------|-----------------------|------------------------------|-----------------|
| Assets | | | | | | |
| Current assets | | | | | | |
| Cash | \$ 1 | \$ 70 | \$ 4 | \$ 419 | \$ — | \$494 |
| Short-term investments | — | — | — | 213 | — | 213 |
| Accounts receivable - net | — | 510 | 1,072 | 2,077 | — | 3,659 |
| Intercompany accounts receivable | 2 | 637 | 4,149 | 3,484 | (8,272) | — |
| Inventory | — | 365 | 647 | 1,395 | (79) | 2,328 |
| Prepaid expenses and other current assets | — | 107 | 40 | 219 | 27 | 393 |
| Total current assets | 3 | 1,689 | 5,912 | 7,807 | (8,324) | 7,087 |
| Property, plant and equipment - net | — | 863 | 712 | 1,931 | — | 3,506 |
| Other noncurrent assets | | | | | | |
| Goodwill | — | 1,355 | 6,264 | 5,815 | — | 13,434 |
| Other intangible assets | — | 172 | 3,481 | 2,036 | — | 5,689 |
| Deferred income taxes | — | 987 | — | 231 | (806) | 412 |
| Investment in subsidiaries | 32,690 | 13,491 | 72,562 | 12,194 | (130,937) | — |
| Intercompany loans receivable | — | 7,614 | 2,182 | 56,101 | (65,897) | — |
| Other assets | — | 603 | 129 | 377 | — | 1,109 |
| Total assets | \$ 32,693 | \$ 26,774 | \$ 91,242 | \$ 86,492 | \$(205,964) | \$31,237 |
| Liabilities and shareholders' equity | | | | | | |
| Current liabilities | | | | | | |
| Short-term debt | \$ — | \$ — | \$ — | \$ 1 | \$ — | \$1 |
| Current portion of long-term debt | — | 251 | 299 | — | — | 550 |
| Accounts payable | — | 415 | 259 | 1,116 | — | 1,790 |
| Intercompany accounts payable | 194 | 3,966 | 2,982 | 1,130 | (8,272) | — |
| Accrued compensation | — | 85 | 51 | 252 | — | 388 |
| Other current liabilities | 1 | 630 | 297 | 939 | (1) | 1,866 |
| Total current liabilities | 195 | 5,347 | 3,888 | 3,438 | (8,273) | 4,595 |
| Noncurrent liabilities | | | | | | |
| Long-term debt | — | 6,889 | 971 | 16 | 5 | 7,881 |
| Pension liabilities | — | 605 | 168 | 759 | — | 1,532 |
| Other postretirement benefits liabilities | — | 237 | 114 | 78 | — | 429 |
| Deferred income taxes | — | — | 771 | 401 | (806) | 366 |
| Intercompany loans payable | 17,094 | 2,377 | 44,900 | 1,526 | (65,897) | — |
| Other noncurrent liabilities | — | 344 | 214 | 430 | — | 988 |
| Total noncurrent liabilities | 17,094 | 10,452 | 47,138 | 3,210 | (66,698) | 11,196 |

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| | | | | | | |
|------------------------------|-----------|-----------|-----------|-----------|-------------|------------|
| Shareholders' equity | | | | | | |
| Eaton shareholders' equity | 15,404 | 10,975 | 40,216 | 79,807 | (130,998 |) 15,404 |
| Noncontrolling interests | — | — | — | 37 | 5 |) 42 |
| Total equity | 15,404 | 10,975 | 40,216 | 79,844 | (130,993 |) 15,446 |
| Total liabilities and equity | \$ 32,693 | \$ 26,774 | \$ 91,242 | \$ 86,492 | \$ (205,964 |) \$31,237 |

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CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2015

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|---|-----------------------------|----------------------|------------------|-----------------------|------------------------------|-----------------|
| Assets | | | | | | |
| Current assets | | | | | | |
| Cash | \$ — | \$ 26 | \$ 7 | \$ 235 | \$ — | \$268 |
| Short-term investments | — | — | 2 | 175 | — | 177 |
| Accounts receivable - net | — | 512 | 1,030 | 1,937 | — | 3,479 |
| Intercompany accounts receivable | 1 | 842 | 3,888 | 2,928 | (7,659) | — |
| Inventory | — | 357 | 651 | 1,395 | (80) | 2,323 |
| Prepaid expenses and other current assets | — | 77 | 40 | 229 | 23 | 369 |
| Total current assets | 1 | 1,814 | 5,618 | 6,899 | (7,716) | 6,616 |
| Property, plant and equipment - net | — | 930 | 750 | 1,885 | — | 3,565 |
| Other noncurrent assets | | | | | | |
| Goodwill | — | 1,355 | 6,264 | 5,860 | — | 13,479 |
| Other intangible assets | — | 182 | 3,624 | 2,208 | — | 6,014 |
| Deferred income taxes | — | 1,016 | — | 218 | (872) | 362 |
| Investment in subsidiaries | 29,627 | 12,883 | 60,139 | 10,046 | (112,695) | — |
| Intercompany loans receivable | — | 8,641 | 1,573 | 44,835 | (55,049) | — |
| Other assets | — | 492 | 122 | 346 | — | 960 |
| Total assets | \$ 29,628 | \$ 27,313 | \$ 78,090 | \$ 72,297 | \$(176,332) | \$30,996 |
| Liabilities and shareholders' equity | | | | | | |
| Current liabilities | | | | | | |
| Short-term debt | \$ — | \$ 408 | \$ — | \$ 18 | \$ — | \$426 |
| Current portion of long-term debt | — | 1 | 240 | 1 | — | 242 |
| Accounts payable | — | 392 | 260 | 1,106 | — | 1,758 |
| Intercompany accounts payable | 219 | 4,009 | 2,248 | 1,183 | (7,659) | — |
| Accrued compensation | — | 77 | 53 | 236 | — | 366 |
| Other current liabilities | 1 | 644 | 318 | 875 | (5) | 1,833 |
| Total current liabilities | 220 | 5,531 | 3,119 | 3,419 | (7,664) | 4,625 |
| Noncurrent liabilities | | | | | | |
| Long-term debt | — | 7,053 | 675 | 17 | 1 | 7,746 |
| Pension liabilities | — | 639 | 165 | 782 | — | 1,586 |
| Other postretirement benefits liabilities | — | 245 | 118 | 77 | — | 440 |
| Deferred income taxes | — | — | 815 | 447 | (872) | 390 |
| Intercompany loans payable | 14,222 | 2,962 | 36,432 | 1,433 | (55,049) | — |
| Other noncurrent liabilities | — | 346 | 200 | 432 | — | 978 |
| Total noncurrent liabilities | 14,222 | 11,245 | 38,405 | 3,188 | (55,920) | 11,140 |

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| | | | | | | |
|------------------------------|-----------|-----------|-----------|-----------|-------------|------------|
| Shareholders' equity | | | | | | |
| Eaton shareholders' equity | 15,186 | 10,537 | 36,566 | 65,653 | (112,756 |) 15,186 |
| Noncontrolling interests | — | — | — | 37 | 8 | 45 |
| Total equity | 15,186 | 10,537 | 36,566 | 65,690 | (112,748 |) 15,231 |
| Total liabilities and equity | \$ 29,628 | \$ 27,313 | \$ 78,090 | \$ 72,297 | \$ (176,332 |) \$30,996 |

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net cash provided by (used in) operating activities | \$ (158) | \$ (29) | \$ (283) | \$ 2,384 | \$ — | \$ 1,914 |
| Investing activities | | | | | | |
| Capital expenditures for property, plant and equipment | — | (62) | (75) | (209) | — | (346) |
| Cash received from (paid for) acquisitions of businesses, net of cash acquired | — | — | 1 | — | — | 1 |
| Sales (purchases) of short-term investments - net | — | — | 2 | (31) | — | (29) |
| Investments in affiliates | (1,250) | — | (120) | (1,370) | 2,740 | — |
| Return of investments in affiliates | — | — | 47 | — | (47) | — |
| Loans to affiliates | — | (287) | (655) | (6,457) | 7,399 | — |
| Repayments of loans from affiliates | — | 1,288 | — | 4,501 | (5,789) | — |
| Other - net | — | — | 30 | (27) | — | 3 |
| Net cash provided by (used in) investing activities | (1,250) | 939 | (770) | (3,593) | 4,303 | (371) |
| Financing activities | | | | | | |
| Proceeds from borrowings | — | 22 | 611 | — | — | 633 |
| Payments on borrowings | — | (408) | (240) | (18) | — | (666) |
| Proceeds from borrowings from affiliates | 3,333 | 2,815 | 1,051 | 200 | (7,399) | — |
| Payments on borrowings from affiliates | (637) | (3,453) | (1,658) | (41) | 5,789 | — |
| Capital contributions from affiliates | — | — | 1,370 | 1,370 | (2,740) | — |
| Return of capital to affiliates | — | — | — | (47) | 47 | — |
| Other intercompany financing activities | — | 158 | (81) | (77) | — | — |
| Cash dividends paid | (780) | — | — | — | — | (780) |
| Exercise of employee stock options | 60 | — | — | — | — | 60 |
| Repurchase of shares | (567) | — | — | — | — | (567) |
| Excess tax benefit from equity-based compensation | — | — | — | — | — | — |
| Other - net | — | — | (3) | (2) | — | (5) |
| Net cash provided by (used in) financing activities | 1,409 | (866) | 1,050 | 1,385 | (4,303) | (1,325) |
| Effect of currency on cash | — | — | — | 8 | — | 8 |
| Total increase (decrease) in cash | 1 | 44 | (3) | 184 | — | 226 |
| Cash at the beginning of the period | — | 26 | 7 | 235 | — | 268 |
| Cash at the end of the period | \$ 1 | \$ 70 | \$ 4 | \$ 419 | \$ — | \$ 494 |

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|---|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net cash provided by (used in) operating activities | \$ (85) | \$ (93) | \$ (23) | \$ 1,830 | \$ — | \$ 1,629 |
| Investing activities | | | | | | |
| Capital expenditures for property, plant and equipment | — | (68) | (100) | (200) | — | (368) |
| Cash received from (paid for) acquisitions of businesses, net of cash acquired | — | — | — | (38) | — | (38) |
| Sales (purchases) of short-term investments - net | — | — | — | 76 | — | 76 |
| Investments in affiliates | (1,482) | — | (1,176) | (1,482) | 4,140 | — |
| Loans to affiliates | — | (307) | (39) | (7,638) | 7,984 | — |
| Repayments of loans from affiliates | — | 306 | 58 | 5,514 | (5,878) | — |
| Proceeds from sale of businesses | — | — | — | 1 | — | 1 |
| Other - net | — | (41) | 33 | (36) | — | (44) |
| Net cash provided by (used in) investing activities | (1,482) | (110) | (1,224) | (3,803) | 6,246 | (373) |
| Financing activities | | | | | | |
| Proceeds from borrowings | — | — | — | 1 | — | 1 |
| Payments on borrowings | — | (102) | (301) | (2) | — | (405) |
| Proceeds from borrowings from affiliates | 2,783 | 4,577 | 581 | 43 | (7,984) | — |
| Payments on borrowings from affiliates | (40) | (4,617) | (1,160) | (61) | 5,878 | — |
| Capital contributions from affiliates | — | 1,176 | 1,482 | 1,482 | (4,140) | — |
| Other intercompany financing activities | — | (859) | 644 | 215 | — | — |
| Cash dividends paid | (771) | — | — | — | — | (771) |
| Exercise of employee stock options | 48 | — | — | — | — | 48 |
| Repurchase of shares | (454) | — | — | — | — | (454) |
| Other - net | — | — | — | (8) | — | (8) |
| Net cash provided by (used in) financing activities | 1,566 | 175 | 1,246 | 1,670 | (6,246) | (1,589) |
| Effect of currency on cash | — | — | — | (30) | — | (30) |
| Total increase (decrease) in cash | (1) | (28) | (1) | (333) | — | (363) |
| Cash at the beginning of the period | 1 | 173 | 13 | 594 | — | 781 |
| Cash at the end of the period | \$ — | \$ 145 | \$ 12 | \$ 261 | \$ — | \$ 418 |

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

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

COMPANY OVERVIEW

Eaton Corporation plc (Eaton or the Company) is a power management company with 2015 net sales of \$20.9 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 95,000 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 2016 | | Nine months ended September 30 2015 | |
|--|---|---------|--|----------|
| Net sales | \$4,987 | \$5,203 | \$14,880 | \$15,798 |
| Net income attributable to Eaton ordinary shareholders | 523 | 446 | 1,418 | 1,447 |
| Net income per share attributable to Eaton ordinary shareholders - diluted | \$1.15 | \$0.96 | \$3.09 | \$3.09 |

During 2015, Eaton announced a multi-year restructuring initiative to reduce its cost structure and gain efficiencies in all business segments and at corporate in order to respond to declining market conditions. Restructuring charges in the third quarter and first nine months of 2016 were \$23 and \$121, respectively, and were \$113 and \$127 in 2015, respectively. These charges were primarily comprised of severance costs. Restructuring charges are anticipated to be \$145 in 2016 and \$180 in 2017. The projected annualized savings from these restructuring actions are expected to be \$508, when fully realized in 2018.

RESULTS OF OPERATIONS

Non-GAAP Financial Measures

The following discussion of Consolidated Financial Results and Business Segment Results of Operations includes certain non-GAAP financial measures. These financial measures include operating earnings, operating earnings per ordinary share, and operating profit before acquisition integration charges for each business segment as well as corporate, each of which differs from the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). A reconciliation of operating earnings and operating earnings per ordinary share to the most directly comparable GAAP measure is included in the table below. Operating profit before acquisition integration charges is reconciled in the discussion of the operating results of each business segment, and excludes acquisition integration expense related to the integration of Ephesus Lighting, Inc. and Oxalis Group Ltd. in 2016 and primarily Cooper Industries plc in 2015. 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 | | Decrease |
|---|--------------------|---------|------------------------|-------------------|----------|----------|
| | September 30 | | | September 30 | | |
| | 2016 | 2015 | | 2016 | 2015 | |
| Net sales | \$4,987 | \$5,203 | (4)% | \$14,880 | \$15,798 | (6)% |
| Gross profit | 1,616 | 1,606 | 1 % | 4,799 | 4,933 | (3)% |
| Percent of net sales | 32.4 % | 30.9 % | | 32.3 % | 31.2 % | |
| Income before income taxes | 573 | 487 | 18 % | 1,568 | 1,590 | (1)% |
| Net income | 522 | 445 | 17 % | 1,417 | 1,447 | (2)% |
| Less net loss for noncontrolling interests | 1 | 1 | | 1 | — | |
| Net income attributable to Eaton ordinary shareholders | 523 | 446 | 17 % | 1,418 | 1,447 | (2)% |
| Excluding acquisition integration charges, after-tax (Note 3) | 1 | 7 | | 2 | 22 | |
| Operating earnings | \$524 | \$453 | 16 % | \$1,420 | \$1,469 | (3)% |
| Net income per share attributable to Eaton ordinary shareholders - diluted | \$1.15 | \$0.96 | 20 % | \$3.09 | \$3.09 | — % |
| Excluding per share impact of acquisition integration charges, after-tax (Note 3) | — | 0.01 | | — | 0.05 | |
| Operating earnings per ordinary share | \$1.15 | \$0.97 | 19 % | \$3.09 | \$3.14 | (2)% |

Net Sales

Net sales decreased 4% in the third quarter of 2016 compared to the third quarter of 2015 due to a decrease of 3% in organic sales and a decrease of 1% from the impact of negative currency translation. Net sales decreased 6% in the first nine months of 2016 compared to the first nine months of 2015 due to a decrease of 4% in organic sales and a 2% decrease from the impact of negative currency translation. The decrease in organic sales in the third quarter and first nine months of 2016 was primarily due to weakening demand in several of the Company's end markets.

Gross Profit

Gross profit margin increased from 30.9% in the third quarter of 2015 to 32.4% in the third quarter of 2016. The increase in gross profit margin in the third quarter of 2016 was primarily due to savings from restructuring actions, other cost control measures and lower restructuring charges, partially offset by lower sales volumes and unfavorable product mix. Gross profit margin increased from 31.2% in the first nine months of 2015 compared to 32.3% in the first nine months of 2016. The increase in gross profit margin in the first nine months of 2016 was primarily due to savings from restructuring actions and other cost control measures, partially offset by lower sales volumes and unfavorable product mix.

Income Taxes

The effective income tax rate for the third quarter and first nine months of 2016 was expense of 9%, and 10%, respectively, compared to an expense of 9% for the third quarter and first nine months of 2015. The increase in the effective tax rate in the first nine months of 2016 was primarily due to more income earned in higher tax jurisdictions.

Net Income

Net income attributable to Eaton ordinary shareholders of \$523 in the third quarter of 2016 increased 17% compared to Net income attributable to Eaton ordinary shareholders of \$446 in the third quarter of 2015. The increase in the third quarter of 2016 was primarily due to savings from restructuring actions, other cost control measures, lower restructuring charges, and a decrease in pension and other postretirement benefits expense, partially offset by lower sales volumes and unfavorable product mix. Net income attributable to Eaton ordinary shareholders in the first nine months of 2016 was \$1,418 a decrease of 2% compared to \$1,447 in the first nine months of 2015. The decrease in the first nine months of 2016 was primarily due to lower sales volumes and unfavorable product mix, partially offset by savings from restructuring actions, other cost control measures, and a decrease in pension and other postretirement

benefits expense.

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Net income per ordinary share increased to \$1.15 in the third quarter of 2016 compared to \$0.96 in the third quarter of 2015. The increase in Net income per ordinary share in the third quarter of 2016 was due to higher Net income attributable to Eaton ordinary shareholders and the Company's share repurchases over the past year. Net income per ordinary share was flat at \$3.09 in the first nine months of 2016 compared to the first nine months 2015 due to lower Net income attributable to Eaton ordinary shareholders offset by the impact of the Company's share repurchases over the past year.

Operating Earnings

Operating earnings of \$524 in the third quarter of 2016 increased 16% compared to Operating earnings of \$453 in the third quarter of 2015. The increase in Operating earnings in the third quarter of 2016 was primarily due to higher Net income attributable to Eaton ordinary shareholders, partially offset by lower acquisition integration charges. Operating earnings in the first nine months of 2016 was \$1,420, a decrease of 3% compared to \$1,469 in the first nine months of 2015. The decrease in Operating earnings in the first nine months of 2016 was primarily due to lower Net income attributable to Eaton ordinary shareholders and lower acquisition integration charges.

Operating earnings per ordinary share increased to \$1.15 in the third quarter of 2016 compared to \$0.97 in the third quarter of 2015. The increase in Operating earnings per ordinary share in the third quarter of 2016 was due to higher Operating earnings and the impact of the Company's share repurchases over the past year. Operating earnings per ordinary share decreased to \$3.09 in the first nine months of 2016 compared to \$3.14 in the first nine months of 2015. The decrease in Operating earnings per ordinary share in the first nine months of 2016 was due to lower Operating earnings, partially offset by the impact of the Company's share repurchases over the past year.

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 | Nine months ended | | Increase |
|--|--------------------|---------|----------|-------------------|---------|----------|
| | September 30 | | | September 30 | | |
| | 2016 | 2015 | | 2016 | 2015 | |
| Net sales | \$1,767 | \$1,771 | — % | \$5,231 | \$5,246 | — % |
| Operating profit | \$331 | \$322 | 3 % | \$924 | \$858 | 8 % |
| Operating margin | 18.7 % | 18.2 % | | 17.7 % | 16.4 % | |
| Acquisition integration charges | \$1 | \$5 | | \$2 | \$17 | |
| Before acquisition integration charges | | | | | | |
| Operating profit | \$332 | \$327 | 2 % | \$926 | \$875 | 6 % |
| Operating margin | 18.8 % | 18.5 % | | 17.7 % | 16.7 % | |

Net sales were broadly flat in the third quarter of 2016 compared to the third quarter of 2015, with an increase of 1% from the acquisitions of businesses offset by a decrease of 1% from the impact of negative currency translation. Net sales were also generally flat in the first nine months of 2016 compared to the first nine months of 2015, with an increase of 1% in organic sales offset by a decrease of 1% from the impact of negative currency translation. By region, organic sales grew in the first nine months of 2016 in the Americas and Europe, while sales declined in Asia Pacific. Operating margin increased from 18.2% in the third quarter of 2015 to 18.7% in the third quarter of 2016. The increase in operating margin in the third quarter 2016 was primarily due to savings from restructuring actions and lower restructuring charges. Operating margin increased from 16.4% in the first nine months of 2015 to 17.7% in first nine months of 2016. The increase in operating margin in the first nine months of 2016 was primarily due to savings from restructuring actions and other cost control measures, partially offset by higher restructuring charges and

unfavorable product mix.

Operating margin before acquisition integration charges increased from 18.5% in the third quarter of 2015 to 18.8% in the third quarter of 2016. The increase in operating margin before acquisition integration charges in the third quarter 2016 was primarily due to an increase in operating margin, partially offset by lower acquisition integration charges. Operating margin before acquisition integration charges increased from 16.7% in the first nine months of 2015 to 17.7% in first nine months of 2016. The increase in operating margin before acquisition integration charges in the first nine months of 2016 was primarily due to an increase in operating margin, partially offset by lower acquisition integration charges.

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Electrical Systems and Services

| | Three months ended | | Increase (decrease) | Nine months ended | | Decrease |
|--|--------------------|---------|------------------------|-------------------|---------|----------|
| | September 30 | | | September 30 | | |
| | 2016 | 2015 | | 2016 | 2015 | |
| Net sales | \$1,436 | \$1,487 | (3)% | \$4,207 | \$4,437 | (5)% |
| Operating profit | \$197 | \$164 | 20 % | \$534 | \$573 | (7)% |
| Operating margin | 13.7 % | 11.0 % | | 12.7 % | 12.9 % | |
| Acquisition integration charges | \$— | \$3 | | \$1 | \$10 | |
| Before acquisition integration charges | | | | | | |
| Operating profit | \$197 | \$167 | 18 % | \$535 | \$583 | (8)% |
| Operating margin | 13.7 % | 11.2 % | | 12.7 % | 13.1 % | |

Net sales decreased 3% in the third quarter of 2016 compared to the third quarter of 2015 due to a decrease of 2% in organic sales and a decrease of 1% from the impact of negative currency translation. Net sales decreased 5% in the first nine months of 2016 compared to the first nine months 2015 due to a decrease of 3% in organic sales and decrease of 2% from the impact of negative currency translation. The organic sales decline during the third quarter and first nine months of 2016 was primarily due to weakness in oil and gas markets and industrial projects. Operating margin increased from 11.0% in the third quarter of 2015 to 13.7% in the third quarter of 2016. The increase in operating margin in the third quarter of 2016 was primarily due to savings from restructuring actions, other cost control measures and lower restructuring charges, partially offset by lower sales volumes and unfavorable product mix. Operating margin decreased from 12.9% in the first nine months of 2015 to 12.7% in the first nine months of 2016. The decrease in operating margin in the first nine months of 2016 was primarily due to lower sales volumes and unfavorable product mix, partially offset by savings from restructuring actions and other cost control measures. Operating margin before acquisition integration charges increased from 11.2% in the third quarter of 2015 to 13.7% in the third quarter of 2016. The increase in operating margin before acquisition integration charges in the third quarter of 2016 was primarily due to an increase in operating margin, partially offset by lower acquisition integration charges. Operating margin before acquisition integration charges decreased from 13.1% in the first nine months of 2015 to 12.7% in the first nine months of 2016. The decrease in operating margin before acquisition integration charges in the first nine months of 2016 was primarily due to a decrease in operating margin and lower acquisition integration charges.

Hydraulics

| | Three months ended | | Increase (decrease) | Nine months ended | | Decrease |
|--|--------------------|-------|------------------------|-------------------|---------|----------|
| | September 30 | | | September 30 | | |
| | 2016 | 2015 | | 2016 | 2015 | |
| Net sales | \$562 | \$599 | (6)% | \$1,702 | \$1,907 | (11)% |
| Operating profit | \$61 | \$44 | 39 % | \$161 | \$184 | (13)% |
| Operating margin | 10.9 % | 7.3 % | | 9.5 % | 9.6 % | |
| Acquisition integration charges | \$— | \$— | | \$— | \$2 | |
| Before acquisition integration charges | | | | | | |
| Operating profit | \$61 | \$44 | 39 % | \$161 | \$186 | (13)% |
| Operating margin | 10.9 % | 7.3 % | | 9.5 % | 9.8 % | |

Net sales decreased 6% in the third quarter of 2016 compared to the third quarter of 2015 due to a decrease in organic sales. Net sales decreased 11% for the first nine months of 2016 compared to the first nine months of 2015 due to a decrease of 10% in organic sales and a decrease of 1% from the impact of negative currency translation. The decline in organic sales in the third quarter and first nine months of 2016 were primarily due to continued weakness in both the mobile and industrial markets.

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Operating margin increased from 7.3% in the third quarter of 2015 to 10.9% in the third quarter of 2016. The increase in operating margin in the third quarter of 2016 was primarily due to savings from restructuring actions, other cost control measures and lower restructuring charges, partially offset by lower sales volumes. Operating margin decreased from 9.6% in the first nine months of 2015 to 9.5% in the first nine months of 2016. The decrease in operating margin in the first nine months of 2016 was primarily due to lower sales volumes and higher restructuring costs, partially offset by savings from restructuring actions and other cost control measures.

Operating margin before acquisition integration charges decreased from 9.8% in the first nine months of 2015 to 9.5% in the first nine months of 2016. The decrease in operating margin in the first nine months of 2016 was primarily due to a decrease in operating margin and lower acquisition integration charges.

Aerospace

| | Three months ended | | Increase (decrease) | Nine months ended | | Increase (decrease) |
|------------------|--------------------|--------|------------------------|-------------------|---------|------------------------|
| | September 30 | | | September 30 | | |
| | 2016 | 2015 | | 2016 | 2015 | |
| Net sales | \$436 | \$449 | (3)% | \$1,328 | \$1,367 | (3)% |
| Operating profit | \$88 | \$79 | 11 % | \$251 | \$233 | 8 % |
| Operating margin | 20.2 % | 17.6 % | | 18.9 % | 17.0 % | |

Net sales in the third quarter of 2016 decreased 3% compared to the third quarter of 2015 due to a 3% impact from negative currency translation. Net sales decreased 3% in the first nine months of 2016 compared to the first nine months of 2015 due to a decrease of 2% from the impact of negative currency translation and a decrease of 1% in organic sales. The decline in organic sales in the first nine months of 2016 primarily related to a decrease in military OEM markets, partially offset by growth in commercial markets.

Operating margin increased in the third quarter from 17.6% in 2015 to 20.2% in 2016, and in the first nine months from 17.0% in 2015 to 18.9% in 2016. The increase in operating margin in the third quarter of 2016 was due to savings from restructuring actions, other cost control measures and lower restructuring charges. The increase in operating margin in the first nine months of 2016 was due to savings from restructuring actions, other cost control measures and reduced program development spending.

Vehicle

| | Three months ended | | Decrease | Nine months ended | | Decrease |
|------------------|--------------------|--------|----------|-------------------|---------|----------|
| | September 30 | | | September 30 | | |
| | 2016 | 2015 | | 2016 | 2015 | |
| Net sales | \$786 | \$897 | (12)% | \$2,412 | \$2,841 | (15)% |
| Operating profit | \$122 | \$136 | (10)% | \$377 | \$490 | (23)% |
| Operating margin | 15.5 % | 15.2 % | | 15.6 % | 17.2 % | |

Net sales decreased 12% in the third quarter of 2016 compared to the third quarter of 2015 due to a 12% decline in organic sales. The decline in organic sales in the third quarter of 2016 was primarily due to weakness in the North American Class 8 truck market. Net sales decreased 15% in the first nine months of 2016 compared to the first nine months of 2015 due to a decrease of 13% in organic sales and a decrease of 2% from the impact of negative currency translation. The decline in organic sales in the first nine months of 2016 was primarily due to the lower North American Class 8 truck market.

Operating margin increased from 15.2% in the third quarter of 2015 to 15.5% in the third quarter of 2016. The increase in the third quarter of 2016 was primarily the result of savings from restructuring actions, other cost control measures, lower restructuring charges and manufacturing efficiencies, partially offset by lower sales volumes and unfavorable product mix. Operating margin decreased from 17.2% in the first nine months of 2015 to 15.6% in the first nine months of 2016. The decrease in the first nine months of 2016 was primarily due to lower sales volumes, partially offset by savings from restructuring actions and lower restructuring charges.

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Corporate Expense

| | Three months ended September 30 | | | Decrease | Nine months ended September 30 | | | Decrease |
|---|---------------------------------|-------|--------|----------|--------------------------------|-------|--------|----------|
| | 2016 | 2015 | | | 2016 | 2015 | | |
| Amortization of intangible assets | \$99 | \$102 | (3)% | | \$297 | \$306 | (3)% | |
| Interest expense - net | 59 | 59 | — % | | 173 | 175 | (1)% | |
| Pension and other postretirement benefits expense | 18 | 38 | (53)% | | 45 | 99 | (55)% | |
| Other corporate expense - net | 50 | 59 | (15)% | | 164 | 168 | (2)% | |
| Total corporate expense | \$226 | \$258 | (12)% | | \$679 | \$748 | (9)% | |

Total corporate expense decreased 12% from \$258 in the third quarter of 2015 to \$226 in the third quarter of 2016. Total corporate expense decreased 9% from \$748 in the first nine months of 2015 to \$679 in the first nine months of 2016. The decrease in Total corporate expense for the third quarter and first nine months 2016 was primarily due to a decrease in pension and other postretirement benefits expense resulting from a change to the spot rate approach for measuring service and interest costs, higher discount rates, and updated mortality tables.

LIQUIDITY, CAPITAL RESOURCES AND CHANGES IN FINANCIAL CONDITION

Financial Condition and Liquidity

Eaton's objective is to finance its business through operating cash flow and an appropriate mix of equity and long-term and short-term debt. By diversifying its debt maturity structure, Eaton reduces liquidity risk. The Company maintains access to the commercial paper markets through a commercial paper program, which is supported by credit facilities in the aggregate principal amount of \$2,000. On October 14, 2016, Eaton refinanced a \$750, five-year revolving credit facility with a \$750, five-year revolving credit facility that will expire October 14, 2021. Eaton also maintains a \$500, four-year revolving credit facility that will expire on October 3, 2018 and a \$750, five-year credit facility that will expire October 3, 2019. This refinancing maintains long-term revolving credit facilities at a total of \$2,000. There were no borrowings outstanding under these revolving credit facilities at September 30, 2016 or October 14, 2016. Over the course of a year, cash, short-term investments and short-term debt may fluctuate in order to manage global liquidity. Eaton believes its operating flexibility, cash flow, cash and short-term investment balances, and access to capital markets are substantially in excess of the liquidity necessary to meet future operating needs of the business as well as scheduled payments of long-term debt.

On September 20, 2016, a subsidiary of Eaton issued Euro denominated notes (Euro Notes) with a face value of €550 (\$615 based on the September 20, 2016 spot rate), in accordance with Regulation S promulgated under the Securities Act of 1933, as amended. The Euro Notes mature in 2024 with interest payable annually at a rate of 0.75%. The issuer received proceeds totaling €544 (\$609 based on the September 20, 2016 spot rate) from the issuance, net of financing costs and discounts.

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 \$1,914 in the first nine months of 2016, an increase of \$285 in the source of cash compared to \$1,629 in the first nine months of 2015. The increase in net cash provided by operating activities in the first nine months of 2016 was driven by lower pension contributions.

Investing Cash Flow

Net cash used in investing activities was \$371 in the first nine months of 2016, a decrease of \$2 in the use of cash compared to \$373 in the first nine months of 2015. The slight decrease was primarily driven by no business acquisitions completed in 2016 and lower capital expenditures in 2016 compared to 2015, offset by purchases of short-term investments of \$29 in 2016 compared to sales of \$76 in 2015.

Financing Cash Flow

Net cash used in financing activities was \$1,325 in the first nine months of 2016, a decrease of \$264 in the use of cash compared to \$1,589 in the first nine months of 2015. The decrease in the use of cash was due to an increase in proceeds from borrowings, which totaled \$633 in 2016, partially offset by an increase of \$261 in payments on borrowings and an increase of \$113 in share repurchases in 2016 compared to 2015.

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FORWARD-LOOKING STATEMENTS

This Form 10-Q Report contains forward-looking statements concerning share repurchases, litigation developments, and the charges and benefits of restructuring actions, 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,” 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 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 or unexpected developments in any such pending proceedings; 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, 2015.

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, 2016.

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 2016, 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.

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 2015 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 2015 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(c) Issuer's Purchases of Equity Securities

During the third quarter of 2016, 3.7 million ordinary shares were repurchased in the open market at a total cost of \$243. These shares were repurchased under the program approved by the Board on February 24, 2016. A summary of the shares repurchased in the third quarter of 2016 follows:

| Month | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) |
|-----------|----------------------------------|------------------------------|--|--|
| August | 2,692,932 | \$ 67.24 | 2,692,932 | \$ 2,077 |
| September | 966,203 | \$ 63.90 | 966,203 | \$ 2,015 |
| Total | 3,659,135 | \$ 66.36 | 3,659,135 | |

ITEM 6. EXHIBITS.

Exhibits — See Exhibit Index attached.

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SIGNATURES

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

EATON CORPORATION plc
Registrant

Date: November 1, 2016 By: /s/ Richard H. Fearon
Richard H. Fearon
Principal Financial Officer
(On behalf of the registrant and
as Principal Financial Officer)

Table of Contents

Eaton Corporation plc
Third Quarter 2016 Report on Form 10-Q
Exhibit Index

- 3 (i) Certificate of
Incorporation —
Incorporated by
reference to the
Form S-8 filed
November 30,
2012
- 3 (ii) Articles of
Association —
Incorporated by
reference to the
Form 10-Q
Report for the
three months
ended
March 31, 2016
- 3 (iii) Memorandum
of Association —
Incorporated by
reference to the
Form 10-Q
Report for the
three months
ended
March 31, 2016
- 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
16, 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
16, 2013)

- 4.4 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 4.1-4.3 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, 2016 and 2015, (ii) Consolidated Statements of Comprehensive Income for the three months ended September 30, 2016 and 2015, (iii) Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 and (v) Notes to Condensed Consolidated Financial Statements for the nine months ended September 30, 2016.