

Eaton Corp plc
Form 10-Q
October 31, 2014
Table of Contents

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, 2014
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)

Fitzwilliam Hall, Fitzwilliam Place, Dublin 2, Ireland
(Address of principal executive offices)

-
(Zip Code)

+1 (440) 523-5000

(Registrant's telephone number, including area code)

Not applicable

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

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

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

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

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

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

There were 474.6 million Ordinary Shares outstanding as of September 30, 2014.

Table of Contents

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4. CONTROLS AND PROCEDURES

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 1A. RISK FACTORS

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

ITEM 6. EXHIBITS

SIGNATURES

Exhibit Index

EX-12

EX-31.1

EX-31.2

EX-32.1

EX-32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

Table of Contents

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

EATON CORPORATION plc
CONSOLIDATED STATEMENTS OF INCOME

| (In millions except for per share data) | Three months ended | | Nine months ended | |
|--|--------------------|---------|-------------------|----------|
| | September 30 | | September 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| Net sales | \$5,728 | \$5,607 | \$16,987 | \$16,519 |
| Cost of products sold | 3,916 | 3,883 | 11,799 | 11,488 |
| Selling and administrative expense | 961 | 967 | 2,907 | 2,885 |
| Litigation settlements | — | — | 644 | — |
| Research and development expense | 163 | 166 | 493 | 479 |
| Interest expense - net | 56 | 63 | 173 | 209 |
| Other (income) expense - net | (10 |) 7 | (181 |) 3 |
| Income before income taxes | 642 | 521 | 1,152 | 1,455 |
| Income tax expense (benefit) | 37 | 7 | (66 |) 64 |
| Net income | 605 | 514 | 1,218 | 1,391 |
| Less net income for noncontrolling interests | (3 |) (4 |) (6 |) (9 |
| Net income attributable to Eaton ordinary shareholders | \$602 | \$510 | \$1,212 | \$1,382 |
| Net income per ordinary share | | | | |
| Diluted | \$1.26 | \$1.07 | \$2.53 | \$2.90 |
| Basic | 1.27 | 1.08 | 2.55 | 2.92 |
| Weighted-average number of ordinary shares outstanding | | | | |
| Diluted | 477.2 | 477.2 | 478.2 | 476.2 |
| Basic | 474.8 | 474.0 | 475.5 | 473.1 |
| Cash dividends declared per ordinary share | \$0.49 | \$0.42 | \$1.47 | \$1.26 |

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 | | September 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$605 | \$514 | \$1,218 | \$1,391 |
| Less net income for noncontrolling interests | (3 |) (4 |) (6 |) (9 |
| Net income attributable to Eaton ordinary shareholders | 602 | 510 | 1,212 | 1,382 |
| Other comprehensive (loss) income, net of tax | | | | |
| Currency translation and related hedging instruments | (609 |) 286 | (598 |) (104 |
| Pensions and other postretirement benefits | 45 | 31 | 118 | 120 |
| Cash flow hedges | (3 |) 5 | (1 |) — |
| Other comprehensive (loss) income attributable to Eaton ordinary shareholders | (567 |) 322 | (481 |) 16 |
| Total comprehensive income attributable to Eaton ordinary shareholders | \$35 | \$832 | \$731 | \$1,398 |

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, 2014 | December 31, 2013 |
|---|-----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$655 | \$915 |
| Short-term investments | 335 | 794 |
| Accounts receivable - net | 3,972 | 3,648 |
| Inventory | 2,498 | 2,382 |
| Deferred income taxes | 581 | 577 |
| Prepaid expenses and other current assets | 390 | 415 |
| Total current assets | 8,431 | 8,731 |
| Property, plant and equipment - net | 3,702 | 3,833 |
| Other noncurrent assets | | |
| Goodwill | 14,088 | 14,495 |
| Other intangible assets | 6,739 | 7,186 |
| Deferred income taxes | 241 | 240 |
| Other assets | 1,038 | 1,006 |
| Total assets | \$34,239 | \$35,491 |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Short-term debt | \$1 | \$13 |
| Current portion of long-term debt | 412 | 567 |
| Accounts payable | 2,038 | 1,960 |
| Accrued compensation | 424 | 461 |
| Other current liabilities | 2,111 | 1,913 |
| Total current liabilities | 4,986 | 4,914 |
| Noncurrent liabilities | | |
| Long-term debt | 8,587 | 8,969 |
| Pension liabilities | 1,170 | 1,465 |
| Other postretirement benefits liabilities | 675 | 668 |
| Deferred income taxes | 1,035 | 1,313 |
| Other noncurrent liabilities | 1,141 | 1,299 |
| Total noncurrent liabilities | 12,608 | 13,714 |
| Shareholders' equity | | |
| Eaton shareholders' equity | 16,587 | 16,791 |
| Noncontrolling interests | 58 | 72 |
| Total equity | 16,645 | 16,863 |
| Total liabilities and equity | \$34,239 | \$35,491 |

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

Table of ContentsEATON CORPORATION plc
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In millions) | Nine months ended | |
|---|-------------------|----------|
| | September 30 | |
| | 2014 | 2013 |
| Operating activities | | |
| Net income | \$1,218 | \$1,391 |
| Adjustments to reconcile to net cash provided by operating activities | | |
| Depreciation and amortization | 743 | 740 |
| Deferred income taxes | (286 |) 48 |
| Pension and other postretirement benefits expense | 260 | 286 |
| Contributions to pension plans | (333 |) (303 |
| Contributions to other postretirement benefits plans | (38 |) (45 |
| Excess tax benefit from equity-based compensation | (20 |) (24 |
| Gain on sale of businesses | (68 |) (2 |
| Changes in working capital | (391 |) (813 |
| Other - net | (151 |) 135 |
| Net cash provided by operating activities | 934 | 1,413 |
| Investing activities | | |
| Capital expenditures for property, plant and equipment | (378 |) (372 |
| Sales (purchases) of short-term investments - net | 445 | (185 |
| Proceeds from sale of businesses | 282 | 761 |
| Other - net | (56 |) (61 |
| Net cash provided by investing activities | 293 | 143 |
| Financing activities | | |
| Proceeds from borrowings | — | 6 |
| Payments on borrowings | (580 |) (1,012 |
| Cash dividends paid | (700 |) (597 |
| Exercise of employee stock options | 50 | 98 |
| Repurchase of shares | (267 |) — |
| Excess tax benefit from equity-based compensation | 20 | 24 |
| Other - net | (3 |) (4 |
| Net cash used in financing activities | (1,480 |) (1,485 |
| Effect of currency on cash | (7 |) (6 |
| Total (decrease) increase in cash | (260 |) 65 |
| Cash at the beginning of the period | 915 | 577 |
| Cash at the end of the period | \$655 | \$642 |

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

Table of Contents

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 2013 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 Exchange Commission.

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

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09). This accounting standard supersedes all existing US GAAP revenue recognition guidance. Under ASU 2014-09, a company will recognize revenue when it transfers the control of promised goods or services to customers in an amount that reflects the consideration which the company expects to collect in exchange for those goods or services. ASU 2014-09 will require additional disclosures in the notes to the consolidated financial statements and is effective for annual and interim reporting periods beginning after December 15, 2016. 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 AND SALES OF BUSINESSES

Eaton's most recently acquired businesses, and the related annual sales prior to acquisition, are summarized below:

| Acquired businesses | Date of transaction | Business segment | Annual sales |
|--|---------------------|--|---|
| Cooper Industries plc (Cooper) A diversified global manufacturer of electrical products and systems, with brands including Bussmann electrical and electronic fuses; Crouse-Hinds and CEAG explosion-proof electrical equipment; Halo and Metalux lighting fixtures; and Kyle and McGraw-Edison power systems products. | November 30, 2012 | Electrical Products; Electrical Systems and Services | \$5,409 for 2011 |
| Rolec Comercial e Industrial S.A. A Chilean manufacturer of integrated power assemblies and low- and medium-voltage switchgear, and a provider of engineering services serving mining and other heavy industrial applications in Chile and Peru. | September 28, 2012 | Electrical Systems and Services | \$85 for the 12 months ended September 30, 2012 |
| Jeil Hydraulics Co., Ltd. A Korean manufacturer of track drive motors, swing drive motors, main control valves and remote control valves for the construction equipment market. | July 6, 2012 | Hydraulics | \$189 for 2011 |
| Polimer Kaucuk Sanayi ve Pazarlama A.S. | | Hydraulics | \$335 |

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A Turkish manufacturer of hydraulic and industrial hose for construction, mining, agriculture, oil and gas, manufacturing, food and beverage, and chemicals markets. This business sells its products under the SEL brand name.

June 1, 2012 for 2011

Gycom Electrical Low-Voltage Power Distribution, Control and Automation

A Swedish electrical low-voltage power distribution, control and automation components business.

June 1, 2012

Electrical Systems and Services

\$24 for 2011

See Note 3 for information about acquisition integration charges and transaction costs related to these acquisitions.

Table of Contents**Sale of Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions**

On January 20, 2014, Eaton announced it entered into an agreement to sell the Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses to Safran for \$270. The sale closed on May 9, 2014 and resulted in a pre-tax gain of \$154.

Sale of Apex Tool Group, LLC

In July 2010, Cooper formed a joint venture, named Apex Tool Group, LLC (Apex), with Danaher Corporation (Danaher). On October 10, 2012, Cooper and Danaher announced they had entered into a definitive agreement to sell Apex to Bain Capital for approximately \$1.6 billion, subject to post-closing adjustments. On February 1, 2013, the sale of Apex was completed.

Note 3. ACQUISITION INTEGRATION AND RESTRUCTURING CHARGES

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

| | Three months ended | | Nine months ended | |
|---|--------------------|--------|-------------------|--------|
| | September 30 | | September 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| Acquisition integration charges | | | | |
| Electrical Products | \$8 | \$9 | \$49 | \$24 |
| Electrical Systems and Services | 4 | 10 | 43 | 26 |
| Hydraulics | 2 | 8 | 11 | 28 |
| Total business segments | 14 | 27 | 103 | 78 |
| Corporate | 5 | 9 | 19 | 21 |
| Total acquisition integration charges | 19 | 36 | 122 | 99 |
| Transaction costs | | | | |
| Corporate | — | 2 | — | 9 |
| Total transaction costs | — | 2 | — | 9 |
| Total acquisition integration charges and transaction costs before income taxes | \$19 | \$38 | \$122 | \$108 |
| Total after income taxes | \$14 | \$26 | \$81 | \$73 |
| Per ordinary share - diluted | \$0.03 | \$0.05 | \$0.17 | \$0.15 |

Business segment integration charges in 2014 were related primarily to the integration of Cooper. Business segment integration charges in 2013 were related primarily to the integrations of Cooper and Polimer Kaucuk Sanayi ve Pazarlama. 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. Corporate integration charges in 2014 and 2013 were related to the acquisition of Cooper. These charges were included in Selling and administrative expense. In Business Segment Information the charges were included in Other corporate expense - net.

Acquisition-related transaction costs, such as investment banking, legal, other professional fees, and costs associated with change in control agreements, are not included as a component of consideration transferred in an acquisition but are expensed as incurred. Acquisition-related transaction costs in 2013 were related to the acquisition of Cooper. These charges were included in Selling and administrative expense, Interest expense - net and Other (income) expense - net. In Business Segment Information the charges were included in Interest expense - net and Other corporate expense - net.

See Note 2 for additional information about business acquisitions.

Table of Contents**Restructuring Charges**

During 2014 and 2013, Eaton undertook restructuring activities related to the acquisition and integration of Cooper in an effort to gain efficiencies in selling, marketing, traditional back-office functions and manufacturing and distribution. These actions, comprised primarily of severance costs, resulted in charges totaling \$71 during the first nine months of 2014, of which \$38 and \$33 were recognized in the Electrical Products and Electrical Systems and Services business segments, respectively, and \$26 during the first nine months 2013, of which \$14 and \$12 were recognized in the Electrical Products and Electrical Systems and Services business segments, respectively. These restructuring initiatives are expected to continue through 2015.

During April 2014, Eaton undertook certain restructuring activities in an effort to gain efficiencies in the Vehicle, Hydraulics and Aerospace business segments. These actions, comprised primarily of severance costs, resulted in charges totaling \$38 during the first nine months of 2014, of which \$23, \$13 and \$2 were recognized in the Vehicle, Hydraulics and Aerospace business segments, respectively.

Restructuring charges were included in Cost of products sold or Selling and administrative expense, as appropriate. In Business Segment Information, the charges reduced Operating profit of the related business segment. See Note 13 for additional information about business segments. As of September 30, 2014 and December 31, 2013, liabilities related to restructuring actions totaled \$74 and \$32, respectively.

Note 4. GOODWILL

A summary of goodwill follows:

| | September 30, 2014 | December 31, 2013 |
|---------------------------------|-----------------------|----------------------|
| Electrical Products | \$7,036 | \$7,189 |
| Electrical Systems and Services | 4,386 | 4,517 |
| Hydraulics | 1,347 | 1,385 |
| Aerospace | 967 | 1,048 |
| Vehicle | 352 | 356 |
| Total goodwill | \$14,088 | \$14,495 |

The decrease in goodwill was primarily attributable to currency translation and the sale of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses. For additional information on the sale of businesses, see Note 2.

Note 5. DEBT

On October 3, 2014, Eaton refinanced a \$500, five-year revolving credit facility and a \$750, three-year revolving credit facility with a \$500, four-year revolving credit facility that will expire October 3, 2018 and a \$750, five-year revolving credit facility that will expire October 3, 2019, respectively. Eaton also maintains a \$750, five-year revolving credit facility that will expire June 14, 2017. 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 Eaton's revolving credit facilities at September 30, 2014 or October 3, 2014.

Table of Contents

Note 6. RETIREMENT BENEFITS PLANS

The components of retirement benefits expense follow:

| | United States | | Non-United States | | Other postretirement | |
|--------------------------------|---------------------------------|--------|-------------------------|-------|----------------------|------|
| | pension benefit expense | | pension benefit expense | | benefits expense | |
| | Three months ended September 30 | | | | | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Service cost | \$30 | \$32 | \$17 | \$16 | \$4 | \$5 |
| Interest cost | 41 | 37 | 21 | 20 | 9 | 10 |
| Expected return on plan assets | (61) | (56) | (25) | (21) | (1) | (2) |
| Amortization | 23 | 33 | 7 | 7 | 1 | 3 |
| | 33 | 46 | 20 | 22 | 13 | 16 |
| Settlement loss | 14 | 23 | — | — | — | — |
| Total expense | \$47 | \$69 | \$20 | \$22 | \$13 | \$16 |
| | Nine months ended September 30 | | | | | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Service cost | \$88 | \$96 | \$50 | \$46 | \$13 | \$15 |
| Interest cost | 122 | 111 | 65 | 59 | 28 | 27 |
| Expected return on plan assets | (184) | (169) | (75) | (63) | (4) | (5) |
| Amortization | 69 | 99 | 21 | 21 | 5 | 10 |
| | 95 | 137 | 61 | 63 | 42 | 47 |
| Settlement loss | 62 | 39 | — | — | — | — |
| Total expense | \$157 | \$176 | \$61 | \$63 | \$42 | \$47 |

Note 7. LEGAL CONTINGENCIES

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

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

In 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. This judgment is based on an alleged violation of an agency agreement between Raysul and Saturnia. At September 30, 2014, the Company has a total accrual of 80 Brazilian Reais related to this matter (\$33 based on current exchange rates), comprised of 60 Brazilian Reais recognized in the fourth quarter of 2010 (\$25 based on current exchange rates) with an additional 20 Brazilian Reais recognized through September 30, 2014 (\$8 based on current exchange rates). In 2010, Eaton filed motions for clarification with the Brazilian court of appeals which were denied on April 6, 2011. Eaton Holding and Eaton Ltda. filed appeals on various issues to the Superior Court of Justice in Brasilia. In April 2013, the Superior Court of Justice ruled in favor of Raysul. Additional motions for clarification have been filed with the Superior Court of Justice in Brasilia and an additional appeal is being considered. The Company expects that any sum it may be required to pay in connection with this matter will not exceed the amount of the recorded liability.

On October 5, 2006, ZF Meritor LLC and Meritor Transmission Corporation (collectively, Meritor) filed an action against Eaton in the United States District Court for Delaware. The action sought damages, which would be trebled under United States antitrust laws, as well as injunctive relief and costs. The suit alleged that Eaton engaged in anti-competitive conduct against Meritor in the sale of heavy-duty truck transmissions in North America. On June 23, 2014, Eaton announced it signed a settlement agreement with Meritor in the amount of \$500 that resolved the lawsuit and removed the uncertainty of a trial and appeal process. On July 16, 2014, Eaton paid Meritor the \$500.

Table of Contents

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

Note 8. INCOME TAXES

The effective income tax rate for the third quarter of 2014 was expense of 6% compared to expense of 1% for the third quarter of 2013. The effective income tax rate for the first nine months of 2014 was a benefit of 6% compared to expense of 4% for the first nine months of 2013. Excluding the litigation settlements and related legal costs, as well as the gain on the sale of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses, all of which occurred in the second quarter of 2014, the effective income tax rate would have been expense of 6% for the first nine months of 2014 compared to 4% for the first nine months of 2013. The increase in the effective income tax rate in third quarter and the first nine months of 2014, excluding the previously mentioned litigation settlements, related costs and gain on the sale of businesses, is primarily due to the expiration of the U.S. research and experimentation tax credit plus greater levels of income in higher tax jurisdictions, including the United States, partially offset by enhanced utilization of foreign tax credits in the U.S. and favorable impacts associated with the acquisition of Cooper. See Note 7 and Note 2 for additional information about legal contingencies and the sales of businesses, respectively.

During the third quarter of 2014, the Company resolved an uncertain tax position with a European government. The resolution had minimal impact on the Company's Consolidated Statements of Income.

Also during the third quarter of 2014, the Company received a Statutory Notice of Deficiency from the United States Internal Revenue Service (IRS) for the 2007 through 2010 tax years (the Notice) proposing assessments of \$190 in additional taxes plus \$72 in penalties, net of agreed credits and deductions. The proposed assessments pertain primarily to the same transfer pricing issues that are currently in litigation for the Company's 2005 and 2006 tax years involving the Company's products manufactured in Puerto Rico and the Dominican Republic. During 2007 through 2010, the Company set its transfer prices for products sold between these affiliates consistent with the terms of a written Advance Pricing Agreement (APA) between it and the IRS that covered the years at issue. To establish the relevant transfer prices, the APA relied on prices at which the Company sells the products to third parties. In the Notice for the 2007 through 2010 tax years, the IRS disregarded the existence of third-party pricing data. The Notice also includes a separate proposed assessment involving the recognition of income for several of the Company's controlled foreign corporations. The Company firmly believes that these proposed assessments are without merit and are inconsistent with specific statutory and regulatory provisions, as well as publicly announced positions of the IRS. During the third quarter of 2014, the Company received a significant tax assessment in Brazil for the 2009 through 2012 tax years that primarily relates to the amortization of certain goodwill generated from the acquisition of third-party businesses and corporate reorganizations. During 2010, the Company received an assessment for the same issues concerning the 2005 through 2008 tax years. The Company had previously filed and received a favorable tax ruling on the key aspects of the transaction not specifically covered by the plain meaning of the local tax statutes. The ruling request fully disclosed all steps of the transaction. The tax assessment is under review at the administrative appeals levels. The Company disagrees with the assessment and intends to litigate the matter if it is not resolved at the administrative appeals level.

The Company continues to believe that ultimate resolution of the U.S. and Brazil tax matters will not have a material impact on its consolidated financial statements.

Note 9. EQUITY

Eaton has an ordinary share repurchase program (2013 Program) that authorizes the repurchase of 40 million ordinary shares. During the third quarter of 2014, 3.4 million ordinary shares were repurchased under the 2013 Program in the

open market at a total cost of \$225. During the first nine months of 2014, 4.8 million ordinary shares were repurchased under the 2013 Program in the open market at a total cost of \$324.

Table of Contents

The changes in Shareholders' equity follow:

| | Eaton shareholders' equity | Noncontrolling interests | Total equity |
|--|----------------------------------|-----------------------------|-----------------|
| Balance at December 31, 2013 | \$16,791 | \$72 | \$16,863 |
| Net income | 1,212 | 6 | 1,218 |
| Other comprehensive loss | (481) |) — | (481) |
| Cash dividends paid | (700) |) (2) | (702) |
| Issuance of shares under equity-based compensation plans - net | 106 | — | 106 |
| Repurchase of shares | (324) |) — | (324) |
| Change in capital | (17) |) (18) | (35) |
| Balance at September 30, 2014 | \$16,587 | \$58 | \$16,645 |

The changes in Accumulated other comprehensive (loss) income follow:

| | Currency translation and related hedging instruments | Pensions and other postretirement benefits | Cash flow hedges | Total |
|--|---|---|---------------------|-----------|
| Balance at December 31, 2013 | \$(395) |) \$(1,170) |) \$5 | \$(1,560) |
| Other comprehensive (loss) income before reclassifications | (598) |) 19 | 2 | (577) |
| Amounts reclassified from Accumulated other comprehensive (loss) income | — | 99 | (3) |) 96 |
| Net current-period other comprehensive (loss) income | (598) |) 118 | (1) | (481) |
| Balance at September 30, 2014 | \$(993) |) \$(1,052) |) \$4 | \$(2,041) |

The reclassifications out of Accumulated other comprehensive loss follow:

| | Nine months ended September 30, 2014 | Consolidated Statements of Income classification |
|--|---|---|
| Amortization of pensions and other postretirement benefits items | | |
| Actuarial loss | \$(157) |) ¹ |
| Tax benefit | 58 | |
| Total, net of tax | (99) |) |
| (Losses) gains on cash flow hedges | | |
| Floating-to-fixed interest rate swaps | (1) |) Interest expense - net |
| Currency exchange contracts | 5 | Cost of products sold |
| | 4 | |
| Tax expense | (1) |) |
| Total, net of tax | 3 | |
| Total reclassifications for the period | \$(96) |) |

¹ These components of Accumulated other comprehensive loss are included in the computation of net periodic benefit cost. See Note 6 for additional information about pension items.

Table of Contents

Net Income per Ordinary Share

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

| (Shares in millions) | Three months ended | | Nine months ended | |
|--|--------------------|--------|-------------------|---------|
| | September 30 | | September 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| Net income attributable to Eaton ordinary shareholders | \$602 | \$510 | \$1,212 | \$1,382 |
| Weighted-average number of ordinary shares outstanding - diluted | 477.2 | 477.2 | 478.2 | 476.2 |
| Less dilutive effect of equity-based compensation | 2.4 | 3.2 | 2.7 | 3.1 |
| Weighted-average number of ordinary shares outstanding - basic | 474.8 | 474.0 | 475.5 | 473.1 |
| Net income per ordinary share | | | | |
| Diluted | \$1.26 | \$1.07 | \$2.53 | \$2.90 |
| Basic | 1.27 | 1.08 | 2.55 | 2.92 |

For the third quarter and first nine months of 2014, 0.5 million and 0.3 million stock options, respectively, were excluded from the calculation of diluted net income per ordinary share because the exercise price of the options exceeded the average market price of the ordinary shares during the period and their effect, accordingly, would have been antidilutive. For the third quarter and first nine months 2013, 0.2 million stock options were excluded from the calculation of diluted net income per ordinary share because the exercise price of the options exceeded the average market price of the ordinary shares during the period and their effect, accordingly, would have been antidilutive.

Note 10. FAIR VALUE MEASUREMENTS

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

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

| | Total | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Unobservable inputs (Level 3) |
|---|-------|--|--|-------------------------------------|
| September 30, 2014 | | | | |
| Cash | \$655 | \$655 | \$— | \$— |
| Short-term investments | 335 | 335 | — | — |
| Net derivative contracts | 25 | — | 25 | — |
| Long-term debt converted to floating interest rates by | (22 |) — | (22 |) — |
| interest rate swaps - net | | | | |
| December 31, 2013 | | | | |
| Cash | \$915 | \$915 | \$— | \$— |
| Short-term investments | 794 | 794 | — | — |
| Net derivative contracts | (35 |) — | (35 |) — |
| | 39 | — | 39 | — |

Long-term debt converted to floating interest rates
by
interest rate swaps - net

12

Table of Contents

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 recognized using unobservable inputs.

Other Fair Value Measurements

Long-term debt and the current portion of long-term debt had a carrying value of \$8,999 and fair value of \$9,366 at September 30, 2014 compared to \$9,536 and \$9,665, respectively, at December 31, 2013. The fair value of Eaton's debt instruments were estimated using prevailing market interest rates on debt with similar creditworthiness, terms and maturities and are considered a Level 2 fair value measurement.

Note 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

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

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

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

Eaton uses certain of its debt denominated in foreign currency to hedge portions of its net investments in foreign operations against foreign currency exposure (net investment hedges). Foreign currency denominated debt designated on an after-tax basis as non-derivative net investment hedging instruments was \$91 and \$95 at September 30, 2014 and December 31, 2013, respectively.

Table of Contents

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 long-term assets | Other current liabilities | Other long-term liabilities | Type of hedge | Term |
|---------------------------------------|-----------------|----------------------|------------------------|---------------------------|-----------------------------|---------------|----------------------|
| September 30, 2014 | | | | | | | |
| Derivatives designated as hedges | | | | | | | |
| Fixed-to-floating interest rate swaps | \$ 3,440 | \$— | \$ 53 | \$— | \$ 31 | Fair value | 3 to 20 years |
| Currency exchange contracts | 446 | 7 | 2 | 3 | 1 | Cash flow | 1 to 36 months |
| Commodity contracts | 2 | — | — | — | — | Cash flow | 1 to 12 months |
| Total | | \$7 | \$55 | \$3 | \$32 | | |
| Derivatives not designated as hedges | | | | | | | |
| Currency exchange contracts | \$4,444 | \$35 | | \$37 | | | 1 to 12 months |
| Total | | \$35 | | \$37 | | | |
| December 31, 2013 | | | | | | | |
| Derivatives designated as hedges | | | | | | | |
| Fixed-to-floating interest rate swaps | \$ 3,090 | \$ 1 | \$ 36 | \$— | \$ 76 | Fair value | 3 months to 20 years |
| Floating-to-fixed interest rate swaps | 300 | — | — | 1 | — | Cash flow | 6 months |
| Currency exchange contracts | 393 | 12 | — | 3 | — | Cash flow | 12 to 36 months |
| Commodity contracts | 1 | — | — | — | — | Cash flow | 1 to 12 months |
| Total | | \$13 | \$36 | \$4 | \$76 | | |
| Derivatives not designated as hedges | | | | | | | |
| Currency exchange contracts | \$4,277 | \$22 | | \$26 | | | 1 to 12 months |
| Total | | \$22 | | \$26 | | | |

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.

Amounts recognized in Accumulated other comprehensive income (loss) follow:

| | Three months ended September 30 | | Gain (loss) reclassified from Accumulated other comprehensive income (loss) | Gain (loss) reclassified from Accumulated other comprehensive income (loss) |
|--|---------------------------------|--------|---|---|
| | 2014 | 2013 | | |
| Derivatives designated as cash flow hedges | | | | |
| Currency exchange contracts | \$ (3) |) \$ 1 | \$ 9 | \$— |
| Total | \$ (3) |) \$ 1 | \$ 9 | \$— |

Table of Contents

| | Nine months ended September 30 | | | |
|--|--------------------------------|---|------|---|
| | 2014 | Gain (loss) reclassified from Accumulated other comprehensive income (loss) | 2013 | Gain (loss) reclassified from Accumulated other comprehensive income (loss) |
| Derivatives designated as cash flow hedges | | | | |
| Floating-to-fixed interest rate swaps | \$— | \$(1) | \$— | \$(1) |
| Currency exchange contracts | 2 | 5 | 1 | 1 |
| Commodity contracts | — | — | (1) | (1) |
| Total | \$2 | \$4 | \$— | \$(1) |

Gains and losses reclassified from Accumulated other comprehensive income (loss) to the Consolidated Statements of Income were recognized in Cost of products sold and Interest expense - net.

Amounts recognized in net income follow:

| | Three months ended | | Nine months ended | |
|--|--------------------|------|-------------------|---------|
| | September 30 2014 | 2013 | September 30 2014 | 2013 |
| Derivatives designated as fair value hedges | | | | |
| Fixed-to-floating interest rate swaps | \$(12) | \$5 | \$61 | \$(83) |
| Related long-term debt converted to floating interest rates by interest rate swaps | 12 | (5) | (61) | 83 |
| | \$— | \$— | \$— | \$— |

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

Note 12. INVENTORY

The components of inventory follow:

| | September 30, 2014 | December 31, 2013 |
|-------------------------------|--------------------|-------------------|
| Raw materials | \$1,117 | \$955 |
| Work-in-process | 324 | 428 |
| Finished goods | 1,180 | 1,115 |
| Inventory at FIFO | 2,621 | 2,498 |
| Excess of FIFO over LIFO cost | (123) | (116) |
| Total inventory | \$2,498 | \$2,382 |

Note 13. BUSINESS SEGMENT INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance. Eaton's operating segments are Electrical Products, Electrical Systems and Services, Hydraulics, Aerospace and Vehicle. Operating profit includes the operating profit from intersegment sales. For additional information regarding Eaton's business segments, see Note 14 to the Consolidated Financial Statements contained in the 2013 Form 10-K.

Table of Contents

| | Three months ended September 30 | | Nine months ended September 30 | |
|--|------------------------------------|---------|-----------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Net sales | | | | |
| Electrical Products | \$1,875 | \$1,817 | \$5,433 | \$5,235 |
| Electrical Systems and Services | 1,655 | 1,639 | 4,807 | 4,784 |
| Hydraulics | 733 | 739 | 2,302 | 2,267 |
| Aerospace | 454 | 448 | 1,404 | 1,328 |
| Vehicle | 1,011 | 964 | 3,041 | 2,905 |
| Total net sales | \$5,728 | \$5,607 | \$16,987 | \$16,519 |
| Segment operating profit | | | | |
| Electrical Products | \$330 | \$301 | \$880 | \$814 |
| Electrical Systems and Services | 238 | 231 | 601 | 668 |
| Hydraulics | 84 | 89 | 286 | 271 |
| Aerospace | 72 | 64 | 203 | 193 |
| Vehicle | 176 | 161 | 482 | 465 |
| Total segment operating profit | 900 | 846 | 2,452 | 2,411 |
| Corporate | | | | |
| Litigation settlements | — | — | (644 |) — |
| Amortization of intangible assets | (107 |) (110 |) (326 |) (325 |
| Interest expense - net | (56 |) (63 |) (173 |) (209 |
| Pension and other postretirement benefits expense | (31 |) (55 |) (114 |) (136 |
| Inventory step-up adjustment | — | — | — | (34 |
| Other corporate expense - net | (64 |) (97 |) (43 |) (252 |
| Income before income taxes | 642 | 521 | 1,152 | 1,455 |
| Income tax expense (benefit) | 37 | 7 | (66 |) 64 |
| Net income | 605 | 514 | 1,218 | 1,391 |
| Less net income for noncontrolling interests | (3 |) (4 |) (6 |) (9 |
| Net income attributable to Eaton ordinary shareholders | \$602 | \$510 | \$1,212 | \$1,382 |

Note 14. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

On November 20, 2012, Eaton Corporation issued senior notes (the Senior Notes) totaling \$4,900 to finance part of the cash portion of the acquisition of Cooper. Eaton and certain other of Eaton's principal 100% owned 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.

Table of Contents

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

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

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

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net sales | \$— | \$1,814 | \$1,738 | \$3,416 | \$(1,240) | \$5,728 |
| Cost of products sold | — | 1,402 | 1,266 | 2,489 | (1,241) | 3,916 |
| Selling and administrative expense | 2 | 354 | 209 | 396 | — | 961 |
| Research and development expense | — | 63 | 49 | 51 | — | 163 |
| Interest expense (income) - net | — | 58 | 7 | (8) | (1) | 56 |
| Other expense (income) - net | — | 3 | 11 | (24) | — | (10) |
| Equity in earnings of subsidiaries, net of tax | (670) | (253) | (820) | (234) | 1,977 | — |
| Intercompany expense (income) - net | 66 | (59) | 293 | (300) | — | — |
| Income before income taxes | 602 | 246 | 723 | 1,046 | (1,975) | 642 |
| Income tax expense | — | 12 | — | 25 | — | 37 |
| Net income | 602 | 234 | 723 | 1,021 | (1,975) | 605 |
| Less net income for noncontrolling interests | — | — | — | (3) | — | (3) |
| Net income attributable to Eaton ordinary shareholders | \$602 | \$234 | \$723 | \$1,018 | \$(1,975) | \$602 |
| Other comprehensive (loss) income | \$(567) | \$7 | \$(562) | \$(696) | \$1,251 | \$(567) |
| Total comprehensive income attributable to Eaton ordinary shareholders | \$35 | \$241 | \$161 | \$322 | \$(724) | \$35 |

Table of Contents
**CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013**

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|---------|
| Net sales | \$— | \$1,695 | \$1,636 | \$3,424 | \$(1,148) | \$5,607 |
| Cost of products sold | — | 1,319 | 1,214 | 2,500 | (1,150) | 3,883 |
| Selling and administrative expense | 2 | 365 | 198 | 402 | — | 967 |
| Research and development expense | — | 66 | 50 | 50 | — | 166 |
| Interest expense (income) - net | — | 63 | 7 | (7) | — | 63 |
| Other expense (income) - net | — | 2 | (10) | 15 | — | 7 |
| Equity in earnings of subsidiaries, net of tax | (563) | (146) | (687) | (95) | 1,491 | — |
| Intercompany expense (income) - net | 63 | (90) | 233 | (206) | — | — |
| Income before income taxes | 498 | 116 | 631 | 765 | (1,489) | 521 |
| Income tax (benefit) expense | (12) | (24) | 4 | 39 | — | 7 |
| Net income | 510 | 140 | 627 | 726 | (1,489) | 514 |
| Less net income for noncontrolling interests | — | — | — | (1) | (3) | (4) |
| Net income attributable to Eaton ordinary shareholders | \$510 | \$140 | \$627 | \$725 | \$(1,492) | \$510 |
| Other comprehensive income | \$322 | \$12 | \$336 | \$404 | \$(752) | \$322 |
| Total comprehensive income attributable to Eaton ordinary shareholders | \$832 | \$152 | \$963 | \$1,129 | \$(2,244) | \$832 |

**CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014**

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net sales | \$— | \$5,231 | \$5,158 | \$10,061 | \$(3,463) | \$16,987 |
| Cost of products sold | — | 4,122 | 3,772 | 7,354 | (3,449) | 11,799 |
| Selling and administrative expense | 2 | 1,085 | 602 | 1,218 | — | 2,907 |
| Litigation settlements | — | 644 | — | — | — | 644 |
| Research and development expense | — | 185 | 151 | 157 | — | 493 |
| Interest expense (income) - net | — | 172 | 20 | (22) | 3 | 173 |
| Other income - net | — | (42) | (81) | (58) | — | (181) |
| Equity in (earnings) loss of subsidiaries, net of tax | (1,370) | (440) | (1,567) | 25 | 3,352 | — |
| | 156 | (176) | 571 | (551) | — | — |

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| | | | | | | |
|--|---------|--------|-----------|----------|----------|-----------|
| Intercompany expense (income) - net | | | | | | |
| Income (loss) before income taxes | 1,212 | (319 |) 1,690 | 1,938 | (3,369 |) 1,152 |
| Income tax (benefit) expense | — | (257 |) 71 | 126 | (6 |) (66 |
| Net income (loss) | 1,212 | (62 |) 1,619 | 1,812 | (3,363 |) 1,218 |
| Less net income for noncontrolling interests | — | — | — | (6 |) — | (6 |
| Net income (loss) attributable to Eaton ordinary shareholders | \$1,212 | \$(62 |) \$1,619 | \$1,806 | \$(3,363 |) \$1,212 |
| Other comprehensive (loss) income | \$(481 |) \$74 | \$(447 |) \$(626 |) \$999 | \$(481 |
| Total comprehensive income attributable to Eaton ordinary shareholders | \$731 | \$12 | \$1,172 | \$1,180 | \$(2,364 |) \$731 |

Table of Contents

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net sales | \$— | \$5,026 | \$4,835 | \$10,117 | \$(3,459) | \$16,519 |
| Cost of products sold | — | 3,911 | 3,588 | 7,450 | (3,461) | 11,488 |
| Selling and administrative expense | 6 | 1,066 | 579 | 1,234 | — | 2,885 |
| Research and development expense | — | 188 | 148 | 143 | — | 479 |
| Interest expense (income) - net | — | 206 | 21 | (18) | — | 209 |
| Other expense (income) - net | — | 16 | 13 | (26) | — | 3 |
| Equity in earnings of subsidiaries, net of tax | (1,576) | (470) | (893) | (234) | 3,173 | — |
| Intercompany expense (income) - net | 188 | (304) | (428) | 544 | — | — |
| Income before income taxes | 1,382 | 413 | 1,807 | 1,024 | (3,171) | 1,455 |
| Income tax (benefit) expense | — | (77) | 25 | 116 | — | 64 |
| Net income | 1,382 | 490 | 1,782 | 908 | (3,171) | 1,391 |
| Less net income for noncontrolling interests | — | — | — | (6) | (3) | (9) |
| Net income attributable to Eaton ordinary shareholders | \$1,382 | \$490 | \$1,782 | \$902 | \$(3,174) | \$1,382 |
| Other comprehensive income (loss) | \$16 | \$(14) | \$36 | \$(117) | \$95 | \$16 |
| Total comprehensive income attributable to Eaton ordinary shareholders | \$1,398 | \$476 | \$1,818 | \$785 | \$(3,079) | \$1,398 |

Table of ContentsCONDENSED CONSOLIDATING BALANCE SHEETS
SEPTEMBER 30, 2014

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Assets | | | | | | |
| Current assets | | | | | | |
| Cash | \$1 | \$110 | \$33 | \$511 | \$— | \$655 |
| Short-term investments | — | — | 1 | 334 | — | 335 |
| Accounts receivable - net | — | 557 | 1,021 | 2,394 | — | 3,972 |
| Intercompany accounts receivable | 2 | 709 | 3,671 | 5,089 | (9,471) | — |
| Inventory | — | 395 | 631 | 1,522 | (50) | 2,498 |
| Deferred income taxes | — | 383 | 113 | 85 | — | 581 |
| Prepaid expenses and other current assets | — | 122 | 20 | 247 | 1 | 390 |
| Total current assets | 3 | 2,276 | 5,490 | 10,182 | (9,520) | 8,431 |
| Property, plant and equipment - net | — | 955 | 717 | 2,030 | — | 3,702 |
| Other noncurrent assets | | | | | | |
| Goodwill | — | 1,355 | 6,246 | 6,487 | — | 14,088 |
| Other intangible assets | — | 199 | 3,858 | 2,682 | — | 6,739 |
| Deferred income taxes | — | 935 | 7 | 146 | (847) | 241 |
| Investment in subsidiaries | 25,869 | 12,307 | 58,289 | 8,687 | (105,152) | — |
| Intercompany loans receivable | — | 8,111 | 2,698 | 39,421 | (50,230) | — |
| Other assets | — | 456 | 141 | 441 | — | 1,038 |
| Total assets | \$25,872 | \$26,594 | \$77,446 | \$70,076 | \$(165,749) | \$34,239 |
| Liabilities and shareholders' equity | | | | | | |
| Current liabilities | | | | | | |
| Short-term debt | \$— | \$— | \$— | \$1 | \$— | \$1 |
| Current portion of long-term debt | — | 103 | 307 | 2 | — | 412 |
| Accounts payable | — | 488 | 396 | 1,154 | — | 2,038 |
| Intercompany accounts payable | 24 | 3,873 | 3,710 | 1,864 | (9,471) | — |
| Accrued compensation | — | 88 | 61 | 275 | — | 424 |
| Other current liabilities | 59 | 736 | 327 | 1,005 | (16) | 2,111 |
| Total current liabilities | 83 | 5,288 | 4,801 | 4,301 | (9,487) | 4,986 |
| Noncurrent liabilities | | | | | | |
| Long-term debt | — | 7,638 | 938 | 14 | (3) | 8,587 |
| Pension liabilities | — | 390 | 86 | 694 | — | 1,170 |
| Other postretirement benefits liabilities | — | 393 | 171 | 111 | — | 675 |

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| | | | | | | |
|------------------------------|----------|----------|----------|----------|------------|------------|
| Deferred income taxes | — | — | 1,227 | 655 | (847 |) 1,035 |
| Intercompany loans payable | 9,202 | 3,471 | 36,882 | 675 | (50,230 |) — |
| Other noncurrent liabilities | — | 507 | 152 | 482 | — | 1,141 |
| Total noncurrent liabilities | 9,202 | 12,399 | 39,456 | 2,631 | (51,080 |) 12,608 |
| Shareholders' equity | | | | | | |
| Eaton shareholders' equity | 16,587 | 8,907 | 33,189 | 63,093 | (105,189 |) 16,587 |
| Noncontrolling interests | — | — | — | 51 | 7 | 58 |
| Total equity | 16,587 | 8,907 | 33,189 | 63,144 | (105,182 |) 16,645 |
| Total liabilities and equity | \$25,872 | \$26,594 | \$77,446 | \$70,076 | \$(165,749 |) \$34,239 |

Table of Contents

CONDENSED CONSOLIDATING BALANCE SHEETS

DECEMBER 31, 2013

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Assets | | | | | | |
| Current assets | | | | | | |
| Cash | \$3 | \$51 | \$10 | \$851 | \$— | \$915 |
| Short-term investments | — | — | 134 | 660 | — | 794 |
| Accounts receivable - net | — | 473 | 922 | 2,253 | — | 3,648 |
| Intercompany accounts receivable | 5 | 471 | 3,369 | 4,469 | (8,314) | — |
| Inventory | — | 344 | 609 | 1,466 | (37) | 2,382 |
| Deferred income taxes | — | 333 | 155 | 89 | — | 577 |
| Prepaid expenses and other current assets | — | 125 | 20 | 261 | 9 | 415 |
| Total current assets | 8 | 1,797 | 5,219 | 10,049 | (8,342) | 8,731 |
| Property, plant and equipment - net | — | 982 | 761 | 2,090 | — | 3,833 |
| Other noncurrent assets | | | | | | |
| Goodwill | — | 1,382 | 6,294 | 6,819 | — | 14,495 |
| Other intangible assets | — | 211 | 3,996 | 2,979 | — | 7,186 |
| Deferred income taxes | — | 839 | 3 | 145 | (747) | 240 |
| Investment in subsidiaries | 24,940 | 4,743 | 38,039 | 1,576 | (69,298) | — |
| Intercompany loans receivable | — | 8,019 | 2,312 | 18,822 | (29,153) | — |
| Other assets | — | 450 | 186 | 370 | — | 1,006 |
| Total assets | \$24,948 | \$18,423 | \$56,810 | \$42,850 | \$(107,540) | \$35,491 |
| Liabilities and shareholders' equity | | | | | | |
| Current liabilities | | | | | | |
| Short-term debt | \$— | \$— | \$— | \$13 | \$— | \$13 |
| Current portion of long-term debt | — | 552 | — | 15 | — | 567 |
| Accounts payable | — | 440 | 380 | 1,140 | — | 1,960 |
| Intercompany accounts payable | 4 | 3,734 | 3,266 | 1,310 | (8,314) | — |
| Accrued compensation | — | 140 | 37 | 284 | — | 461 |
| Other current liabilities | 5 | 547 | 400 | 965 | (4) | 1,913 |
| Total current liabilities | 9 | 5,413 | 4,083 | 3,727 | (8,318) | 4,914 |
| Noncurrent liabilities | | | | | | |
| Long-term debt | — | 7,693 | 1,266 | 16 | (6) | 8,969 |
| Pension liabilities | — | 546 | 131 | 788 | — | 1,465 |
| Other postretirement benefits liabilities | — | 402 | 171 | 95 | — | 668 |

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| | | | | | | |
|------------------------------|----------|----------|----------|----------|------------|------------|
| Deferred income taxes | — | — | 1,303 | 757 | (747 |) 1,313 |
| Intercompany loans payable | 8,148 | 2,113 | 18,253 | 639 | (29,153 |) — |
| Other noncurrent liabilities | — | 652 | 161 | 486 | — | 1,299 |
| Total noncurrent liabilities | 8,148 | 11,406 | 21,285 | 2,781 | (29,906 |) 13,714 |
| Shareholders' equity | | | | | | |
| Eaton shareholders' equity | 16,791 | 1,604 | 31,442 | 36,276 | (69,322 |) 16,791 |
| Noncontrolling interests | — | — | — | 66 | 6 | 72 |
| Total equity | 16,791 | 1,604 | 31,442 | 36,342 | (69,316 |) 16,863 |
| Total liabilities and equity | \$24,948 | \$18,423 | \$56,810 | \$42,850 | \$(107,540 |) \$35,491 |

Table of ContentsCONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net cash (used in) provided by operating activities | \$(4) | \$(699) | \$172 | \$1,433 | \$32 | \$934 |
| Investing activities | | | | | | |
| Capital expenditures for property, plant and equipment | — | (78) | (94) | (206) | — | (378) |
| Sales of short-term investments - net | — | — | 132 | 313 | — | 445 |
| Loans to affiliates | — | (151) | — | (6,347) | 6,498 | — |
| Repayments of loans from affiliates | — | 176 | 213 | 5,133 | (5,522) | — |
| Proceeds from sale of business | — | 93 | 175 | 14 | — | 282 |
| Other - net | — | (40) | 46 | (62) | — | (56) |
| Net cash provided by (used in) investing activities | — | — | 472 | (1,155) | 976 | 293 |
| Financing activities | | | | | | |
| Payments on borrowings | — | (552) | (1) | (27) | — | (580) |
| Proceeds from borrowings from affiliates | 726 | 5,510 | 254 | 8 | (6,498) | — |
| Payments on borrowings from affiliates | (25) | (4,794) | (320) | (383) | 5,522 | — |
| Other intercompany financing activities | 218 | 574 | (554) | (238) | — | — |
| Cash dividends paid | (700) | — | — | — | — | (700) |
| Cash dividends returned by (paid to) affiliates - net | — | — | — | 32 | (32) | — |
| Exercise of employee stock options | 50 | — | — | — | — | 50 |
| Repurchase of shares | (267) | — | — | — | — | (267) |
| Excess tax benefit from equity-based compensation | — | 20 | — | — | — | 20 |
| Other - net | — | — | — | (3) | — | (3) |
| Net cash provided by (used in) financing activities | 2 | 758 | (621) | (611) | (1,008) | (1,480) |
| Effect of currency on cash | — | — | — | (7) | — | (7) |

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| | | | | | | | | | |
|-------------------------------------|-----|---|-------|------|-------|---|-----|-------|---|
| Total (decrease) increase in cash | (2 |) | 59 | 23 | (340 |) | — | (260 |) |
| Cash at the beginning of the period | 3 | | 51 | 10 | 851 | | — | 915 | |
| Cash at the end of the period | \$1 | | \$110 | \$33 | \$511 | | \$— | \$655 | |

22

Table of ContentsCONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net cash (used in) provided by operating activities | \$(10) | \$640 | \$313 | \$523 | \$(53) | \$1,413 |
| Investing activities | | | | | | |
| Capital expenditures for property, plant and equipment | — | (112) | (66) | (194) | — | (372) |
| (Purchases) sales of short-term investments - net | — | (115) | 18 | (88) | — | (185) |
| Loans to affiliates | — | (219) | (23) | (4,267) | 4,509 | — |
| Repayments of loans from affiliates | — | 28 | 102 | 4,030 | (4,160) | — |
| Proceeds from sale of business | — | — | — | 761 | — | 761 |
| Other - net | — | (25) | 4 | (40) | — | (61) |
| Net cash (used in) provided by investing activities | — | (443) | 35 | 202 | 349 | 143 |
| Financing activities | | | | | | |
| Proceeds from borrowings | — | — | — | 6 | — | 6 |
| Payments on borrowings | — | (975) | (35) | (2) | — | (1,012) |
| Proceeds from borrowings from affiliates | — | 1,975 | 2,436 | 98 | (4,509) | — |
| Payments on borrowings from affiliates | — | (2,391) | (1,639) | (130) | 4,160 | — |
| Other intercompany financing activities | 504 | 1,153 | (1,107) | (550) | — | — |
| Cash dividends paid | (597) | — | — | — | — | (597) |
| Cash dividends paid to affiliates | — | — | — | (53) | 53 | — |
| Exercise of employee stock options | 98 | — | — | — | — | 98 |
| Excess tax benefit from equity-based compensation | — | 24 | — | — | — | 24 |
| Other - net | — | — | — | (4) | — | (4) |
| Net cash provided by (used in) financing activities | 5 | (214) | (345) | (635) | (296) | (1,485) |
| Effect of currency on cash | — | — | — | (6) | — | (6) |
| Total (decrease) increase in cash | (5) | (17) | 3 | 84 | — | 65 |
| Cash at the beginning of the period | 7 | 54 | 14 | 502 | — | 577 |
| Cash at the end of the period | \$2 | \$37 | \$17 | \$586 | \$— | \$642 |

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 providing energy-efficient solutions that help its customers effectively manage electrical, hydraulic and mechanical power. With 2013 net sales of \$22.0 billion, the Company is a global technology leader in electrical products, systems and services for power quality, distribution and control, power transmission, lighting and wiring products; hydraulics components, systems and services for industrial and mobile equipment; aerospace fuel, hydraulics and pneumatic systems for commercial and military use; and truck and automotive drivetrain and powertrain systems for performance, fuel economy and safety. Eaton has approximately 103,000 employees in over 60 countries and sells products to customers in more than 175 countries.

Summary of Results of Operations

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

| | Three months ended | | Nine months ended | |
|--|--------------------|---------|-------------------|----------|
| | September 30 | | September 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| Net sales | \$5,728 | \$5,607 | \$16,987 | \$16,519 |
| Net income attributable to Eaton ordinary shareholders | 602 | 510 | 1,212 | 1,382 |
| Net income per ordinary share - diluted | \$1.26 | \$1.07 | \$2.53 | \$2.90 |

RESULTS OF OPERATIONS

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, each of which excludes amounts that differ from the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). A reconciliation of operating earnings and operating earnings per ordinary share to the most directly comparable GAAP measure is included in the table below. Operating profit before acquisition integration charges is reconciled in the discussion of the operating results of each business segment.

Management believes that these financial measures are useful to investors because they exclude transactions of an unusual nature, allowing investors to more easily compare Eaton's financial performance period to period.

Management uses this information in monitoring and evaluating the on-going performance of Eaton and each business segment. For additional information on acquisition integration charges, see Note 3 to the Condensed Consolidated Financial Statements.

Table of Contents

Consolidated Financial Results

| | Three months ended | | Increase (decrease) | | Nine months ended | | Increase (decrease) | |
|---|--------------------|---------|------------------------|---|-------------------|----------|------------------------|----|
| | September 30 | | | | September 30 | | | |
| | 2014 | 2013 | | | 2014 | 2013 | | |
| Net sales | \$5,728 | \$5,607 | 2 | % | \$16,987 | \$16,519 | 3 | % |
| Gross profit | 1,812 | 1,724 | 5 | % | 5,188 | 5,031 | 3 | % |
| Percent of net sales | 31.6 | % 30.7 | % | | 30.5 | % 30.5 | % | |
| Income before income taxes | 642 | 521 | 23 | % | 1,152 | 1,455 | (21) |)% |
| Net income | \$605 | \$514 | 18 | % | \$1,218 | \$1,391 | (12) |)% |
| Less net income for noncontrolling interests | (3 |) (4 |) | | (6 |) (9 |) | |
| Net income attributable to Eaton ordinary shareholders | 602 | 510 | 18 | % | 1,212 | 1,382 | (12) |)% |
| Excluding acquisition integration charges and transaction costs (after-tax) | 14 | 26 | | | 81 | 73 | | |
| Operating earnings | \$616 | \$536 | 15 | % | \$1,293 | \$1,455 | (11) |)% |
| Net income per ordinary share - diluted | \$1.26 | \$1.07 | 18 | % | \$2.53 | \$2.90 | (13) |)% |
| Excluding per share impact of acquisition integration charges and transaction costs (after-tax) | 0.03 | 0.05 | | | 0.17 | 0.15 | | |
| Operating earnings per ordinary share | \$1.29 | \$1.12 | 15 | % | \$2.70 | \$3.05 | (11) |)% |

Net Sales

Net sales in the third quarter of 2014 increased 2% compared to the third quarter of 2013 due to an increase in core sales of 3%, partially offset by a decrease of 1% from the impact of currency translation. Net sales in the first nine months of 2014 increased 3% compared to the first nine months of 2013 due to an increase in core sales of 4%, partially offset by a decrease of 1% from the impact of currency translation. The increase in core sales is primarily due to modest growth in the Company's end markets, particularly in North America. Eaton now anticipates that its end markets will grow 2% in 2014, down from its previous expectation of 3% growth, as the result of slightly lower growth in its electrical and hydraulics markets.

Gross Profit

The gross profit margin increased from 30.7% in the third quarter of 2013 to 31.6% in the third quarter of 2014 and was consistent at 30.5% in the first nine months of 2014 and 2013. The increase in the gross profit margin in the third quarter of 2014 was primarily due to higher sales volumes, as noted above. The gross profit margin in the first nine months of 2014 was also positively impacted by higher sales volumes, offset by certain restructuring activities Eaton undertook in April 2014 in an effort to gain efficiencies in the Vehicle, Hydraulics and Aerospace business segments. For additional information related to restructuring activities, see Note 3 to the Condensed Consolidated Financial Statements.

Income Taxes

The effective income tax rate for the third quarter of 2014 was expense of 6% compared to expense of 1% for the third quarter of 2013. The effective income tax rate for the first nine months of 2014 was a benefit of 6% compared to expense of 4% for the first nine months of 2013. Excluding the litigation settlements and related legal costs, as well as the gain on the sale of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses, all of which occurred in the second quarter of 2014, the effective income tax rate would have been expense of 6% for the first nine months of 2014 compared to 4% for the first nine months of 2013. The increase in the effective income tax rate in third quarter and the first nine months of 2014, excluding the previously mentioned litigation settlements, related costs and gain on the sale of businesses, is primarily due to the expiration of the U.S. research and experimentation tax credit plus greater levels of income in higher tax jurisdictions, including the United States, partially offset by enhanced utilization of foreign tax credits in the U.S. and favorable impacts associated with

the acquisition of Cooper. For additional information about legal contingencies and the sales of businesses, see Note 7 and Note 2, respectively, to the Condensed Consolidated Financial Statements.

Table of Contents

Net Income

Net income attributable to Eaton ordinary shareholders of \$602 in the third quarter of 2014 increased 18% compared to Net income attributable to Eaton ordinary shareholders of \$510 in the third quarter of 2013. Net income per ordinary share of \$1.26 in the third quarter of 2014 increased 18% compared to Net income per ordinary share of \$1.07 in the third quarter of 2013. Net income attributable to Eaton ordinary shareholders of \$1,212 in the first nine months of 2014 decreased 12% compared to Net income attributable to Eaton ordinary shareholders of \$1,382 in the first nine months of 2013. Net income per ordinary share of \$2.53 in the first nine months of 2014 decreased 13% from Net income per ordinary share of \$2.90 in the first nine months of 2013. The increase in Net income attributable to Eaton ordinary shareholders and Net income per ordinary share in the third quarter of 2014 was primarily due to higher sales volumes, partially offset by a higher effective income tax rate. The decrease in Net income attributable to Eaton ordinary shareholders and Net income per ordinary share in the first nine months of 2014 was primarily due to the litigation settlements, partially offset by the sale of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses, both of which occurred during the second quarter of 2014, as well as the items impacting Net sales, as noted above.

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 | | 2013 | | September 30 | | 2013 | |
| | 2014 | 2013 | | | 2014 | 2013 | | |
| Net sales | \$1,875 | \$1,817 | 3 | % | \$5,433 | \$5,235 | 4 | % |
| Operating profit | \$330 | \$301 | 10 | % | \$880 | \$814 | 8 | % |
| Operating margin | 17.6 | % 16.6 | % | | 16.2 | % 15.5 | % | |
| Acquisition integration charges | \$8 | \$9 | | | \$49 | \$24 | | |
| Before acquisition integration charges | | | | | | | | |
| Operating profit | \$338 | \$310 | 9 | % | \$929 | \$838 | 11 | % |
| Operating margin | 18.0 | % 17.1 | % | | 17.1 | % 16.0 | % | |

Net sales increased 3% in the third quarter of 2014 compared to the third quarter of 2013 due to an increase in core sales of 4%, partially offset by a decrease of 1% from the impact of currency translation. Net sales increased 4% in the first nine months of 2014 compared to the first nine months of 2013 due to an increase in core sales. Core sales growth in the third quarter and the first nine months of 2014 was due to strength in North American markets.

Operating margin before acquisition integration charges increased from 17.1% in the third quarter of 2013 to 18.0% in the third quarter of 2014. Operating margin before acquisition integration charges increased from 16.0% in the first nine months of 2013 to 17.1% in the first nine months of 2014. The increase in operating margin in both the third quarter and first nine months of 2014 was due to higher sales volumes, as noted above, and incremental synergies related to the acquisition of Cooper Industries plc.

Table of Contents

Electrical Systems and Services

| | Three months ended | | Increase (decrease) | | Nine months ended | | Increase (decrease) | |
|---------------------------------|--------------------|---------|------------------------|---|-------------------|---------|------------------------|---|
| | September 30 | | | | September 30 | | | |
| | 2014 | 2013 | | | 2014 | 2013 | | |
| Net sales | \$1,655 | \$1,639 | 1 | % | \$4,807 | \$4,784 | — | % |
| Operating profit | \$238 | \$231 | 3 | % | \$601 | \$668 | (10) | % |
| Operating margin | 14.4 | % 14.1 | % | | 12.5 | % 14.0 | % | |
| Acquisition integration charges | \$4 | \$10 | | | \$43 | \$26 | | |

Before acquisition integration charges

| | | | | | | | | |
|------------------|-------|--------|---|---|-------|--------|-----|---|
| Operating profit | \$242 | \$241 | — | % | \$644 | \$694 | (7) | % |
| Operating margin | 14.6 | % 14.7 | % | | 13.4 | % 14.5 | % | |

Net sales increased 1% in the third quarter of 2014 compared to the third quarter of 2013 due to an increase in core sales of 2%, partially offset by a decrease of 1% from the impact of currency translation. Net sales increased slightly in the first nine months of 2014 compared to the first nine months of 2013 due to an increase in core sales of 1%, offset by a decrease of 1% from the impact of currency translation. Core sales growth in the third quarter and first nine months of 2014 was primarily due to strength in North American markets.

Operating margin before acquisition integration charges was relatively consistent at 14.7% in the third quarter of 2013 compared to 14.6% in the third quarter of 2014. Operating margin before acquisition integration charges decreased from 14.5% in the first nine months of 2013 to 13.4% in the first nine months of 2014. The decrease in operating margin in the first nine months of 2014 was primarily due to higher logistics costs, unfavorable mix, and pricing pressures in the first half of 2014.

Hydraulics

| | Three months ended | | Increase (decrease) | | Nine months ended | | Increase (decrease) | |
|---------------------------------|--------------------|--------|------------------------|---|-------------------|---------|------------------------|---|
| | September 30 | | | | September 30 | | | |
| | 2014 | 2013 | | | 2014 | 2013 | | |
| Net sales | \$733 | \$739 | (1) | % | \$2,302 | \$2,267 | 2 | % |
| Operating profit | \$84 | \$89 | (6) | % | \$286 | \$271 | 6 | % |
| Operating margin | 11.5 | % 12.0 | % | | 12.4 | % 12.0 | % | |
| Acquisition integration charges | \$2 | \$8 | | | \$11 | \$28 | | |

Before acquisition integration charges

| | | | | | | | | |
|------------------|------|--------|------|---|-------|--------|-----|---|
| Operating profit | \$86 | \$97 | (11) | % | \$297 | \$299 | (1) | % |
| Operating margin | 11.7 | % 13.1 | % | | 12.9 | % 13.2 | % | |

Net sales decreased 1% in the third quarter of 2014 compared to the third quarter of 2013 due to the impact of currency translation. Net sales increased 2% in the first nine months of 2014 compared to the first nine months of 2013 due to an increase in core sales of 3%, partially offset by a decrease of 1% from the impact of currency translation. The increase in core sales in the first nine months of 2014 was primarily due to strength in industrial markets, partially offset by weakness in the global agricultural equipment market and the China construction equipment market.

Operating margin before acquisition integration charges decreased from 13.1% in the third quarter of 2013 to 11.7% in the third quarter of 2014. Operating margin before acquisition integration charges decreased from 13.2% in the first nine months of 2013 to 12.9% in the first nine months of 2014. The decrease in operating margin in the third quarter of 2014 was primarily due to costs related to new initiatives as well as unfavorable mix. The decrease in operating margin in the first nine months of 2014 was due to these factors and certain restructuring activities Eaton undertook in

April 2014 in an effort to gain efficiencies in the segment.

27

Table of Contents

Aerospace

| | Three months ended | | | Increase | Nine months ended | | | |
|------------------|--------------------|--------|----------|----------|-------------------|---------|----------|---|
| | September 30 | | Increase | | September 30 | | Increase | |
| | 2014 | 2013 | | | 2014 | 2013 | | |
| Net sales | \$454 | \$448 | 1 | % | \$1,404 | \$1,328 | 6 | % |
| Operating profit | \$72 | \$64 | 13 | % | \$203 | \$193 | 5 | % |
| Operating margin | 15.9 | % 14.3 | % | | 14.5 | % 14.5 | % | |

Net sales increased 1% in the third quarter of 2014 compared to the third quarter of 2013 due to an increase in core sales of 6% and an increase of 1% from the impact of currency translation, partially offset by a decrease of 6% from the divestiture of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses. Net sales increased 6% in the first nine months of 2014 compared to the first nine months of 2013 due to an increase in core sales of 7% and an increase of 2% from the impact of currency translation, partially offset by a decrease of 3% from the divestiture of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses. The increase in core sales in the third quarter and first nine months of 2014 was primarily due to continued strength in commercial OEM markets as well as growth in the commercial and military aftermarkets.

Operating margin increased from 14.3% in the third quarter of 2013 to 15.9% in the third quarter of 2014. Operating margin was 14.5% in the first nine months of 2013 and in the first nine months of 2014. The increase in operating margin in the third quarter was primarily due to higher sales volumes, as noted above. The operating margin in the first nine months of 2014 was positively impacted by higher sales volumes, as noted above, offset by certain restructuring activities Eaton undertook in April 2014 in an effort to gain efficiencies in the segment.

Vehicle

| | Three months ended | | | Increase | Nine months ended | | | |
|------------------|--------------------|--------|----------|----------|-------------------|---------|----------|---|
| | September 30 | | Increase | | September 30 | | Increase | |
| | 2014 | 2013 | | | 2014 | 2013 | | |
| Net sales | \$1,011 | \$964 | 5 | % | \$3,041 | \$2,905 | 5 | % |
| Operating profit | \$176 | \$161 | 9 | % | \$482 | \$465 | 4 | % |
| Operating margin | 17.4 | % 16.7 | % | | 15.9 | % 16.0 | % | |

Net sales increased 5% in the third quarter and first nine months of 2014 compared to the third quarter and first nine months of 2013 due to an increase in core sales of 6%, partially offset by a decrease of 1% from the impact of currency translation. The increase in core sales in the third quarter and first nine months of 2014 was primarily due to improved global demand, particularly in North American markets, partially offset by weakness in South American markets.

Operating margin increased from 16.7% in the third quarter of 2013 to 17.4% in the third quarter of 2014. Operating margin decreased slightly from 16.0% in the first nine months of 2013 to 15.9% in the first nine months of 2014. The increase in operating margin in the third quarter of 2014 was primarily due to higher sales volumes, as noted above. The operating margin in the first nine months of 2014 was positively impacted by higher sales volumes, as noted above, offset by certain restructuring activities Eaton undertook in April 2014 in an effort to gain efficiencies in the segment.

Table of Contents

Corporate Expense

| | Three months ended | | Increase (decrease) | Nine months ended | | Increase (decrease) | |
|--|----------------------|-------|------------------------|----------------------|-------|------------------------|---|
| | September 30 2014 | 2013 | | September 30 2014 | 2013 | | |
| Litigation settlements | \$— | \$— | NM | \$644 | \$— | NM | |
| Amortization of intangible assets | 107 | 110 | (3)% | 326 | 325 | — | % |
| Interest expense - net | 56 | 63 | (11)% | 173 | 209 | (17)% | |
| Pension and other postretirement benefits expense | 31 | 55 | (44)% | 114 | 136 | (16)% | |
| Inventory step-up adjustment | — | — | NM | — | 34 | NM | |
| Other corporate expense - net | 64 | 97 | (34)% | 43 | 252 | (83)% | |
| Total corporate expense | \$258 | \$325 | (21)% | \$1,300 | \$956 | 36 | % |

Total Corporate expense decreased 21% from \$325 in the third quarter of 2013 to \$258 in the third quarter of 2014 primarily due to lower Pension and other postretirement benefits expense due to favorable interest rates and asset returns and higher lump sum settlements in 2013. Total Corporate expense increased 36% from \$956 in the first nine months of 2013 to \$1,300 in the first nine months of 2014 primarily due to litigation settlements totaling \$644 during the second quarter of 2014, partially offset by a gain on the divestiture of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses during the second quarter of 2014.

For additional information on the litigation settlements and sales of businesses see Note 7 and Note 2, respectively, to the Condensed Consolidated Financial Statements.

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 3, 2014, Eaton refinanced a \$500, five-year revolving credit facility and a \$750, three-year revolving credit facility with a \$500, four-year revolving credit facility that will expire October 3, 2018 and a \$750, five-year revolving credit facility that will expire October 3, 2019, respectively. Eaton also maintains a \$750, five-year revolving credit facility that will expire June 14, 2017. 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, 2014 or October 3, 2014. Over the course of a year, cash, short-term investments and short-term debt may fluctuate in order to manage global liquidity. Eaton believes it has the operating flexibility, cash flow, cash and short-term investment balances, and access to capital markets in excess of the liquidity necessary to meet future operating needs of the business as well as scheduled payments of long-term debt.

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

Sources and Uses of Cash Flow

Operating Cash Flow

Net cash provided by operating activities was \$934 in the first nine months of 2014, a decrease of \$479 compared to \$1,413 in the first nine months of 2013. The decrease in net cash provided by operating activities was primarily due to payments totaling \$654 for the Meritor, Triumph, and related litigation settled during the second quarter of 2014.

Table of Contents

Investing Cash Flow

Net cash provided by investing activities was \$293 in the first nine months of 2014, an increase of \$150 compared to \$143 in the first nine months of 2013. Investing cash flows in 2014 were primarily impacted by proceeds totaling \$270 related to the sale of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses in the second quarter of 2014 and increased sales of short-term investments, partially offset by the absence of proceeds totaling \$761 from the sale of Apex Tool Group, LLC in the first nine months of 2013. For additional information on the sale of businesses, see Note 2 to the Condensed Consolidated Financial Statements.

Financing Cash Flow

Net cash used in financing activities was \$1,480 in the first nine months of 2014, a decrease of \$5 compared to \$1,485 in the first nine months of 2013. The lower use of cash was primarily due to a decrease in payments on debt borrowings from \$1,012 in the first nine months of 2013 to \$580 in the first nine months of 2014, related to financing the acquisition of Cooper Industries plc, partially offset by share repurchases during the first nine months of 2014 and higher cash dividends. For additional information on business acquisitions and share repurchases, see Note 2 and Note 9, respectively, to the Condensed Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

This Form 10-Q Report contains forward-looking statements. These statements may discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to Eaton, based on current beliefs of management as well as assumptions made by, and information currently available to, management. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “guidance,” “intend,” “may,” “possible,” “potential,” “predict,” “project” 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; increases in the cost of material and other production costs, or unexpected costs that cannot be recouped in product pricing; the introduction of competing technologies; unexpected technical or marketing difficulties; unexpected claims, charges, litigation or dispute resolutions; 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; 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, 2013.

ITEM 4. CONTROLS AND PROCEDURES.

Pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act), an evaluation was performed, under the supervision and with the participation of Eaton’s management, including Alexander M. Cutler, Principal Executive Officer, and Richard H. Fearon, Principal Financial Officer, of the effectiveness of the design and operation of Eaton’s disclosure controls and procedures. Based on that evaluation, management concluded that Eaton’s disclosure controls and procedures were effective as of September 30, 2014.

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.

There were no changes in Eaton's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, Eaton's internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Information regarding the Company's current legal proceedings is presented in Note 7 and Note 8 of the Notes to the Condensed Consolidated Financial Statements.

ITEM 1A. RISK FACTORS.

“Item 1A. Risk Factors” in Eaton's 2013 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 2013 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 2014, 3.4 million ordinary shares were repurchased in the open market at a total cost of \$225 million. These shares were repurchased under the program announced and approved by shareholders on April 24, 2013 and approved by the Board of Directors on October 22, 2013. A summary of the shares repurchased in the third quarter of 2014 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 | Maximum number of shares that may yet be purchased under the plans or programs |
|-----------|----------------------------------|------------------------------|--|--|
| July | 1,200,000 | \$69.05 | 1,200,000 | 37,431,060 |
| August | 253,770 | \$67.66 | 253,770 | 37,177,290 |
| September | 1,933,935 | \$64.64 | 1,933,935 | 35,243,355 |
| Total | 3,387,705 | \$66.43 | 3,387,705 | |

ITEM 6. EXHIBITS.

Exhibits — See Exhibit Index attached.

Table of Contents

SIGNATURES

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

EATON CORPORATION plc
Registrant

Date: October 31, 2014

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 2014 Report on Form 10-Q

Exhibit Index

| | |
|---------|--|
| 3 (i) | Certificate of Incorporation - Incorporated by reference to the Form S-8 filed November 30, 2012 |
| 3 (ii) | Amended and restated Memorandum and Articles of Incorporation - Incorporated by reference to the Form 10-Q Report for the three months ended September 30, 2012 |
| 4 (a) | Pursuant to Regulation S-K Item 601(b)(4), Eaton agrees to furnish to the SEC, upon request, a copy of the instruments defining the rights of holders of its other long-term debt |
| 12 | Ratio of Earnings to Fixed Charges — Filed in conjunction with this Form 10-Q Report * |
| 31.1 | Certification of Principal Executive Officer (Pursuant to Rule 13a-14(a)) — Filed in conjunction with this Form 10-Q Report * |
| 31.2 | Certification of Principal Financial Officer (Pursuant to Rule 13a-14(a)) — Filed in conjunction with this Form 10-Q Report * |
| 32.1 | Certification of Principal Executive Officer (Pursuant to Rule 13a-14(b) as adopted pursuant to Section 906 of the Sarbanes-Oxley Act) — Filed in conjunction with this Form 10-Q Report * |
| 32.2 | Certification of Principal Financial Officer (Pursuant to Rule 13a-14(b) as adopted pursuant to Section 906 of the Sarbanes-Oxley Act) — Filed in conjunction with this Form 10-Q Report * |
| 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, 2014 and 2013, (ii) Consolidated Statements of Income for the nine months ended September 30, 2014 and 2013, (iii) Consolidated Statements of Comprehensive Income for the three months ended September 30, 2014 and 2013, (iv) Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2014 and 2013, (v) Condensed Consolidated Balance Sheets at September 30, 2014 and December 31, 2013, (vi) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 and (vii) Notes to Condensed Consolidated Financial Statements for the nine months ended September 30, 2014.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under

the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.