



We make what matters work.*

EATON

Powering Business Worldwide



*** And we know what matters next.**

We believe our world improves with intelligent power management. At Eaton, we're embracing the internet of things and using it to rethink innovation. We're taking Industry 4.0 head-on by investing in our people and technologies to bring to market digital innovations that positively impact customers' products, processes and bottom line.

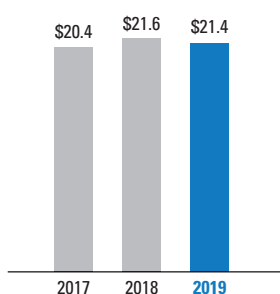
Innovation. Creativity. Imagination. This is what propels us forward and inspires us to make what matters work.



2019 Financial Highlights

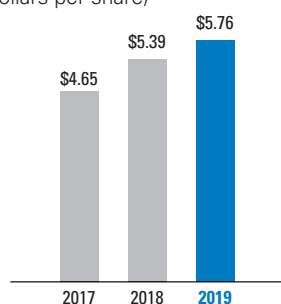
NET SALES

(Billions of dollars)



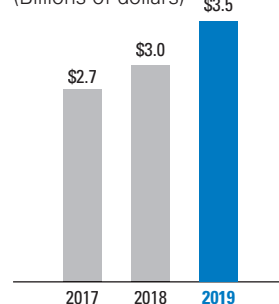
EARNINGS PER ORDINARY SHARE EXCLUDING ADJUSTMENTS

(Dollars per share)¹



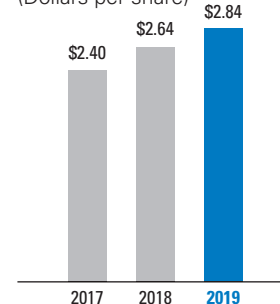
CASH FLOW FROM OPERATIONS

(Billions of dollars)²



DIVIDENDS PER ORDINARY SHARE

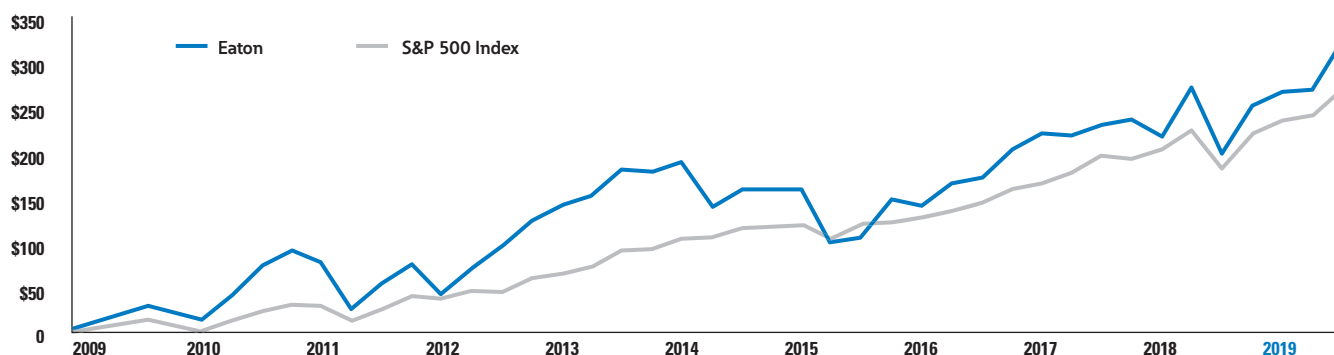
(Dollars per share)



(In millions except for per share data)

| | 2019 | 2018 | 2017 |
|--|-----------------|-----------------|-----------------|
| Net sales | \$21,390 | \$21,609 | \$20,404 |
| Net income attributable to Eaton ordinary shareholders | 2,211 | 2,145 | 2,985 |
| Adjustments ¹ | | | |
| Acquisition integration and divestiture charges | 174 | - | 2 |
| Expected Vehicle segment warranty costs | 39 | - | - |
| Arbitration decision expense | - | 206 | - |
| Gain from sale of a business | - | - | (843) |
| Income from Tax Cuts and Jobs Act | - | - | (62) |
| Earnings excluding adjustments ¹ | <u>\$ 2,424</u> | <u>\$ 2,351</u> | <u>\$ 2,082</u> |
| Net income per share attributable to Eaton ordinary shareholders—diluted | \$ 5.25 | \$ 4.91 | \$ 6.68 |
| Adjustments ¹ | | | |
| Acquisition integration and divestiture charges | 0.42 | - | - |
| Expected Vehicle segment warranty costs | 0.09 | - | - |
| Arbitration decision expense | - | 0.48 | - |
| Gain from sale of a business | - | - | (1.89) |
| Income from Tax Cuts and Jobs Act | - | - | (0.14) |
| Earnings per ordinary share excluding adjustments ¹ | <u>\$ 5.76</u> | <u>\$ 5.39</u> | <u>\$ 4.65</u> |
| Weighted-average number of ordinary shares outstanding—diluted | 420.8 | 436.9 | 447.0 |
| Cash dividends declared per ordinary share | \$ 2.84 | \$ 2.64 | \$ 2.40 |
| Cash flow from operations ² | \$ 3,451 | \$ 2,955 | \$ 2,666 |
| Total assets | 32,805 | 31,092 | 32,623 |
| Eaton shareholders' equity | 16,082 | 16,107 | 17,253 |

COMPANY STOCK PERFORMANCE



This graph compares the cumulative total return to shareholders for Eaton and the S&P 500 Index over the time period 2009 through 2019. The shareholder returns reflected on the graph assume dividends were reinvested as of the ex-dividend date.

1. Net income attributable to Eaton ordinary shareholders of \$2,211 for 2019 was \$2,424 excluding \$174 from the after-tax expense of acquisition integration and divestiture charges and \$39 from the after-tax expense for expected warranty costs in the Vehicle segment to correct the performance of a product which incorporated a defective part from a supplier. Net income per share attributable to Eaton ordinary shareholders-diluted of \$5.25 for 2019 was \$5.76 excluding \$0.42 per share expense from acquisition integration and divestiture charges and \$0.09 per share expense from expected warranty costs in the Vehicle segment. Net income attributable to Eaton ordinary shareholders of \$2,145 for 2018 was \$2,351 excluding \$206 from the after-tax expense for an arbitration decision related to the legacy Cooper Industries business acquired in 2012. Net income per share attributable to Eaton ordinary shareholders-diluted of \$4.91 for 2018 was \$5.39 excluding \$0.48 per share expense from the arbitration decision. Net income attributable to Eaton ordinary shareholders of \$2,082 for 2017 was \$2,082 excluding \$2 from the after-tax expense of acquisition integration and divestiture charges, \$843 from the after-tax gain on the sale of the business related to the Eaton Cummins Automated Transmission Technologies (ECATT) joint venture and \$62 of income from the United States Tax Cuts and Jobs Act (TCJA). Net income per share attributable to Eaton ordinary shareholders-diluted of \$6.68 for 2017 was \$4.65 excluding \$1.89 per share from the gain on the sale of the ECATT business and \$0.14 per share of income from the TCJA.

2. Operating cash flow in 2018 was \$2,955 excluding the \$297 payment made for the arbitration decision related to the legacy Cooper Industries business acquired in 2012.

A Transformational Year

To our shareholders:

In my letter to shareholders last year, I spoke about how we are transforming Eaton into a better, stronger, more resilient company.

A company that:

- Delivers consistent earnings, stronger cash flow, higher margins and better topline growth.
- Is focused on sustainability and innovation.
- Shareholders can be proud to own under all business conditions.

That is what we promised at the beginning of 2019, and that is what we delivered.

In order to make this transformation, we needed to change – to change the way we lead, the things we do, and in some cases, the very makeup of our company. 2019 was a pivotal year for Eaton, one in which we made significant progress on our journey to become an intelligent power management company. We performed well, executed on our promises, and as a result, delivered strong financial performance. In this report, you'll see why I'm proud of our accomplishments and optimistic about our future.

Transforming our financial results

2019 was a year defined by trade tensions, tariffs and political in-fighting, headwinds that show no signs of subsiding. As expected, this environment contributed to an extraordinary level of uncertainty and some weakness in the markets we serve. Despite these challenges, 2019 was a very good year for Eaton and our shareholders.

Our continued focus on organic growth, expanding margins and our disciplined approach to capital allocation paid off. Earnings per share for 2019 were \$5.25. Excluding adjustments, earnings per share were \$5.76¹ – up 7 percent from the prior year².

We delivered strong segment operating margins of 17.2 percent. Excluding adjustments, segment margins were 17.6 percent³, an all-time record and up 80 basis points over 2018. In addition, operating cash flow was \$3.5 billion and free cash flow was \$2.9 billion⁴. These results, which were both all-time records, represent growth of 17 percent and 20 percent, respectively⁴. We anticipate 2020 will be another year of strong free cash flow.

We also expanded our share repurchase program to buy back \$1 billion of our shares, which represents 3 percent of the shares outstanding at the beginning of 2019.

Our repurchase program, coupled with solid operational performance, clearly created value for our shareholders. Over the past year, our stock price increased 38 percent and, when combined with our dividend payout, we generated an all-in shareholder return of 43 percent. We were pleased to see our



stock performance begin to reflect the transformation taking place inside our company, and we intend to keep it going.

Our ability to deliver these results during a time of market weakness is strong evidence that our strategy is working. We've created better-performing businesses and we're a better company, but we're not satisfied. We know you expect more from us and we can do more. The way we'll deliver more is by continuing the rigorous deployment of the Eaton Business System (EBS). EBS is the standard set of processes and tools through which we run our company. It includes a common set of practices and measures; it's how we learn and improve; it's how we achieve the benefit of scale across our company; and it's how we grow and expand margins. In short, it's how we differentiate our company from competitors and deliver the stock price you deserve.

Transforming the makeup of our company

As we transition into an intelligent power management company, our business portfolio must be comprised of market-leading businesses, each strong on its own and made stronger as a part of Eaton. Throughout 2019, we continued to transform Eaton by aggressively managing and reshaping our portfolio of businesses. We strengthened key businesses through strategic acquisitions such as Uluşoy Elektrik, Innovative Switchgear and Power Distribution, Inc. in our Electrical Systems and Services segment, and with the addition of Souriau-Sunbank in our Aerospace segment.

Souriau-Sunbank provides Eaton with a new capability to serve the electrical connector market in both Aerospace and our core electrical markets. Together, these acquisitions are expected to add approximately \$600 million in revenue.

At the same time, we completed the sale of our Automotive Fluid Conveyance business and announced plans to exit our Lighting

2019



Fortune names Eaton one of the World's Most Admired Companies.



Eaton receives ENERGY STAR Partner of the Year – Sustained Excellence Award for demonstrating leadership in energy efficiency.



The Wall Street Journal names Eaton to its Management Top 250 list, recognizing Eaton as one of the best managed companies of 2019.



Eaton recognized by the Financial Times for leadership in inclusion and diversity.

and Hydraulics businesses. These three businesses no longer fit our portfolio criteria and we believe they will be more successful under new ownership. We're deeply grateful for the dedicated service of the employees who were part of these businesses and expect them to have a bright future.

An important part of our transformation story also includes our efforts to create new organic growth platforms. The most significant example is the creation of our new eMobility segment. Launched just two years ago, this new segment is expected to become a \$2 billion – \$4 billion revenue business over the next 10 years. Our team has already delivered \$460 million in new wins and we're bidding on a significant number of new customer platforms.

Transforming how we work

I'm also pleased to report our digitalization initiatives gained considerable momentum in 2019. Digitalization is impacting every part of the company and allowing Eaton to grow and expand margins. We have organized around four workstreams that will enable us to enhance internal productivity, improve customer-facing processes, create the intelligent factory of the future, and generate new revenue from connected and intelligent products. These efforts are the foundation of our transformation into an intelligent power management company.

Below are a few examples of digital innovations we're investing in to address a number of the world's most pressing challenges:

- Enabling the smart grid of the future and improving grid reliability and efficiency with advanced intelligence.
- Embedding intelligent products in the electrical infrastructure of buildings to help customers better manage their energy use.
- Combining our vehicle and electrical expertise to develop differentiated electric vehicle technologies.
- Designing intelligent and connected solutions that improve uptime and reduce total lifecycle costs for aerospace customers.

In the world of the internet of things, we like the fact that we make the things. This past year, the things we make at Eaton became more intelligent. More of our products were connected to the internet, and we found new ways of creating value from the information our innovative products generate. Sustaining and expanding these efforts in 2020 and beyond is a top priority for our new Chief Digital Officer and an important driver in how we will become an intelligent power management company.

Transforming the way we contribute to society

A company's success should be determined by more than financial results; it should also be defined by its commitment to the environment, its contributions to society, and the strength of its governance. These elements, also known as ESG, form the basis of our approach to sustainability. Here are some of the ways Eaton is embracing the broader definition of sustainability today, and making power safe, reliable, and efficient for the future.

While output from Eaton facilities around the world increased over the past year, we continued our efforts to reduce our impact on the environment. By the end of 2019, more than half of our sites had achieved Zero-Waste-to-Landfill status, representing an 11 percent increase over 2018. We're pleased with these results,

but we are striving to do more. Our goal is for 100 percent of our manufacturing facilities to achieve this designation by 2030.

We've also reduced greenhouse gas (GHG) emissions from our operations by 10 percent from 2018 levels. Our work has earned us a Supplier Engagement Leader score of A- from the CDP, formerly the Carbon Disclosure Project, but we're not done yet – we aim to cut another 10 percent of emissions from our operations by 2025. And we're helping our suppliers reduce their GHG emissions.

Finally, we continue to make a difference in the communities where we operate. In 2019, Eaton employees donated their time and efforts to causes important to them. Whether providing in-home care for the elderly through a partnership with a social welfare foundation in Taiwan, supporting emergency family services for victims of domestic violence in the United States, or volunteering for organizations that serve low-income and vulnerable children in Mexico, we encourage our employees throughout the world to take an active role in bettering their communities.

In closing

2019 was a transformational year for Eaton. We reshaped our portfolio and improved our operations. And our solid financial results were a strong endorsement of the strategy that we have in place. We also demonstrated that we can deliver strong results, even when our end markets are weak. Looking ahead, our task is clear. We must continue to focus on organic growth, run the company well, and smartly deploy our strong free cash flow.

Eaton is on a new journey to become an intelligent power management company. We will achieve our objective by leveraging the strength of the Eaton Business System, by building a strong portfolio of businesses, and by creating a digital foundation for the way we work and the products and solutions we sell. We are a stronger company today than we were one year ago, but we know our work is not done.

As a shareholder, you have unlimited investment choices. We recognize this and appreciate your trust in us. On behalf of our 97,000 employees and all of our partners around the world, thank you for your confidence in Eaton and for your support of our mission – to improve the quality of life and the environment while delivering industry-leading returns to shareholders.

Respectfully yours,



Craig Arnold
Chairman and Chief Executive Officer

1. Net income per share attributable to Eaton ordinary shareholders-diluted of \$5.25 for 2019 was \$5.76 excluding \$0.42 per share expense from acquisition integration and divestiture charges and \$0.09 per share expense from expected warranty costs in the Vehicle segment to correct the performance of a product which incorporated a defective part from a supplier.
2. Net income per share attributable to Eaton ordinary shareholders-diluted of \$4.91 for 2018 was \$5.39 excluding \$0.48 per share expense from the arbitration decision related to the legacy Cooper Industries business acquired in 2012.
3. Segment margins of 172 percent for 2019 were 176 percent excluding the items described in note 1.
4. The cash flow numbers for 2018 used to compare to the cash flow numbers for 2019 were operating cash flow of \$2,955 million and free cash flow of \$2,390 million, both of which numbers exclude the \$297 million payment made for the arbitration decision related to the legacy Cooper Industries business acquired in 2012. Free cash flow is operating cash flow less capital expenditures of \$587 million and \$565 million in 2019 and 2018, respectively.



IDG names Eaton to its CIO 100 list for excellence in information technology.



Eaton awarded Best Place to Work for LGBTQ+ Equality by The Human Rights Campaign for the fourth year in a row.



CR Magazine names Eaton to its 100 Best Corporate Citizens list.



Eaton recognized as FTSE4Good Index Series constituent for the third year in a row.

A Commitment to What Matters



The world is calling for nations and businesses to work together to advance sustainability and address global climate change – and Eaton is answering the call.

Find our Sustainability report at:
Eaton.com/Sustainability

Read our ESG report at:
Eaton.com/InvestorRelations/ESG

1 We are committed to climate action and enabling others to do the same.

Over the next five years, our work to accelerate the transition to a renewable energy economy will include investing in research and development, expanding our product portfolio, reducing the impact of our own operations and driving the movement to a more circular economy. We are already making substantial progress on this journey. We've reduced our greenhouse gas emissions by 10 percent from 2018 levels. At the same time, we're accelerating the impact of new energy technologies like microgrids, energy storage systems, smart grids and solar energy through partnerships with leading research organizations such as the U.S. Department of Energy Solar Technologies Office and the National Renewable Energy Laboratory. And we were named to the Clean200 list for being a leader in the transition to a clean energy future.

2 We are dedicated to creating long-term value for all our stakeholders.

We reaffirmed our longstanding position that a company's purpose is to deliver value for all stakeholders by signing the Business Roundtable's statement on the purpose of a corporation. We know that in order to be successful, we must create an inclusive, safe and engaging workplace where every employee has an opportunity to learn, grow and be healthy. To deliver on this, we sponsor and promote Inclusion Employee Resource Groups and drive world-class safety performance. In 2019, our employee-led resource groups grew to more than 10,000 employees, safety improved 18 percent and 171 sites were recognized for safety excellence. We are proud to invest in and give back to the communities where we live and work. Eaton has been selected for inclusion in the FTSE4Good Index Series for the past three years, demonstrating our strong Environmental, Social and Governance practices.

3 We are focused on doing business right, now and into the future.

We focus on ethical and compliant business processes and practices. Each year, we ask our employees to recommit to our Code of Ethics, which defines the standards of behavior we expect in everyday interactions with each other and external stakeholders. We value transparency and publicly share our ESG progress through reports and disclosures including our Annual Report and Sustainability Report. And we're proud to be recognized as one of the 2020 World's Most Ethical Companies, as compiled by Ethisphere.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

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

For the year ended December 31, 2019

Commission file number 000-54863

EATON CORPORATION plc

(Exact name of registrant as specified in its charter)

| | |
|--|--------------------------------------|
| Ireland | 98-1059235 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |
| Eaton House, 30 Pembroke Road, Dublin 4, Ireland | D04 Y0C2 |
| (Address of principal executive offices) | (Zip Code) |

+353 1637 2900

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|------------------------------------|----------------|---|
| Ordinary shares (\$0.01 par value) | ETN | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

| | | | | | |
|---------------------------|-------------------------------------|-------------------------|--------------------------|-----------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> | Non-accelerated filer | <input type="checkbox"/> |
| Smaller reporting company | <input type="checkbox"/> | Emerging growth company | <input type="checkbox"/> | | |

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

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

The aggregate market value of Ordinary Shares held by non-affiliates of the registrant as of June 30, 2019 was \$35.0 billion. As of January 31, 2020, there were 413.4 million Ordinary Shares outstanding.

Documents Incorporated By Reference

Portions of the Proxy Statement for the 2020 annual shareholders meeting are incorporated by reference into Part III.

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Part I

Item 1. Business.

Eaton Corporation plc (Eaton or the Company) is a power management company with 2019 net sales of \$21.4 billion. Eaton's mission is to improve the quality of life and the environment through the use of power management technologies and services. We provide sustainable solutions that help our customers effectively manage electrical, hydraulic and mechanical power – more safely, more efficiently and more reliably. Eaton has approximately 101,000 employees in 60 countries and sells products to customers in more than 175 countries.

Eaton electronically files or furnishes reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) to the United States Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy and information statements, as well as any amendments to those reports. As soon as reasonably practicable, these reports are available free of charge through the Company's website at www.eaton.com. These filings are also accessible on the SEC's website at www.sec.gov.

Acquisitions and Divestitures of Businesses

Information regarding the Company's acquisitions and divestitures is presented in Note 2 of the Notes to the Consolidated Financial Statements.

Business Segment Information

Information by business segment regarding principal products, principal markets, methods of distribution and net sales is presented in Note 15 of the Notes to the Consolidated Financial Statements. Additional information regarding Eaton's segments and business is presented below.

Electrical Products and Electrical Systems and Services

Principal methods of competition in these segments are performance of products and systems, technology, customer service and support, and price. Eaton has a strong competitive position in these segments and, with respect to many products, is considered among the market leaders. In normal economic cycles, sales of these segments are historically lower in the first quarter and higher in the third and fourth quarters of a year. In 2019, 24% of these segments' sales were made to seven large distributors of electrical products and electrical systems and services.

Hydraulics

Principal methods of competition in this segment are product performance, geographic coverage, service, and price. Eaton has a strong competitive position in this segment and, with respect to many products, is considered among the market leaders. Sales of this segment are historically higher in the first and second quarters and lower in the third and fourth quarters of the year. In 2019, 13% of this segment's sales were made to five large original equipment manufacturers or distributors of agricultural, construction, and industrial equipment and parts.

Aerospace

Principal methods of competition in this segment are total cost of ownership, product and system performance, quality, design engineering capabilities, and timely delivery. Eaton has a strong competitive position in this segment and, with respect to many products and platforms, is considered among the market leaders. In 2019, 26% of this segment's sales were made to three large original equipment manufacturers of aircraft.

Vehicle

Principal methods of competition in this segment are product performance, technology, global service, and price. Eaton has a strong competitive position in this segment and, with respect to many products, is considered among the market leaders. In 2019, 61% of this segment's sales were made to ten large original equipment manufacturers of vehicles and related components.

eMobility

Principal methods of competition in this segment are product performance, technology, global service, and price. Eaton has a strong competitive position in this segment. In 2019, 23% of this segment's sales were made to five large original equipment manufacturers of vehicles, construction equipment and related components.

Information Concerning Eaton's Business in General

Raw Materials

Eaton's major requirements for raw materials include iron, steel, copper, nickel, aluminum, brass, tin, silver, lead, titanium, rubber, plastic, electronic components, chemicals and fluids. Materials are purchased in various forms, such as extrusions, castings, powder metal, metal sheets and strips, forging billets, bar stock, and plastic pellets. Raw materials, as well as parts and other components, are purchased from many suppliers. Under normal circumstances, the Company has no difficulty obtaining its raw materials. In 2019, Eaton maintained appropriate levels of inventory to prevent shortages and did not experience any availability constraints.

Patents and Trademarks

Eaton considers its intellectual property, including without limitation patents, trade names, domain names, trademarks, confidential information, and trade secrets to be of significant value to its business as a whole. The Company's products are manufactured, marketed and sold under a portfolio of patents, trademarks, licenses, and other forms of intellectual property, some of which expire in the future. Eaton develops and acquires new intellectual property on an ongoing basis and considers all of its intellectual property to be valuable. Based on the broad scope of the Company's product lines, management believes that the loss or expiration of any single intellectual property right would not have a material effect on Eaton's consolidated financial statements or its business segments. The Company's policy is to file applications and obtain patents for the majority of its novel and innovative new products including product modifications and improvements.

Order Backlog

A significant portion of open orders placed with Eaton are by original equipment manufacturers or distributors. These open orders are not considered firm as they have been historically subject to releases by customers. In measuring backlog orders, only the amount of orders to which customers are firmly committed are included. Using this criterion, total backlog at December 31, 2019 and 2018 was approximately \$5.4 billion and \$5.3 billion, respectively. Backlog should not be relied upon as being indicative of results of operations for future periods.

Environmental Contingencies

Operations of the Company involve the use and disposal of certain substances regulated under environmental protection laws. Eaton continues to modify processes on an ongoing, regular basis in order to reduce the impact on the environment, including the reduction or elimination of certain chemicals used in, and wastes generated from, operations. Compliance with laws that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, are not expected to have a material adverse effect upon earnings or the competitive position of the Company. Eaton's estimated capital expenditures for environmental control facilities are not expected to be material for 2020 and 2021. Information regarding the Company's liabilities related to environmental matters is presented in Note 8 of the Notes to the Consolidated Financial Statements.

Item 1A. Risk Factors.

Among the risks that could materially adversely affect Eaton's businesses, financial condition or results of operations are the following:

Volatility of end markets that Eaton serves.

Eaton's segment revenues, operating results, and profitability have varied in the past and may vary from quarter to quarter in the future. Profitability can be negatively impacted by volatility in the end markets that Eaton serves. The Company has undertaken measures to reduce the impact of this volatility through diversification of the markets it serves and expansion of the geographic regions in which it operates. Future downturns in any of the markets could adversely affect revenues, operating results, and profitability.

Eaton's operating results depend in part on continued successful research, development, and marketing of new and/or improved products and services, and there can be no assurance that Eaton will continue to successfully introduce new products and services or maintain its present market positions.

The success of new and improved products and services depends on their initial and continued acceptance by Eaton's customers. The Company's businesses are affected, to varying degrees, by technological change and corresponding shifts in customer demand, which could result in unpredictable product transitions or shortened life cycles. Eaton may experience difficulties or delays in the research, development, production, or marketing of new products and services which may prevent Eaton from recouping or realizing a return on the investments required to bring new products and services to market. The Company's market positions may also be impacted by new entrants into Eaton's product or regional markets.

Eaton's operations depend on production facilities throughout the world, which subjects them to varying degrees of risk of disrupted production.

Eaton manages businesses with manufacturing facilities worldwide. The Company's manufacturing facilities and operations could be disrupted by a natural disaster, labor strike, war, political unrest, terrorist activity, economic upheaval, or public health concerns such as the spread of COVID-19. Some of these conditions are more likely in certain geographic regions in which Eaton operates. Any such disruption could cause delays in shipments of products and the loss of sales and customers, and insurance proceeds may not adequately compensate for losses.

If Eaton is unable to protect its information technology infrastructure against service interruptions, data corruption, cyber-based attacks or network security breaches, product or service offerings could be compromised or operations could be disrupted or data confidentiality lost.

Eaton relies on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including procurement, manufacturing, distribution, invoicing and collection. These technology networks and systems may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components; power outages; hardware failures; or computer viruses. In addition, security breaches could result in unauthorized disclosure of confidential information. If these information technology systems suffer severe damage, disruption, breach, or shutdown, and business continuity plans do not effectively resolve the issues in a timely manner, there could be a negative impact on operating results or the Company may suffer financial or reputational damage. Further, Cyber-based risks could also include attacks targeting the security, integrity and/or reliability of the hardware, software and information installed, stored or transmitted in our products, including after the purchase of those products and when they are incorporated into third party products, facilities or infrastructure. Such attacks could result in disruptions to third party systems, unauthorized release of confidential or otherwise protected information and corruption of data (our own or that of third parties). Further, to a significant extent, the security of our customers' systems depends on how those systems are protected, configured, updated and monitored, all of which are typically outside our control.

Eaton's global operations subject it to economic risk as Eaton's results of operations may be adversely affected by changes in government legislation, regulations and policies and currency fluctuations.

Operating globally subjects Eaton to changes in government regulations and policies in a large number of jurisdictions around the world, including those related to tariffs and trade barriers, investments, property ownership rights, taxation, data privacy, and exchange controls. Changes in the relative values of currencies occur from time to time and could affect Eaton's operating results. While the Company monitors exchange rate exposures and attempts to reduce these exposures through hedging activities, these risks could adversely affect operating results.

Further, existing free trade laws and regulations provide certain beneficial duties and tariffs for qualifying imports and exports, subject to compliance with the applicable classification and other requirements. Changes in laws or policies governing the terms of foreign trade, and in particular increased trade restrictions, tariffs or taxes on imports from countries where we manufacture products could have an impact on our business and financial results.

Eaton may be subject to risks relating to changes in its tax rates or exposure to additional income tax liabilities.

Eaton is subject to income taxes in many jurisdictions around the world. Income tax liabilities are subject to the allocation of income among various tax jurisdictions. The Company's effective tax rate could be affected by changes in the mix among earnings in countries with differing statutory tax rates, changes in the valuation allowance of deferred tax assets, or changes in tax legislation, regulations, and policies. The amount of income taxes paid is subject to ongoing audits by tax authorities in the countries in which Eaton operates. If these audits result in assessments different from amounts reserved, future financial results may include unfavorable adjustments to the Company's tax liabilities.

Eaton uses a variety of raw materials and components in its businesses, and significant shortages, price increases, or supplier insolvencies could increase operating costs and adversely impact the competitive positions of Eaton's products.

Eaton's major requirements for raw materials are described above in Item 1 "Raw Materials". Significant shortages could affect the prices Eaton's businesses are charged and the competitive position of their products and services, all of which could adversely affect operating results.

Further, Eaton's suppliers of component parts may increase their prices in response to increases in costs of raw materials that they use to manufacture component parts. The Company may not be able to increase its prices commensurately with its increased costs, adversely affecting operating results.

Eaton may be unable to adequately protect its intellectual property rights, which could affect the Company's ability to compete.

Protecting Eaton's intellectual property rights is critical to its ability to compete and succeed. The Company owns a large number of patents and patent applications worldwide, as well as trademark and copyright registrations that are necessary, and contribute significantly, to the preservation of Eaton's competitive position in various markets. Although management believes that the loss or expiration of any single intellectual property right would not have a material effect on the results of operations or financial position of Eaton or its business segments, there can be no assurance that any one, or more, of these patents and other intellectual property will not be challenged, invalidated, or circumvented by third parties. Eaton enters into confidentiality and invention assignment agreements with the Company's employees, and into non-disclosure agreements with suppliers and appropriate customers, so as to limit access to and disclosure of proprietary information. These measures may not suffice to deter misappropriation or independent third party development of similar technologies.

Eaton is subject to litigation and environmental regulations that could adversely impact Eaton's businesses.

At any given time, Eaton may be subject to litigation, the disposition of which may have a material adverse effect on the Company's businesses, financial condition or results of operations. Information regarding current legal proceedings is presented in Note 8 and Note 9 of the Notes to the Consolidated Financial Statements.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Eaton's principal executive offices are located at Eaton House, 30 Pembroke Road, Dublin 4, Ireland D04 Y0C2. The Company maintains manufacturing facilities at approximately 284 locations in 41 countries. The Company is a lessee under a number of operating leases for certain real properties and equipment, none of which is material to its operations. Management believes that the existing manufacturing facilities are adequate for its operations and that the facilities are maintained in good condition.

Item 3. Legal Proceedings.

Information regarding the Company's current legal proceedings is presented in Note 8 and Note 9 of the Notes to the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 4A. Information about our Executive Officers

A listing of executive officers, their ages, positions and offices held over the past five years, as of February 1, 2020, follows:

| <u>Name</u> | <u>Age</u> | <u>Position (Date elected to position)</u> |
|-------------------------|------------|--|
| Craig Arnold | 59 | Chairman of Eaton Corporation plc (June 1, 2016 - present) Chief Executive Officer of Eaton Corporation (June 1, 2016 - present) Director of Eaton Corporation plc (September 1, 2015 - present) President and Chief Operating Officer of Eaton Corporation (September 1, 2015 - May 31, 2016) Vice Chairman and Chief Operating Officer - Industrial Sector of Eaton Corporation (February 1, 2009 - August 31, 2015) |
| Richard H. Fearon | 63 | Director of Eaton Corporation plc (September 1, 2015 - present) Vice Chairman and Chief Financial and Planning Officer of Eaton Corporation (April 24, 2002 - present) |
| Uday Yadav | 56 | President and Chief Operating Officer - Electrical Sector of Eaton Corporation (July 1, 2019 - present) Chief Operating Officer - Industrial Sector of Eaton Corporation (September 1, 2015 - June 30, 2019) President of Aerospace Group of Eaton Corporation (August 1, 2012 - August 31, 2015) |
| Heath B. Monesmith | 49 | President and Chief Operating Officer - Industrial Sector of Eaton Corporation (July 1, 2019 - present) Executive Vice President and General Counsel of Eaton Corporation (March 1, 2017 - January 6, 2020) Senior Vice President and Deputy General Counsel of Eaton Corporation (May 15, 2015 - March 1, 2017) Vice President and Chief Counsel - Litigation of Eaton Corporation (November 30, 2012 - May 15, 2015) |
| April Miller Boise | 51 | Executive Vice President, General Counsel and Secretary of Eaton Corporation (January 6, 2020 - present) Senior Vice President, Chief Legal Officer and Corporate Secretary of Meritor, Inc. (August 15, 2016 - December 13, 2019) Senior Vice President, General Counsel, Head of Global Mergers and Acquisitions, and Corporate Secretary of Avintiv, Inc. (March 23, 2015 - December 31, 2015) Vice President, General Counsel, Corporate Secretary and Chief Privacy Officer of Veyance Technologies, Inc. (January 1, 2011 - January 30, 2015) |
| Ernest W. Marshall, Jr. | 51 | Executive Vice President and Chief Human Resources Officer of Eaton Corporation (July 1, 2018 - present) Vice President - Human Resources, Aviation Division of General Electric (August 1, 2013 - June 30, 2018) |
| Ken D. Semelsberger | 58 | Senior Vice President and Controller of Eaton Corporation (November 1, 2013 - present) |

| | | |
|------------------------|----|--|
| Joao V. Faria | 55 | President - Vehicle Group of Eaton Corporation (May 1, 2017 - present) Vice President and General Manager, Latin America, Electrical Sector and President, Latin America (August 1, 2013 - April 30, 2017) |
| Nandakumar Cheruvatath | 58 | President - Aerospace Group of Eaton Corporation (September 1, 2015 - present) Executive Vice President, Eaton Business System (August 1, 2012 - August 31, 2015) |
| Paulo Ruiz Sternadt | 45 | President - Hydraulics Group of Eaton Corporation (April 1, 2019 - present) Chief Executive Officer - Dresser Rand, a Siemens business (October 19, 2017 - March 30, 2019) Executive Vice President - Global Solutions and New Technologies & Strategic Business Development of Dresser Rand, a Siemens business (April 1, 2016 - October 18, 2017) Global Segment Head - Business Segment Bushings, Instrument Transformers & Coils, Siemens AG (April 1, 2012 - March 30, 2016) |
| Brian S. Brickhouse | 56 | President - Americas Region, Electrical Sector of Eaton Corporation (July 1, 2019 - present) President - Electrical Systems and Services Group of Eaton Corporation (July 1, 2018 - June 30, 2019) President, Asia Pacific Region, Electrical (May 15, 2015 - June 30, 2018) President, Power Quality Division, Electrical Sector - Americas (August 15, 2012 - May 14, 2015) |

There are no family relationships among the officers listed, and there are no arrangements or understandings pursuant to which any of them were elected as officers. All officers hold office for one year and until their successors are elected and qualified, unless otherwise specified by the Board of Directors; provided, however, that any officer is subject to removal with or without cause, at any time, by a vote of a majority of the Board of Directors.

Part II

Item 5. Market for the Registrant's Ordinary Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's ordinary shares are listed for trading on the New York Stock Exchange under the symbol ETN. At December 31, 2019, there were 12,072 holders of record of the Company's ordinary shares. Additionally, 17,699 current and former employees were shareholders through participation in the Eaton Savings Plan (ESP), the Eaton Personal Investment Plan (EPIP), and the Eaton Puerto Rico Retirement Savings Plan.

Information regarding equity-based compensation plans required by Regulation S-K Item 201(d) is provided in Item 12 of this Form 10-K Report.

Irish Taxes Applicable to Dividends

Irish income tax may arise with respect to dividends paid on Eaton shares. Eaton may be required to deduct Irish dividend withholding tax ("IDWT", currently at a rate of 25%) from dividends paid to shareholders who are not tax residents of Ireland even though they are not be subject to this tax. To claim exemption from IDWT, shareholders can complete certain Irish dividend withholding tax exemption forms or hold their shares in an account through the Depository Trust Company and have on file with their broker or qualifying agent a valid U.S. address on the record date of the dividend.

Eaton shareholders who receive their dividends subject to Irish dividend withholding tax will generally have no further liability for Irish income tax on the dividends unless they are otherwise subject to Irish income tax.

Issuer's Purchases of Equity Securities

During the fourth quarter of 2019, 0.6 million ordinary shares were repurchased in the open market at a total cost of \$51. A summary of the shares repurchased in the fourth quarter of 2019 follows:

| Month | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) |
|----------|----------------------------------|------------------------------|--|--|
| October | — | \$ — | — | \$ 3,753 |
| November | 545,499 | \$ 90.17 | 545,499 | \$ 3,704 |
| December | 19,838 | \$ 91.23 | 19,838 | \$ 3,702 |
| Total | <u>565,337</u> | \$ 90.21 | <u>565,337</u> | |

Item 6. Selected Financial Data.

Information regarding selected financial data is presented in the “Five-Year Consolidated Financial Summary” of this Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Information required by this Item is presented in “Management's Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Information regarding market risk is presented in “Market Risk Disclosure” of this Form 10-K.

Item 8. Financial Statements and Supplementary Data.

The reports of the independent registered public accounting firm, consolidated financial statements, and notes to consolidated financial statements are presented in Item 15 of this Form 10-K.

Information regarding selected quarterly financial information for 2019 and 2018 is presented in “Quarterly Data” of this Form 10-K.

Item 9. Change in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures - Pursuant to SEC Rule 13a-15, an evaluation was performed under the supervision and with the participation of Eaton's management, including Craig Arnold - Principal Executive Officer; and Richard H. Fearon - Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, Eaton's management concluded that the Company's disclosure controls and procedures were effective as of December 31, 2019.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in Company 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 Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

Pursuant to Section 404 of the Sarbanes Oxley Act of 2002 and the rules and regulations adopted pursuant thereto, Eaton has included a report of management's assessment of the effectiveness of internal control over financial reporting, which is included in Item 15 of this Form 10-K.

"Report of Independent Registered Public Accounting Firm" relating to internal control over financial reporting as of December 31, 2019 is included in Item 15 of this Form 10-K.

During the fourth quarter of 2019, there was no change in Eaton's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, internal control over financial reporting. Management is currently evaluating the impact of businesses acquired in 2019 on Eaton's internal control over financial reporting.

Item 9B. Other Information.

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required with respect to the directors of the Company is set forth under the caption "Election of Directors" in the Company's definitive Proxy Statement to be filed on or about March 13, 2020, and is incorporated by reference.

The Company has adopted a Code of Ethics, which applies to the directors, officers and employees worldwide. This document is available on the Company's website at <http://www.eaton.com>.

There were no changes during the fourth quarter 2019 to the procedures by which security holders may recommend nominees to the Company's Board of Directors.

Information related to the Audit Committee, and members of the Committee who are financial experts, is set forth under the caption "Board Committees - Audit Committee" in the definitive Proxy Statement to be filed on or about March 13, 2020, and is incorporated by reference.

Item 11. Executive Compensation.

Information required with respect to executive compensation is set forth under the caption "Compensation Discussion and Analysis" in the Company's definitive Proxy Statement to be filed on or about March 13, 2020, and is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required with respect to securities authorized for issuance under equity-based compensation plans is set forth under the caption "Equity Compensation Plans" in the Company's definitive Proxy Statement to be filed on or about March 13, 2020, and is incorporated by reference.

Information required with respect to security ownership of certain beneficial owners, is set forth under the caption "Share Ownership Tables" in the Company's definitive Proxy Statement to be filed on or about March 13, 2020, and is incorporated by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required with respect to certain relationships and related transactions is set forth under the caption "Review of Related Person Transactions" in the Company's definitive Proxy Statement to be filed on or about March 13, 2020, and is incorporated by reference.

Information required with respect to director independence is set forth under the caption "Director Independence" in the Company's definitive Proxy Statement to be filed on or about March 13, 2020, and is incorporated by reference.

Item 14. Principal Accounting Fees and Services.

Information required with respect to principal accountant fees and services is set forth under the caption "Audit Committee Report" in the Company's definitive Proxy Statement to be filed on or about March 13, 2020, and is incorporated by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules.

- (a) (1) The reports of the independent registered public accounting firm, consolidated financial statements and notes to consolidated financial statements are included in Item 8 above:

Reports of Independent Registered Public Accounting Firm

Consolidated Statements of Income - Years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Comprehensive Income - Years ended December 31, 2019, 2018 and 2017

Consolidated Balance Sheets - December 31, 2019 and 2018

Consolidated Statements of Cash Flows - Years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Shareholders' Equity - Years ended December 31, 2019, 2018 and 2017

Notes to Consolidated Financial Statements

(2) All other schedules for which provision is made in Regulation S-X of the SEC are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(3) Exhibits incorporated by reference to or filed in conjunction with this form 10-K are listed below.

- 3 (i) Certificate of Incorporation - Incorporated by reference to the Form S-8 filed November 30, 2012
- 3 (ii) Amended and restated Memorandum and Articles of Incorporation - Incorporated by reference to the Form 8-K Report filed on May 1, 2017
- 4.1 Description of Eaton Corporation plc's Securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 - Filed in conjunction with this Form 10-K Report *
- 4.2 Indenture dated as of November 20, 2012, among Turlock Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 of Eaton Corporation plc's Form 8-K Current Report filed on November 26, 2012 (Commission File No. 333-182303))
- 4.3 Supplemental Indenture No. 1, dated as of November 30, 2012, among Eaton Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 of the registrant's Form S-4 filed on September 6, 2013)
- 4.4 Supplemental Indenture No. 2, dated as of January 8, 2013, among Eaton Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.3 of the registrant's Form S-4 filed on September 6, 2013)
- 4.5 Supplemental Indenture No. 3, dated as of December 20, 2013, among Eaton Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.4 of the registrant's Form 10-K filed on February 28, 2018)
- 4.6 Supplemental Indenture No. 4, dated as of December 20, 2017 and effective as of January 1, 2018, among Eaton Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.5 of the registrant's Form 10-K filed on February 28, 2018)
- 4.7 Supplemental Indenture No. 5, dated as of February 16, 2018, among Eaton Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.6 of the registrant's Form 10-K filed on February 28, 2018)
- 4.8 Pursuant to Regulation S-K Item 601(b)(4), Eaton agrees to furnish to the SEC, upon request, a copy of the instruments defining the rights of holders of its long-term debt other than those set forth in Exhibits (4.2 - 4.7) hereto
- 10 Material contracts

- (a) Senior Executive Incentive Compensation Plan (effective February 27, 2013) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (b) Deferred Incentive Compensation Plan II - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (c) First Amendment to Deferred Incentive Compensation Plan II - Incorporated by reference to the Form S-8 filed November 30, 2012
- (d) Excess Benefits Plan II (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (e) First Amendment to Excess Benefits Plan II (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (f) Incentive Compensation Deferral Plan II - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (g) First Amendment to Incentive Compensation Deferral Plan II - Incorporated by reference to the Form S-8 filed November 30, 2012
- (h) Limited Eaton Service Supplemental Retirement Income Plan II - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (i) First Amendment to Limited Eaton Service Supplemental Retirement Income Plan II - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (j) Supplemental Benefits Plan II (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (k) First Amendment to Supplemental Benefits Plan II (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (l) Form of Restricted Share Unit Agreement - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2015
- (m) Form of Restricted Share Award Agreement - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2015
- (n) Form of Restricted Share Agreement (Non-Employee Directors) - Incorporated by reference to the Form 8-K Report filed February 1, 2010
- (o) Form of Directors' Restricted Share Unit Agreement - Incorporated by reference to the Form 10-K report for the year ended December 31, 2012
- (p) Form of Stock Option Agreement for Executives - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2015
- (q) Form of Stock Option Agreement for Non-Employee Directors (2008) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (r) Amended and Restated 2002 Stock Plan - Incorporated by reference to the Form S-8 filed November 30, 2012
- (s) Amended and Restated 2004 Stock Plan - Incorporated by reference to the Form S-8 filed November 30, 2012
- (t) Amended and Restated 2008 Stock Plan - Incorporated by reference to the Form S-8 filed November 30, 2012
- (u) Second Amended and Restated 2009 Stock Plan - Incorporated by reference to Form S-8 filed November 30, 2012
- (v) Amended and Restated 2012 Stock Plan - Incorporated by reference to the Form S-8 filed November 30, 2012
- (w) Amendment to Amended and Restated 2012 Stock Plan - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (x) First Amendment to 2005 Non-Employee Director Fee Deferral Plan - Incorporated by reference to the Form S-8 filed November 30, 2012

- (y) 2013 Non-Employee Director Fee Deferral Plan - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (z) 2015 Stock Plan - Incorporated by reference to the Form S-8 filed on October 30, 2015
- (aa) Form of Change of Control Agreement entered into with officers of Eaton Corporation - Incorporated by reference to the Form 8-K Report filed on December 17, 2015
- (bb) Form of Indemnification Agreement entered into with directors - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (cc) Form of Indemnification Agreement II entered into with directors - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (dd) Amended and Restated Executive Strategic Incentive Plan (amended and restated February 27, 2013) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (ee) Executive Strategic Incentive Plan II (effective January 1, 2001) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (ff) Amended and Restated Supplemental Executive Strategic Incentive Plan (amended and restated February 27, 2013) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (gg) Deferred Incentive Compensation Plan (amended and restated effective November 1, 2007) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2009
- (hh) Excess Benefits Plan (amended and restated effective January 1, 1989) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (ii) Amendment to Excess Benefits Plan I - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (jj) Supplemental Benefits Plan (amended and restated January 1, 1989) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (kk) Amendment to Supplemental Benefits Plan I - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2012
- (ll) Eaton Corporation Board of Directors Policy on Incentive Compensation, Stock Options and Other Equity Grants upon the Restatement of Financial Results - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2015
- (mm) Amended and Restated Grantor Trust Agreement for Non-Employee Directors' Deferred Fees Plans - effective January 1, 2010 - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2010
- (nn) Amended and Restated Grantor Trust Agreement for Employees' Deferred Compensation Plans - effective January 1, 2010 - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2010
- (oo) Eaton Savings Plan 2016 Restatement - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2015
- (pp) Eaton Personal Investment Plan 2015 Restatement - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2015
- (qq) Performance Share Award Agreement - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2015
- (rr) Form of Indemnification Agreement entered into with officers of Eaton Corporation - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2015
- (ss) Amendment to Limited Eaton Service Supplemental Retirement Income Plan I- Incorporated by reference to the Form 10-K Report for the year ended December 31, 2015
- (tt) First Amendment to Eaton Savings Plan - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016
- (uu) Second Amendment to Eaton Savings Plan - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016

| | |
|---------|---|
| (vv) | First Amendment to Eaton Personal Investment Plan - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016 |
| (ww) | Second Amendment to Eaton Personal Investment Plan - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016 |
| (xx) | Amendment to Eaton Corporation Excess Benefits Plan - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016 |
| (yy) | Amendment to Eaton Corporation Supplemental Benefits Plan - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016 |
| (zz) | Second Amendment to Eaton Corporation Excess Benefits Plan II - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016 |
| (aaa) | Second Amendment to Limited Eaton Service Supplemental Retirement Income Plan II - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016 |
| (bbb) | Second Amendment to Eaton Corporation Supplemental Benefits Plan II - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016 |
| (ccc) | 2016 RSU Grant Agreement - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016 |
| (ddd) | 2016 Performance Share Grant Agreement - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016 |
| (eee) | Special 2016 Performance Share Grant Agreement - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2016 |
| (fff) | Stock and Asset Purchase Agreement, dated January 21, 2020 - Incorporated by reference to the Form 8-K filed on January 27, 2020 |
| 14 | Code of Ethics - Incorporated by reference to the definitive Proxy Statement filed on March 14, 2008 |
| 21 | Subsidiaries of Eaton Corporation plc - Filed in conjunction with this Form 10-K Report * |
| 23 | Consent of Independent Registered Public Accounting Firm - Filed in conjunction with this Form 10-K Report * |
| 24 | Power of Attorney - Filed in conjunction with this Form 10-K Report * |
| 31.1 | Certification of Principal Executive Officer (Pursuant to the Sarbanes-Oxley Act of 2002, Section 302) - Filed in conjunction with this Form 10-K Report * |
| 31.2 | Certification of Principal Financial Officer (Pursuant to the Sarbanes-Oxley Act of 2002, Section 302) - Filed in conjunction with this Form 10-K Report * |
| 32.1 | Certification of Principal Executive Officer (Pursuant to the Sarbanes-Oxley Act of 2002, Section 906) - Filed in conjunction with this Form 10-K Report * |
| 32.2 | Certification of Principal Financial Officer (Pursuant to the Sarbanes-Oxley Act of 2002, Section 906) - Filed in conjunction with this Form 10-K Report * |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. * |
| 101.SCH | XBRL Taxonomy Extension Schema Document * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document * |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document * |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101) |

* 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 years ended December 31, 2019, 2018 and 2017, (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017 (iii) Consolidated Balance Sheets at December 31, 2019 and 2018, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017, (v) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2019, 2018 and 2017 and (vi) Notes to Consolidated Financial Statements for the year ended December 31, 2019.

Item 16. Form 10-K Summary.

Not applicable.

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: February 26, 2020

By: /s/ Richard H. Fearon

Richard H. Fearon

(On behalf of the registrant and as Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: February 26, 2020

| Signature | Title | Signature | Title |
|--------------------------------|---|------------------------------|---------------------------------------|
| <u>/s/ Craig Arnold</u> | | <u>/s/ Richard H. Fearon</u> | |
| Craig Arnold | Chairman, Principal Executive Officer; Director | Richard H. Fearon | Principal Financial Officer, Director |
| <u>/s/ Ken D. Semelsberger</u> | | * | |
| Ken D. Semelsberger | Principal Accounting Officer | <u>Todd M. Bluedorn</u> | Director |
| * | | * | |
| <u>Christopher M. Connor</u> | Director | <u>Michael J. Critelli</u> | Director |
| * | | * | |
| <u>Olivier Leonetti</u> | Director | <u>Deborah L. McCoy</u> | Director |
| * | | <u>/s/ Gregory R. Page</u> | |
| <u>Silvio Napoli</u> | Director | <u>Gregory R. Page</u> | Director |
| * | | * | |
| <u>Sandra Pianalto</u> | Director | <u>Gerald B. Smith</u> | Director |
| * | | | |
| <u>Dorothy C. Thompson</u> | Director | | |

*By /s/ Richard H. Fearon

Richard H. Fearon, Attorney-in-Fact for the officers and directors signing in the capacities indicated

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Eaton Corporation plc

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Eaton Corporation plc (“the Company”) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Unrecognized Income Tax Benefits

Description of the Matter

As discussed in Note 9 to the consolidated financial statements, the Company had gross unrecognized income tax benefits of \$1,001 million related to its uncertain tax positions at December 31, 2019. Unrecognized income tax benefits are recorded under the two-step recognition and measurement principles when a tax position does not meet the more likely than not standard, or if a tax position meets the more likely than not standard, but the financial statement tax benefit is reduced as part of the measurement step.

The balance of unrecognized income tax benefits is comprised of uncertain tax positions which meet the more likely than not standard, but the financial statement tax benefit has been reduced as part of measuring the tax position.

Auditing management's analysis of its uncertain tax positions and resulting unrecognized income tax benefits is complex as each tax position carries unique facts and circumstances that must be evaluated and ultimate resolution is dependent on uncontrollable factors such as the prospect of retroactive regulations, new case law, the willingness of the income tax authority to settle the issue, including the timing thereof, and other factors.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of management's controls related to uncertain tax positions. For example, we tested controls over management's application of the two-step recognition and measurement principles and management's review of the inputs and resultant calculations of unrecognized income tax benefits, as well as the identification of uncertain tax positions.

We also evaluated the Company's assessment of its uncertain tax positions. Our audit procedures included evaluating management's accounting policies and documentation to assess the appropriateness and consistency of the methods and assumptions used to develop its uncertain tax positions and related unrecognized income tax benefit amounts by jurisdiction. We also tested the completeness and accuracy of the underlying data used by the Company. For example, we compared the unrecognized income tax benefits recorded with similar positions in prior periods and assessed management's consideration of current tax controversy and litigation and trends in similar positions challenged by tax authorities. We also assessed the historical accuracy of management's estimates of its unrecognized income tax benefits with the resolution of those positions. In addition, we involved tax subject matter professionals to evaluate the application of relevant tax laws in the Company's recognition determination. Further, we tested the Company's release of previously recorded unrecognized income tax benefits, which along with the recording of additional unrecognized tax benefits, impacts the Company's tax provision. We have also evaluated the Company's income tax disclosures in relation to these matters.

Reallocation of Goodwill related to the Divestiture of the Lighting Business

Description of the Matter

In October 2019, the Company announced the planned sale of its lighting, lighting controls and connected lighting solutions business (collectively referred to as “Lighting”) as discussed further in Notes 2 and 4 to the consolidated financial statements and classified Lighting as held for sale. In conjunction with the classification of Lighting as held for sale, management reassigned goodwill to the Lighting business and the impacted reporting unit using a relative fair value allocation. Goodwill of \$470 million was allocated as part of classifying Lighting assets as held for sale in the fourth quarter.

Auditing the Company's allocation of goodwill to the Lighting business was complex due to the significant estimation required to determine the fair value of Lighting and the impacted reporting unit. The fair value estimates were sensitive to significant assumptions such as the weighted average cost of capital, revenue growth rates, operating margins, and perpetual growth rates, which are affected by expectations about future market or economic conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of management's controls over the goodwill allocation process. For example, we tested controls over management's review of the significant assumptions described above along with the completeness and accuracy of the data used in the fair value estimates.

To test the estimated fair value of Lighting and the Company's impacted reporting unit, our audit procedures included, among others, evaluating the Company's fair value methodology, testing the significant assumptions discussed above and testing the underlying data used by the Company in its analysis. For example, we compared the significant assumptions used by management to current industry and economic trends. We assessed the historical accuracy of management's estimates and performed sensitivity analyses of significant assumptions to evaluate the changes in the fair value of Lighting and the impacted reporting unit that would result from changes in assumptions. We also involved a valuation specialist to assist in our evaluation of the weighted average cost of capital. We tested the allocation of goodwill by recalculating the amounts based on the estimated fair value of Lighting and the impacted reporting unit.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1923.

Cleveland, Ohio
February 26, 2020

MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS

We have prepared the accompanying consolidated financial statements and related information of Eaton Corporation plc ("Eaton") included herein for the three years ended December 31, 2019. The primary responsibility for the integrity of the financial information included in this annual report rests with management. The financial information included in this annual report has been prepared in accordance with accounting principles generally accepted in the United States based on our best estimates and judgments and giving due consideration to materiality. The opinion of Ernst & Young LLP, Eaton's independent registered public accounting firm, on those consolidated financial statements is included herein.

Eaton has high standards of ethical business practices supported by the Eaton Code of Ethics and corporate policies. Careful attention is given to selecting, training and developing personnel, to ensure that management's objectives of establishing and maintaining adequate internal controls and unbiased, uniform reporting standards are attained. Our policies and procedures provide reasonable assurance that operations are conducted in conformity with applicable laws and with the Company's commitment to a high standard of business conduct.

The Board of Directors pursues its responsibility for the quality of Eaton's financial reporting primarily through its Audit Committee, which is composed of five independent directors. The Audit Committee meets regularly with management, the internal auditors and the independent registered public accounting firm to ensure that they are meeting their responsibilities and to discuss matters concerning accounting, internal control, audits and financial reporting. The internal auditors and independent registered public accounting firm have full and free access to senior management and the Audit Committee.

/s/ Craig Arnold

Principal Executive Officer

/s/ Richard H. Fearon

Principal Financial Officer

/s/ Ken D. Semelsberger

Principal Accounting Officer

February 26, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Eaton Corporation plc

Opinion on Internal Control Over Financial Reporting

We have audited Eaton Corporation plc's ("the Company") internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of entities that were acquired during 2019 (as defined in Note 2 to the consolidated financial statements), which are included in the 2019 consolidated financial statements of the Company and constituted 5% of total assets (inclusive of acquired intangible assets) as of December 31, 2019 and less than 1% of net sales for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of entities that were acquired during 2019.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated February 26, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Cleveland, Ohio
February 26, 2020

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Eaton Corporation plc ("Eaton") is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act rules 13a-15(f)).

Under the supervision and with the participation of Eaton's management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. Our evaluation of internal control over financial reporting did not include the internal controls of entities that were acquired during 2019 (as defined in Note 2), which are included in the 2019 consolidated financial statements and constituted approximately 5% of total assets (inclusive of acquired intangible assets) as of December 31, 2019 and less than 1% of net sales for the year then ended. In conducting this evaluation, we used the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013 Framework). Based on this evaluation under the framework referred to above, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2019.

The independent registered public accounting firm Ernst & Young LLP has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. This report is included herein.

/s/ Craig Arnold
Principal Executive Officer

/s/ Richard H. Fearon
Principal Financial Officer

/s/ Ken D. Semelsberger
Principal Accounting Officer

February 26, 2020

EATON CORPORATION plc
CONSOLIDATED STATEMENTS OF INCOME

| | Year ended December 31 | | |
|---|------------------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| (In millions except for per share data) | | | |
| Net sales | \$ 21,390 | \$ 21,609 | \$ 20,404 |
| Cost of products sold | 14,338 | 14,511 | 13,756 |
| Selling and administrative expense | 3,583 | 3,548 | 3,526 |
| Research and development expense | 606 | 584 | 584 |
| Interest expense - net | 236 | 271 | 246 |
| Gain on sale of business | — | — | 1,077 |
| Arbitration decision expense | — | 275 | — |
| Other expense (income) - net | 36 | (4) | 1 |
| Income before income taxes | 2,591 | 2,424 | 3,368 |
| Income tax expense | 378 | 278 | 382 |
| Net income | 2,213 | 2,146 | 2,986 |
| Less net income for noncontrolling interests | (2) | (1) | (1) |
| Net income attributable to Eaton ordinary shareholders | \$ 2,211 | \$ 2,145 | \$ 2,985 |
| Net income per share attributable to Eaton ordinary shareholders | | | |
| Diluted | \$ 5.25 | \$ 4.91 | \$ 6.68 |
| Basic | 5.28 | 4.93 | 6.71 |
| Weighted-average number of ordinary shares outstanding | | | |
| Diluted | 420.8 | 436.9 | 447.0 |
| Basic | 419.0 | 434.3 | 444.5 |
| Cash dividends declared per ordinary share | \$ 2.84 | \$ 2.64 | \$ 2.40 |

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

EATON CORPORATION plc
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (In millions) | Year ended December 31 | | |
|--|------------------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| Net income | \$ 2,213 | \$ 2,146 | \$ 2,986 |
| Less net income for noncontrolling interests | (2) | (1) | (1) |
| Net income attributable to Eaton ordinary shareholders | <u>2,211</u> | <u>2,145</u> | <u>2,985</u> |
| Other comprehensive income (loss), net of tax | | | |
| Currency translation and related hedging instruments | 16 | (609) | 807 |
| Pensions and other postretirement benefits | (130) | (139) | 241 |
| Cash flow hedges | (31) | 7 | (4) |
| Other comprehensive income (loss) attributable to Eaton ordinary shareholders | <u>(145)</u> | <u>(741)</u> | <u>1,044</u> |
| Total comprehensive income attributable to Eaton ordinary shareholders | <u>\$ 2,066</u> | <u>\$ 1,404</u> | <u>\$ 4,029</u> |

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

EATON CORPORATION plc
CONSOLIDATED BALANCE SHEETS

| (In millions) | December 31 | |
|---|------------------|------------------|
| | 2019 | 2018 |
| Assets | | |
| Current assets | | |
| Cash | \$ 370 | \$ 283 |
| Short-term investments | 221 | 157 |
| Accounts receivable - net | 3,437 | 3,858 |
| Inventory | 2,805 | 2,785 |
| Assets held for sale | 1,377 | — |
| Prepaid expenses and other current assets | 518 | 507 |
| Total current assets | 8,728 | 7,590 |
| Property, plant and equipment | | |
| Land and buildings | 2,440 | 2,466 |
| Machinery and equipment | 6,266 | 6,106 |
| Gross property, plant and equipment | 8,706 | 8,572 |
| Accumulated depreciation | (5,210) | (5,105) |
| Net property, plant and equipment | 3,496 | 3,467 |
| Other noncurrent assets | | |
| Goodwill | 13,456 | 13,328 |
| Other intangible assets | 4,638 | 4,846 |
| Operating lease assets | 436 | — |
| Deferred income taxes | 372 | 293 |
| Other assets | 1,679 | 1,568 |
| Total assets | \$ 32,805 | \$ 31,092 |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Short-term debt | \$ 255 | \$ 414 |
| Current portion of long-term debt | 248 | 339 |
| Accounts payable | 2,114 | 2,130 |
| Accrued compensation | 449 | 457 |
| Liabilities held for sale | 325 | — |
| Other current liabilities | 1,741 | 1,814 |
| Total current liabilities | 5,132 | 5,154 |
| Noncurrent liabilities | | |
| Long-term debt | 7,819 | 6,768 |
| Pension liabilities | 1,462 | 1,304 |
| Other postretirement benefits liabilities | 328 | 321 |
| Operating lease liabilities | 331 | — |
| Deferred income taxes | 396 | 349 |
| Other noncurrent liabilities | 1,204 | 1,054 |
| Total noncurrent liabilities | 11,540 | 9,796 |
| Shareholders' equity | | |
| Ordinary shares (413.3 million outstanding in 2019 and 423.6 million in 2018) | 4 | 4 |
| Capital in excess of par value | 12,200 | 12,090 |
| Retained earnings | 8,170 | 8,161 |
| Accumulated other comprehensive loss | (4,290) | (4,145) |
| Shares held in trust | (2) | (3) |
| Total Eaton shareholders' equity | 16,082 | 16,107 |
| Noncontrolling interests | 51 | 35 |
| Total equity | 16,133 | 16,142 |
| Total liabilities and equity | \$ 32,805 | \$ 31,092 |

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

EATON CORPORATION plc
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In millions) | Year ended December 31 | | |
|---|------------------------|----------|----------|
| | 2019 | 2018 | 2017 |
| Operating activities | | | |
| Net income | \$ 2,213 | \$ 2,146 | \$ 2,986 |
| Adjustments to reconcile to net cash provided by operating activities | | | |
| Depreciation and amortization | 884 | 903 | 914 |
| Deferred income taxes | (71) | (115) | (206) |
| Pension and other postretirement benefits expense | 157 | 159 | 208 |
| Contributions to pension plans | (119) | (126) | (473) |
| Contributions to other postretirement benefits plans | (15) | (25) | (20) |
| Loss (gain) on sale of businesses | 66 | — | (843) |
| Changes in working capital | | | |
| Accounts receivable - net | 200 | (123) | (231) |
| Inventory | (60) | (242) | (202) |
| Accounts payable | 147 | 23 | 388 |
| Accrued compensation | (23) | 23 | 59 |
| Accrued income and other taxes | (49) | (31) | (4) |
| Other current assets | (94) | 71 | 2 |
| Other current liabilities | (57) | 144 | (203) |
| Other - net | 272 | (149) | 291 |
| Net cash provided by operating activities | 3,451 | 2,658 | 2,666 |
| Investing activities | | | |
| Capital expenditures for property, plant and equipment | (587) | (565) | (520) |
| Cash paid for acquisitions of businesses, net of cash acquired | (1,180) | — | — |
| Proceeds from (payments for) sales of businesses | (36) | — | 607 |
| Sales (purchases) of short-term investments - net | (70) | 355 | (298) |
| Proceeds from (payments for) settlement of currency exchange contracts not designated as hedges - net | 54 | (110) | — |
| Other - net | (47) | (78) | (6) |
| Net cash used in investing activities | (1,866) | (398) | (217) |
| Financing activities | | | |
| Proceeds from borrowings | 1,232 | 410 | 1,000 |
| Payments on borrowings | (507) | (574) | (1,554) |
| Cash dividends paid | (1,201) | (1,149) | (1,068) |
| Exercise of employee stock options | 66 | 29 | 66 |
| Repurchase of shares | (1,029) | (1,271) | (850) |
| Employee taxes paid from shares withheld | (46) | (24) | (22) |
| Other - net | (9) | (2) | (14) |
| Net cash used in financing activities | (1,494) | (2,581) | (2,442) |
| Effect of currency on cash | (4) | 43 | 11 |
| Total increase (decrease) in cash | 87 | (278) | 18 |
| Cash at the beginning of the period | 283 | 561 | 543 |
| Cash at the end of the period | \$ 370 | \$ 283 | \$ 561 |

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

EATON CORPORATION plc
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (In millions) | Ordinary shares | | Capital in excess of par value | Retained earnings | Accumulated other comprehensive loss | Shares held in trust | Total Eaton shareholders' equity | Noncontrolling interests | Total equity |
|---|-----------------|---------|--|----------------------|---|----------------------------|--|-----------------------------|-----------------|
| | Shares | Dollars | | | | | | | |
| Balance at January 1, 2017 | 449.4 | \$ 5 | \$ 11,845 | \$ 7,555 | \$ (4,448) | \$ (3) | \$ 14,954 | \$ 44 | \$14,998 |
| Cumulative-effect adjustment upon adoption of ASU 2016-09 | — | — | — | 48 | — | — | 48 | — | 48 |
| Net income | — | — | — | 2,985 | — | — | 2,985 | 1 | 2,986 |
| Other comprehensive income, net of tax | — | — | — | — | 1,044 | — | 1,044 | — | 1,044 |
| Cash dividends paid | — | — | — | (1,068) | — | — | (1,068) | (5) | (1,073) |
| Issuance of shares under equity-based compensation plans | 2.0 | — | 142 | (2) | — | — | 140 | — | 140 |
| Changes in noncontrolling interest of consolidated subsidiaries - net | — | — | — | — | — | — | — | (3) | (3) |
| Repurchase of shares | (11.5) | (1) | — | (849) | — | — | (850) | — | (850) |
| Balance at December 31, 2017 | 439.9 | 4 | 11,987 | 8,669 | (3,404) | (3) | 17,253 | 37 | 17,290 |
| Cumulative-effect adjustment upon adoption of ASU 2014-09 | — | — | — | (2) | — | — | (2) | — | (2) |
| Cumulative-effect adjustment upon adoption of ASU 2016-16 | — | — | — | (199) | — | — | (199) | — | (199) |
| Net income | — | — | — | 2,145 | — | — | 2,145 | 1 | 2,146 |
| Other comprehensive loss, net of tax | — | — | — | — | (741) | — | (741) | — | (741) |
| Cash dividends paid | — | — | — | (1,149) | — | — | (1,149) | (1) | (1,150) |
| Issuance of shares under equity-based compensation plans | 1.2 | — | 103 | (3) | — | — | 100 | — | 100 |
| Changes in noncontrolling interest of consolidated subsidiaries - net | — | — | — | — | — | — | — | (2) | (2) |
| Repurchase of shares | (17.5) | — | — | (1,300) | — | — | (1,300) | — | (1,300) |
| Balance at December 31, 2018 | 423.6 | 4 | 12,090 | 8,161 | (4,145) | (3) | 16,107 | 35 | 16,142 |
| Net income | — | — | — | 2,211 | — | — | 2,211 | 2 | 2,213 |
| Other comprehensive loss, net of tax | — | — | — | — | (145) | — | (145) | — | (145) |
| Cash dividends paid | — | — | — | (1,201) | — | — | (1,201) | (3) | (1,204) |
| Issuance of shares under equity-based compensation plans | 2.2 | — | 110 | (1) | — | 1 | 110 | — | 110 |
| Acquisitions of businesses | — | — | — | — | — | — | — | 55 | 55 |
| Acquisition of noncontrolling interest obtained through tender offer | — | — | — | — | — | — | — | (33) | (33) |
| Business divestiture | — | — | — | — | — | — | — | (4) | (4) |
| Changes in noncontrolling interest of consolidated subsidiaries - net | — | — | — | — | — | — | — | (1) | (1) |
| Repurchase of shares | (12.5) | — | — | (1,000) | — | — | (1,000) | — | (1,000) |
| Balance at December 31, 2019 | 413.3 | \$ 4 | \$ 12,200 | \$ 8,170 | \$ (4,290) | \$ (2) | \$ 16,082 | \$ 51 | \$16,133 |

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

EATON CORPORATION plc
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information and Basis of Presentation

Eaton Corporation plc (Eaton or the Company) is a power management company with 2019 net sales of \$21.4 billion. Eaton's mission is to improve the quality of life and the environment through the use of power management technologies and services. We provide sustainable solutions that help our customers effectively manage electrical, hydraulic and mechanical power – more safely, more efficiently and more reliably. Eaton has approximately 101,000 employees in 60 countries and sells products to customers in more than 175 countries.

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States. Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and notes. Actual results could differ from these estimates. Management has evaluated subsequent events through the date the consolidated financial statements were filed with the Securities Exchange Commission.

The consolidated financial statements include the accounts of Eaton and all subsidiaries and other entities it controls. Intercompany transactions and balances have been eliminated. The equity method of accounting is used for investments in associate companies where the Company has significant influence and generally a 20% to 50% ownership interest. Equity investments are evaluated for impairment whenever events or circumstances indicate the book value of the investment exceeds fair value. An impairment would exist if there is an other-than-temporary decline in value. Income from equity investments is reported in Other (income) expense - net. Eaton does not have off-balance sheet arrangements or financings with unconsolidated entities.

Eaton's functional currency is United States Dollars (USD). The functional currency for most subsidiaries is their local currency. Financial statements for these subsidiaries are translated at year-end exchange rates as to assets and liabilities and weighted-average exchange rates as to revenues and expenses. The resulting translation adjustments are recognized in Accumulated other comprehensive loss.

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

Adoption of New Accounting Standards

Eaton adopted Accounting Standard Update 2016-02, Leases (Topic 842), and related amendments, in the first quarter of 2019 using the optional transition method and has not restated prior periods. The Company elected to use the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the carry forward of historical lease classification of existing leases. The Company recorded a cumulative-effect adjustment of less than \$1 to retained earnings as of January 1, 2019. Additionally, the adoption of the new standard resulted in the recording of lease assets and lease liabilities for operating leases of \$435 and \$446, respectively, as of January 1, 2019. The adoption of this standard did not have a material impact to the Consolidated Statements of Income or Cash Flows.

Eaton adopted Accounting Standard Update 2017-12, Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities, in the first quarter 2019 using the modified retrospective approach for hedge instruments that existed at the date of adoption. ASU 2017-12 is intended to better align the Company's risk management activities with financial reporting for hedging relationships. The standard eliminates the requirement to separately measure and report hedge ineffectiveness, expands the ability to hedge specific risk components, and generally requires the change in value of the hedge instrument and hedged item to be presented in the same income statement line. The new disclosure requirements were applied on a prospective basis and comparative information has not been restated. The adoption of this standard did not have a material impact on the consolidated financial statements.

Eaton adopted Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, in the first quarter of 2020. This standard introduces new guidance for accounting for credit losses on receivables. The Company did not recognize a cumulative-effect adjustment to retained earnings as of January 1, 2020, as the adoption of this standard did not have a material impact on the consolidated financial statements.

Revenue Recognition

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

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

Eaton records reductions to sales for returns, and customer and distributor incentives, primarily comprised of rebates, at the time of the initial sale. Rebates are estimated based on sales terms, historical experience, trend analysis, and projected market conditions in the various markets served. The rebate programs offered vary across businesses due to the numerous markets Eaton serves, but the most common incentives relate to amounts paid or credited to customers for achieving defined volume levels. Returns are estimated at the time of the sale primarily based on historical experience and recorded gross on the Consolidated Balance Sheet. See Note 3 for additional information.

Goodwill and Indefinite Life Intangible Assets

Goodwill is evaluated annually for impairment as of July 1 using either a quantitative or qualitative analysis. Goodwill is tested for impairment at the reporting unit level, which is equivalent to Eaton's operating segments and based on the net assets for each segment, including goodwill and intangible assets. Goodwill is assigned to each operating segment, as this represents the lowest level that constitutes a business and is the level at which management regularly reviews the operating results. The Company performs a quantitative analysis using a discounted cash flow model and other valuation techniques, but may elect to perform a qualitative analysis. Additionally, goodwill is evaluated for impairment whenever an event occurs or circumstances change that would indicate that it is more likely than not that the fair value of an operating segment is less than its carrying amount.

The annual goodwill impairment test was performed using a qualitative analysis in 2019 and 2018, except for the Hydraulics segment which used a quantitative analysis in 2019. A qualitative analysis is performed by assessing certain trends and factors, including projected market outlook and growth rates, forecasted and actual sales and operating profit margins, discount rates, industry data, and other relevant qualitative factors. These trends and factors are compared to, and based on, the assumptions used in the most recent quantitative analysis performed for each reporting unit. The results of the qualitative analyses did not indicate a need to perform quantitative analysis.

Goodwill impairment testing was also performed using quantitative analyses in 2019 as a result of the Lighting business being classified as held for sale as discussed in Note 2, and in 2018 for the Electrical Products, Vehicle and eMobility segments due to a reorganization of the Company's businesses resulting in the creation of the eMobility segment. The Company used the relative fair value method to reallocate goodwill.

Quantitative analyses were performed by estimating the fair value for each reporting unit using a discounted cash flow model, which considered forecasted cash flows discounted at an estimated weighted-average cost of capital. The forecasted cash flows were based on the Company's long-term operating plan and a terminal value was used to estimate the operating segment's cash flows beyond the period covered by the operating plan. The weighted-average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt market holders of a business enterprise. These analyses require the exercise of judgments, including judgments about appropriate discount rates, perpetual growth rates, revenue growth, and margin assumptions of the respective reporting unit. Sensitivity analyses were performed around certain of these assumptions in order to assess the reasonableness of the assumptions and the resulting estimated fair values.

Based on these analyses performed in 2019 and 2018, the fair value of Eaton's reporting units continue to substantially exceed their respective carrying amounts and thus, no impairment exists.

Indefinite life intangible assets consist of certain trademarks. They are evaluated annually for impairment as of July 1 using either a quantitative or qualitative analysis to determine whether their fair values exceed their respective carrying amounts. Indefinite life intangible asset impairment testing for 2019 and 2018 was performed using a quantitative analysis. The Company determines the fair value of these assets using a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability. Additionally, indefinite life intangible assets are evaluated for impairment whenever an event occurs or circumstances change that would indicate that it is more likely than not that the asset is impaired. For 2019 and 2018, the fair value of indefinite lived intangible assets exceeded the respective carrying value.

For additional information about goodwill and other intangible assets, see Note 4.

Leases

The Company determines if an arrangement is a lease at inception. Operating lease assets and liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. Lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. As most leases do not provide an implicit interest rate, Eaton uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. The length of a lease term includes options to extend or terminate the lease when it is reasonably certain that the Company will exercise those options. The Company made an accounting policy election to not recognize lease assets or liabilities for leases with a term of 12 months or less. Additionally, when accounting for leases, the Company combines payments for leased assets, related services and other components of a lease.

Other Long-Lived Assets

Depreciation and amortization for property, plant and equipment, and intangible assets subject to amortization, are generally computed by the straight-line method and included in Cost of products sold, Selling and administrative expense, and Research and development expense, as appropriate. Cost of buildings are depreciated generally over 40 years and machinery and equipment over 3 to 10 years. At December 31, 2019, the weighted-average amortization period for intangible assets subject to amortization was 18 years for patents and technology; 17 years for customer relationships; and 17 years for certain trademarks. Software is generally amortized up to a life of 15 years.

Other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Upon indications of impairment, assets and liabilities are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The asset group would be considered impaired when the estimated future net undiscounted cash flows generated by the asset group are less than its carrying value. Determining asset groups and underlying cash flows requires the use of significant judgment.

Retirement Benefits Plans

For the principal pension plans in the United States, Canada, Puerto Rico and the United Kingdom, the Company uses a market-related value of plan assets to calculate the expected return on assets used to determine net periodic benefit costs. The market-related value of plan assets is a calculated value that recognizes changes in the fair value of plan assets over a five year period. All other plans use fair value of plan assets.

Net actuarial gains or losses are amortized to expense on a plan-by-plan basis when they exceed the accounting corridor. The Company's corridors are set at either 8% or 10%, depending on the plan, of the greater of the plan assets or benefit obligations. Gains or losses outside of the corridor are subject to amortization over an average employee future service period that differs by plan, but is approximately 10 years on a weighted average basis. If most or all of the plan's participants are no longer actively accruing benefits, the average life expectancy is used.

Asset Retirement Obligations

A conditional asset retirement obligation is recognized at fair value when incurred if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional asset retirement obligation would be considered in the measurement of the liability when sufficient information exists. Eaton believes that for substantially all of its asset retirement obligations, there is an indeterminate settlement date because the range of time over which the Company may settle the obligation is unknown or cannot be estimated. A liability for these obligations will be recognized when sufficient information is available to estimate fair value.

Income Taxes

Deferred income tax assets and liabilities are determined based on the difference between the financial statement and tax basis of the respective assets and liabilities, using enacted tax rates in effect for the year when the differences are expected to reverse. Deferred income tax assets are recognized for income tax loss carryforwards and income tax credit carryforwards. Judgment is required in determining and evaluating income tax provisions and valuation allowances for deferred income tax assets. Eaton recognizes an income tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Eaton evaluates and adjusts these accruals based on changing facts and circumstances. Eaton recognizes interest and penalties related to unrecognized income tax benefits in the provision for income tax expense. Eaton's policy is to release income tax effects from accumulated other comprehensive income when individual units of account are sold, terminated, or extinguished. For additional information about income taxes, see Note 9.

Derivative Financial Instruments and Hedging Activities

Eaton uses derivative financial instruments to manage the exposure to the volatility in raw material costs, currency, and interest rates on certain debt. These instruments are marked to fair value in the accompanying Consolidated Balance Sheets. Changes in the fair value of derivative assets or liabilities (i.e., gains or losses) are recognized depending upon the type of hedging relationship and whether an instrument has been designated as a hedge. For those instruments that qualify for hedge accounting, Eaton designates the hedging instrument, based upon the exposure being hedged, as a cash flow hedge, a fair value hedge, or a hedge of a net investment in a foreign operation. Changes in fair value of these instruments that do not qualify for hedge accounting are recognized immediately in net income. See Note 13 for additional information about hedges and derivative financial instruments.

Note 2. ACQUISITIONS AND DIVESTITURES OF BUSINESSES

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

On July 31, 2017, Eaton sold a 50% interest in its heavy-duty and medium-duty commercial vehicle automated transmission business for \$600 in cash to Cummins, Inc. The new joint venture is named Eaton Cummins Automated Transmission Technologies (ECATT). In 2017, the Company recognized a pre-tax gain of \$1,077, of which \$533 related to the pre-tax gain from the \$600 proceeds from the sale and \$544 related to the Company's remaining 50% investment in the joint venture being remeasured to fair value. The after-tax gain was \$843. The fair value is based on the price paid to Eaton for the 50% interest sold to Cummins, Inc. and further supported by a discounted cash flow model. Eaton accounts for its investment on the equity method of accounting.

Acquisition of controlling interest of Ulusoy Elektrik Imalat Taahhut ve Ticaret A.S.

On April 15, 2019, Eaton completed the acquisition of an 82.275% controlling interest in Ulusoy Elektrik Imalat Taahhut ve Ticaret A.S. (Ulusoy Elektrik), a leading manufacturer of electrical switchgear based in Ankara, Turkey, with a primary focus on medium voltage solutions for industrial and utility customers. Its sales for the 12 months ended September 30, 2018 were \$126. The purchase price for the shares was \$214 on a cash and debt free basis. As required by the Turkish capital markets legislation, Eaton filed an application to execute a mandatory tender offer for the remaining shares shortly after the transaction closed. During the tender offer, Eaton purchased additional shares for \$33 through July 2019 to increase its ownership interest to 93.7%. Ulusoy Elektrik is reported within the Electrical Systems and Services business segment.

Acquisition of Innovative Switchgear Solutions, Inc.

On July 19, 2019, Eaton acquired Innovative Switchgear Solutions, Inc. (ISG), a specialty manufacturer of medium-voltage electrical equipment serving the North American utility, commercial and industrial markets. Its 2018 sales were approximately \$18. ISG is reported within the Electrical Systems and Services business segment.

Acquisition of Souriau-Sunbank Connection Technologies

On December 20, 2019, Eaton acquired the Souriau-Sunbank Connection Technologies (Souriau-Sunbank) business of TransDigm Group Inc. for a cash purchase price of \$903, net of cash received. Headquartered in Versailles, France, Souriau-Sunbank is a global leader in highly engineered electrical interconnect solutions for harsh environments in the aerospace, defense, industrial, energy, and transport markets. Its sales for the 12 months ended June 30, 2019 were \$363. Souriau-Sunbank is reported within the Aerospace business segment.

The acquisition of Souriau-Sunbank has been accounted for using the acquisition method of accounting which requires the assets acquired and liabilities assumed be recognized at their respective fair values on the acquisition date. The table below summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed on the acquisition date. These preliminary estimates will be revised during the measurement period as third-party valuations are received and finalized, further information becomes available and additional analyses are performed, and these differences could have a material impact on Eaton's preliminary purchase price allocation.

| | December 20, 2019 |
|---|-------------------|
| Accounts Receivables | \$ 60 |
| Inventory | 121 |
| Prepaid expenses and other current assets | 5 |
| Property, plant and equipment | 101 |
| Other intangible assets | 385 |
| Other assets | 8 |
| Accounts payable | (34) |
| Other current liabilities | (51) |
| Other noncurrent liabilities | (130) |
| Total identifiable net assets | 465 |
| Noncontrolling interests | (4) |
| Goodwill | 442 |
| Total consideration, net of cash received | \$ 903 |

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the anticipated synergies of acquiring Souriau-Sunbank. Goodwill recognized as a result of the acquisition is not deductible for tax purposes. Other intangible assets of \$385 are expected to include customer relationships, trademarks and technology. Given the timing of the acquisition, Eaton utilized a benchmarking approach based on similar acquisitions to determine the preliminary fair values for intangible assets. See Note 4 for additional information about goodwill and other intangible assets.

The Company incurred \$2 of acquisition related transaction costs in 2019 for Souriau-Sunbank that were included in Selling and administrative expense.

Eaton's Consolidated Financial Statements include Souriau-Sunbank's results of operations, including sales of \$3, from the date of the acquisition through December 31, 2019.

Sale of Automotive Fluid Conveyance business

On December 31, 2019, Eaton sold its Automotive Fluid Conveyance Business. The transaction resulted in a pre-tax loss of \$66 which was recorded in Other expense (income) - net. This business was reported within the Vehicle business segment.

Pending Sale of Lighting business

On October 15, 2019, Eaton entered into an agreement to sell its Lighting business to Signify N.V. for a cash purchase price of \$1.4 billion. The Lighting business, which had sales of \$1.6 billion in 2019 as part of the Electrical Products business segment, serves customers in commercial, industrial, residential and municipal markets. During the fourth quarter of 2019, the Company determined the Lighting business met the criteria to be classified as held for sale. Therefore, its assets and liabilities have been presented as held for sale in the Consolidated Balance Sheet as of December 31, 2019. Assets and liabilities classified as held for sale are measured at the lower of carrying value or fair value less costs to sell. There was no write-down as fair value of the Lighting business assets less costs to sell exceeded carrying value. Depreciation and amortization expense is not recorded for the period in which Other long-lived assets are classified as held for sale.

The Company used the relative fair value method to allocate goodwill to the Lighting business. The fair values of the Electrical Products business segment and Lighting business were estimated based on a combination of the price paid to Eaton by Signify N.V. and a discounted cash flow model. The model includes estimates of future cash flows, future growth rates, terminal value amounts, and the applicable weighted-average cost of capital used to discount those estimated cash flows. The weighted-average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt market holders of a business enterprise. These analyses require the exercise of judgments, including judgments about appropriate discount rates, perpetual growth rates, revenue growth, and margin assumptions.

The assets and liabilities of the Lighting business classified as held for sale at December 31, 2019 are as follows:

| | | |
|---|----|--------------|
| Accounts receivable - net | \$ | 220 |
| Inventory | | 161 |
| Prepaid expenses and other current assets | | 10 |
| Net property, plant and equipment | | 155 |
| Goodwill | | 470 |
| Other intangible assets | | 330 |
| Operating lease assets | | 25 |
| Other noncurrent assets | | 6 |
| Assets held for sale - current | \$ | <u>1,377</u> |
| | | |
| Accounts payable | \$ | 184 |
| Accrued compensation | | 7 |
| Other current liabilities | | 102 |
| Pension liabilities | | 3 |
| Operating lease liabilities | | 17 |
| Deferred income taxes | | (1) |
| Other noncurrent liabilities | | 13 |
| Liabilities held for sale - current | \$ | <u>325</u> |

The Lighting business did not meet the criteria to be classified as discontinued operations as the sale does not represent a strategic shift that will have a major effect on the Company's operations. The transaction is subject to customary closing conditions and regulatory approvals and is expected to close in the first quarter of 2020.

Pending Sale of Hydraulics business

On January 21, 2020, Eaton entered into an agreement to sell its Hydraulics business to Danfoss A/S, a Danish industrial company, for \$3.3 billion in cash. Eaton's Hydraulics business, which accounted for 86% of Eaton's Hydraulics segment revenue in 2019, is a global leader in hydraulics components, systems, and services for industrial and mobile equipment. The business had sales of \$2.2 billion in 2019. Eaton is retaining the Filtration and Golf Grip businesses currently reported in the company's Hydraulics segment. Eaton expects the Hydraulics business to be classified as held for sale during the first quarter of 2020. The Hydraulics business did not meet the criteria to be classified as discontinued operations as the sale does not represent a strategic shift that will have a major effect on the Company's operations. The transaction is subject to customary closing conditions and regulatory approvals and is expected to close by the end of 2020.

Acquisition of Power Distribution, Inc.

On February 25, 2020, Eaton completed the acquisition of Power Distribution, Inc. a leading supplier of mission critical power distribution, static switching, and power monitoring equipment and services for data centers and industrial and commercial customers. The company is headquartered in Richmond, Virginia, and had 2019 sales of \$125. Power Distribution, Inc. will be reported within the Electrical Systems and Services business segment.

Note 3. REVENUE RECOGNITION

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

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

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

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

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

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

Sales of products and services varies by segment and are discussed in Note 15.

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

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

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

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

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

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

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

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

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

| Net sales | 2019 | | |
|---------------------------------|--|--|------------------|
| | United States | Rest of World | Total |
| Electrical Products | \$ 4,269 | \$ 2,879 | \$ 7,148 |
| Electrical Systems and Services | 4,148 | 2,139 | 6,287 |
| Hydraulics | 1,112 | 1,440 | 2,552 |
| | Original Equipment Manufacturers | Aftermarket, Distribution and End User | |
| Aerospace | \$ 1,167 | \$ 877 | 2,044 |
| | Commercial | Passenger and Light Duty | |
| Vehicle | \$ 1,538 | \$ 1,500 | 3,038 |
| eMobility | | | 321 |
| Total | | | <u>\$ 21,390</u> |

| Net sales | 2018 | | |
|---------------------------------|--|--|------------------|
| | United States | Rest of World | Total |
| Electrical Products | \$ 4,112 | \$ 3,012 | \$ 7,124 |
| Electrical Systems and Services | 3,936 | 2,088 | 6,024 |
| Hydraulics | 1,190 | 1,566 | 2,756 |
| | Original Equipment Manufacturers | Aftermarket, Distribution and End User | |
| Aerospace | \$ 1,085 | \$ 811 | 1,896 |
| | Commercial | Passenger and Light Duty | |
| Vehicle | \$ 1,759 | \$ 1,730 | 3,489 |
| eMobility | | | 320 |
| Total | | | <u>\$ 21,609</u> |

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (revenue recognized exceeds amount billed to the customer), and deferred revenue (advance payments and billings in excess of revenue recognized). Accounts receivables from customers were \$3,090 and \$3,402 at December 31, 2019 and December 31, 2018, respectively. Amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. These assets and liabilities are reported on the Consolidated Balance Sheets on a contract-by-contract basis at the end of each reporting period. Unbilled receivables were \$101 and \$94 at December 31, 2019 and December 31, 2018, respectively, and are recorded in Prepaid expenses and other current assets. The increase in unbilled receivables was primarily due to revenue recognized and not yet billed, partially offset by billings to customers during 2019.

Changes in the deferred revenue liabilities are as follows:

| | Deferred Revenue |
|--|---------------------|
| Balance at January 1, 2018 | \$ 227 |
| Customer deposits and billings | 967 |
| Revenue recognized in the period | (939) |
| Translation | (7) |
| Balance at December 31, 2018 | \$ 248 |
| Customer deposits and billings | 982 |
| Revenue recognized in the period | (993) |
| Translation | 3 |
| Deferred revenue reclassified to held for sale | (6) |
| Balance at December 31, 2019 | <u>\$ 234</u> |

A significant portion of open orders placed with Eaton are by original equipment manufacturers or distributors. These open orders are not considered firm as they have been historically subject to releases by customers. In measuring backlog of unsatisfied or partially satisfied obligations, only the amount of orders to which customers are firmly committed are included. Using this criterion, total backlog at December 31, 2019 was approximately \$5.4 billion. At December 31, 2019, Eaton expects to recognize approximately 87% of this backlog in the next twelve months and the rest thereafter.

Note 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by segment follow:

| | January 1, 2018 | Translation | December 31, 2018 | Additions | Goodwill reclassified to held for sale | Translation | December 31, 2019 |
|------------------------------------|--------------------|-----------------|----------------------|---------------|--|---------------|----------------------|
| Electrical Products | \$ 6,678 | \$ (116) | \$ 6,562 | \$ — | \$ (470) | \$ (2) | \$ 6,090 |
| Electrical Systems and Services | 4,311 | (70) | 4,241 | 163 | — | 6 | 4,410 |
| Hydraulics | 1,257 | (45) | 1,212 | — | — | (13) | 1,199 |
| Aerospace | 947 | (6) | 941 | 442 | — | 3 | 1,386 |
| Vehicle | 294 | (2) | 292 | — | — | (1) | 291 |
| eMobility | 81 | (1) | 80 | — | — | — | 80 |
| Total | \$ 13,568 | \$ (240) | \$ 13,328 | \$ 605 | \$ (470) | \$ (7) | \$ 13,456 |

The 2019 additions to goodwill relate to the anticipated synergies of acquiring Souriau-Sunbank, Ulusoy Elektrik and ISG. The allocations of the purchase price from these acquisitions are preliminary and will be completed during the measurement period.

A summary of other intangible assets follows:

| | 2019 | | 2018 | |
|--|--------------------|-----------------------------|--------------------|-----------------------------|
| | Historical cost | Accumulated amortization | Historical cost | Accumulated amortization |
| Intangible assets not subject to amortization | | | | |
| Trademarks | \$ 1,516 | | \$ 1,626 | |
| Intangible assets subject to amortization | | | | |
| Customer relationships | \$ 3,260 | \$ 1,634 | \$ 3,463 | \$ 1,600 |
| Patents and technology | 1,542 | 704 | 1,329 | 646 |
| Trademarks | 1,057 | 457 | 1,032 | 419 |
| Other | 92 | 34 | 92 | 31 |
| Total intangible assets subject to amortization | \$ 5,951 | \$ 2,829 | \$ 5,916 | \$ 2,696 |

Amortization expense related to intangible assets subject to amortization in 2019, and estimated amortization expense for each of the next five years, follows:

| | |
|------|--------|
| 2019 | \$ 354 |
| 2020 | 351 |
| 2021 | 341 |
| 2022 | 332 |
| 2023 | 286 |
| 2024 | 275 |

Note 5. LEASES

Eaton leases certain manufacturing facilities, warehouses, distribution centers, office space, vehicles and equipment. Most real estate leases contain renewal options. The exercise of lease renewal options is at the Company's sole discretion. The Company's lease agreements typically do not contain any significant guarantees of asset values at the end of a lease or restrictive covenants. Payments within certain lease agreements are adjusted periodically for changes in an index or rate.

The components of lease expense follows:

| | 2019 |
|-------------------------------|---------------|
| Operating lease cost | \$ 166 |
| Finance lease cost: | |
| Amortization of lease assets | 5 |
| Interest on lease liabilities | 1 |
| Short-term lease cost | 46 |
| Variable lease cost | 22 |
| Sublease income | (3) |
| Total lease cost | <u>\$ 237</u> |

The net gain recorded on sale leaseback transactions for the year ended December 31, 2019 were \$16.

Supplemental cash flow information related to leases follows:

| | 2019 |
|---|----------|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash outflows - payments on operating leases | \$ (168) |
| Operating cash outflows - interest payments on finance leases | (1) |
| Financing cash outflows - payments on finance lease obligations | (6) |
| Lease assets obtained in exchange for new lease obligations, including leases acquired: | |
| Operating leases | \$ 114 |
| Finance leases | 24 |

Supplemental balance sheet information related to leases follows:

| | December 31, 2019 |
|--|----------------------|
| Operating Leases | |
| Operating lease assets | \$ 436 |
| Other current liabilities | 121 |
| Operating lease liabilities | 331 |
| Total operating lease liabilities | \$ 452 |
| Finance Leases | |
| Land and buildings | \$ 24 |
| Machinery and equipment | 18 |
| Accumulated depreciation | (16) |
| Net property, plant and equipment | \$ 26 |
| Current portion of long-term debt | \$ 6 |
| Long-term debt | 21 |
| Total finance lease liabilities | \$ 27 |
| Weighted-average remaining lease term | |
| Operating leases | 5.1 years |
| Finance leases | 6.8 years |
| Weighted-average discount rate | |
| Operating leases | 3.7% |
| Finance leases | 7.6% |

Maturities of lease liabilities at December 31, 2019 follows:

| | Operating Leases | Finance Leases |
|--|---------------------|-------------------|
| 2020 | \$ 142 | \$ 8 |
| 2021 | 113 | 8 |
| 2022 | 82 | 6 |
| 2023 | 56 | 4 |
| 2024 | 37 | 2 |
| Thereafter | 82 | 9 |
| Total lease payments | 512 | 37 |
| Less imputed interest | 60 | 10 |
| Total present value of lease liabilities | \$ 452 | \$ 27 |

A summary of minimum rental commitments at December 31, 2018 under noncancelable operating leases, which expire at various dates and in most cases contain renewal options, for each of the next five years and thereafter in the aggregate, follow:

| | Operating Leases |
|-------------------------|---------------------|
| 2019 | \$ 165 |
| 2020 | 133 |
| 2021 | 106 |
| 2022 | 75 |
| 2023 | 53 |
| Thereafter | 110 |
| Total lease commitments | <u>\$ 642</u> |

A summary of rental expense follows:

| | |
|------|--------|
| 2018 | \$ 232 |
| 2017 | 222 |

Note 6. DEBT

A summary of long-term debt, including the current portion, follows:

| | 2019 | 2018 |
|---|-----------------|-----------------|
| 6.95% notes due 2019 (\$300 converted to floating rate by interest rate swap) | \$ — | \$ 300 |
| 3.875% debentures due 2020 (\$150 converted to floating rate by interest rate swap) | 239 | 239 |
| 3.47% notes due 2021 (\$275 converted to floating rate by interest rate swap) | 300 | 300 |
| 0.02% Euro notes due 2021 | 674 | — |
| 8.10% debentures due 2022 (\$100 converted to floating rate by interest rate swap) | 100 | 100 |
| 2.75% senior notes due 2022 (\$1,400 converted to floating rate by interest rate swap) | 1,600 | 1,600 |
| 3.68% notes due 2023 (\$200 converted to floating rate by interest rate swap) | 300 | 300 |
| 0.75% Euro notes due 2024 | 617 | 629 |
| 6.50% debentures due 2025 | 145 | 145 |
| 0.70% Euro notes due 2025 | 562 | — |
| 3.10% senior notes due 2027 | 700 | 700 |
| 7.65% debentures due 2029 (\$50 converted to floating rate by interest rate swap) | 200 | 200 |
| 4.00% senior notes due 2032 | 700 | 700 |
| 5.45% debentures due 2034 (\$25 converted to floating rate by interest rate swap) | 137 | 136 |
| 5.80% notes due 2037 | 240 | 240 |
| 4.15% senior notes due 2042 | 1,000 | 1,000 |
| 3.92% senior notes due 2047 | 300 | 300 |
| 5.25% to 7.875% notes (maturities ranging from 2024 to 2035, including \$25 converted to floating rate by interest rate swap) | 165 | 203 |
| Other | 88 | 15 |
| Total long-term debt | <u>8,067</u> | <u>7,107</u> |
| Less current portion of long-term debt | <u>(248)</u> | <u>(339)</u> |
| Long-term debt less current portion | <u>\$ 7,819</u> | <u>\$ 6,768</u> |

Substantially all these long-term debt instruments are fully and unconditionally guaranteed on an unsubordinated, unsecured basis by Eaton and certain of its direct and indirect subsidiaries (the Senior Notes). Further, as of December 31, 2019 all of these long-term debt instruments, except the 3.875% debentures due 2020, the 3.47% notes due 2021, the 0.02% Euro notes due 2021, the 3.68% notes due 2023, the 0.75% Euro notes due 2024, and the 0.70% Euro notes due 2025, are registered by Eaton Corporation under the Securities Act of 1933, as amended (the Registered Senior Notes).

The Company maintains long-term revolving credit facilities totaling \$2,000, consisting of a \$750 five-year revolving credit facility that will expire November 17, 2022, a \$500 four-year revolving credit facility that will expire November 7, 2023, and a \$750 five-year revolving credit facility that will expire November 7, 2024. 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 December 31, 2019 or 2018. The Company had available lines of credit of \$1,027 from various banks primarily for the issuance of letters of credit, of which there was \$263 of letters of credit issued thereunder at December 31, 2019. Borrowings outside the United States are generally denominated in local currencies.

At December 31, 2019, short-term debt of \$255 was comprised entirely of short-term commercial paper in the United States, which had a weighted average interest rate of 1.85%.

On May 14, 2019, a subsidiary of Eaton issued Euro denominated notes (2019 Euro Notes) with a face value of €1,100 (\$1,232 based on the May 14, 2019 spot rate), in accordance with Regulation S promulgated under the Securities Act of 1933, as amended. The 2019 Euro Notes are comprised of two tranches of €600 and €500, which mature in 2021 and 2025, respectively, with interest payable annually at a respective rate of 0.02% and 0.70%. The issuer received proceeds totaling €1,097 (\$1,229 based on the May 14, 2019 spot rate) from the issuance, net of financing costs and discounts. The senior 2019 Euro Notes are fully and unconditionally guaranteed on an unsubordinated, unsecured basis by Eaton and certain of its direct and indirect subsidiaries. The 2019 Euro Notes contain customary optional redemption and par call provisions. The 2019 Euro Notes also contain a change of control provision which requires the Company to make an offer to purchase all or any part of the 2019 Euro Notes at a purchase price of 101% of the principal amount plus accrued and unpaid interest. The capitalized deferred financing fees are amortized in Interest expense-net over the respective terms of the 2019 Euro Notes. The 2019 Euro Notes are subject to customary non-financial covenants.

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

Maturities of long-term debt for each of the next five years follow:

| | | |
|------|----|-------|
| 2020 | \$ | 248 |
| 2021 | | 981 |
| 2022 | | 1,704 |
| 2023 | | 303 |
| 2024 | | 685 |

Interest paid on debt follows:

| | | |
|------|----|-----|
| 2019 | \$ | 279 |
| 2018 | | 313 |
| 2017 | | 293 |

Note 7. RETIREMENT BENEFITS PLANS

Eaton has defined benefits pension plans and other postretirement benefits plans.

Obligations and Funded Status

| | United States pension liabilities | | Non-United States pension liabilities | | Other postretirement liabilities | |
|---|-----------------------------------|-----------------|---------------------------------------|-----------------|----------------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Funded status | | | | | | |
| Fair value of plan assets | \$ 3,433 | \$ 3,068 | \$ 1,903 | \$ 1,560 | \$ 23 | \$ 37 |
| Benefit obligations | (4,028) | (3,633) | (2,747) | (2,285) | (378) | (378) |
| Funded status | <u>\$ (595)</u> | <u>\$ (565)</u> | <u>\$ (844)</u> | <u>\$ (725)</u> | <u>\$ (355)</u> | <u>\$ (341)</u> |
| Amounts recognized in the Consolidated Balance Sheets | | | | | | |
| Non-current assets | \$ — | \$ — | \$ 73 | \$ 58 | \$ — | \$ — |
| Current liabilities | (23) | (20) | (27) | (24) | (27) | (20) |
| Non-current liabilities | (572) | (545) | (890) | (759) | (328) | (321) |
| Total | <u>\$ (595)</u> | <u>\$ (565)</u> | <u>\$ (844)</u> | <u>\$ (725)</u> | <u>\$ (355)</u> | <u>\$ (341)</u> |
| Amounts recognized in Accumulated other comprehensive loss (pre-tax) | | | | | | |
| Net actuarial (gain) loss | \$ 1,096 | \$ 1,153 | \$ 879 | \$ 683 | \$ (8) | \$ (20) |
| Prior service cost (credit) | 7 | 7 | 25 | 27 | (17) | (32) |
| Total | <u>\$ 1,103</u> | <u>\$ 1,160</u> | <u>\$ 904</u> | <u>\$ 710</u> | <u>\$ (25)</u> | <u>\$ (52)</u> |

Change in Benefit Obligations

| | United States pension liabilities | | Non-United States pension liabilities | | Other postretirement liabilities | |
|--|-----------------------------------|-----------------|---------------------------------------|-----------------|----------------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Balance at January 1 | \$ 3,633 | \$ 3,961 | \$ 2,285 | \$ 2,399 | \$ 378 | \$ 448 |
| Service cost | 91 | 100 | 58 | 63 | 2 | 2 |
| Interest cost | 138 | 122 | 57 | 52 | 14 | 13 |
| Actuarial (gain) loss | 435 | (272) | 315 | (16) | 14 | (39) |
| Gross benefits paid | (270) | (282) | (102) | (112) | (60) | (67) |
| Currency translation | — | — | 47 | (124) | 2 | (4) |
| Plan amendments | 1 | 4 | — | 21 | 1 | — |
| Acquisitions and divestitures | — | — | (4) | — | — | — |
| Benefit obligation reclassified to held for sale | — | — | (4) | — | — | — |
| Other | — | — | 95 | 2 | 27 | 25 |
| Balance at December 31 | <u>\$ 4,028</u> | <u>\$ 3,633</u> | <u>\$ 2,747</u> | <u>\$ 2,285</u> | <u>\$ 378</u> | <u>\$ 378</u> |
| Accumulated benefit obligation | <u>\$ 3,883</u> | <u>\$ 3,506</u> | <u>\$ 2,592</u> | <u>\$ 2,175</u> | | |

Change in Plan Assets

| | United States pension liabilities | | Non-United States pension liabilities | | Other postretirement liabilities | |
|------------------------------|-----------------------------------|-----------------|---------------------------------------|-----------------|----------------------------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Balance at January 1 | \$ 3,068 | \$ 3,585 | \$ 1,560 | \$ 1,727 | \$ 37 | \$ 55 |
| Actual return on plan assets | 618 | (252) | 230 | (72) | 5 | — |
| Employer contributions | 17 | 17 | 102 | 109 | 15 | 25 |
| Gross benefits paid | (270) | (282) | (102) | (112) | (60) | (67) |
| Currency translation | — | — | 58 | (93) | — | — |
| Other | — | — | 55 | 1 | 26 | 24 |
| Balance at December 31 | <u>\$ 3,433</u> | <u>\$ 3,068</u> | <u>\$ 1,903</u> | <u>\$ 1,560</u> | <u>\$ 23</u> | <u>\$ 37</u> |

The components of pension plans with an accumulated benefit obligation in excess of plan assets at December 31 follow:

| | United States pension liabilities | | Non-United States pension liabilities | |
|--------------------------------|-----------------------------------|----------|---------------------------------------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| Projected benefit obligation | \$ 4,028 | \$ 3,633 | \$ 1,107 | \$ 905 |
| Accumulated benefit obligation | 3,883 | 3,506 | 1,028 | 853 |
| Fair value of plan assets | 3,433 | 3,068 | 242 | 158 |

Changes in pension and other postretirement benefit liabilities recognized in Accumulated other comprehensive loss follow:

| | United States pension liabilities | | Non-United States pension liabilities | | Other postretirement liabilities | |
|--|-----------------------------------|-----------------|---------------------------------------|---------------|----------------------------------|----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Balance at January 1 | \$ 1,160 | \$ 1,063 | \$ 710 | \$ 604 | \$ (52) | \$ (27) |
| Prior service cost arising during the year | 1 | 4 | — | 21 | 1 | — |
| Net loss (gain) arising during the year | 52 | 233 | 231 | 161 | 11 | (36) |
| Currency translation | — | — | 15 | (35) | 1 | (2) |
| Less amounts included in expense during the year | (110) | (140) | (52) | (41) | 14 | 13 |
| Net change for the year | (57) | 97 | 194 | 106 | 27 | (25) |
| Balance at December 31 | <u>\$ 1,103</u> | <u>\$ 1,160</u> | <u>\$ 904</u> | <u>\$ 710</u> | <u>\$ (25)</u> | <u>\$ (52)</u> |

Benefits Expense

| | United States pension benefit expense | | | Non-United States pension benefit expense | | | Other postretirement benefits expense | | |
|--|---------------------------------------|---------------|---------------|---|--------------|--------------|---------------------------------------|---------------|-------------|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| Service cost | \$ 91 | \$ 100 | \$ 96 | \$ 58 | \$ 63 | \$ 71 | \$ 2 | \$ 2 | \$ 3 |
| Interest cost | 138 | 122 | 123 | 57 | 52 | 55 | 14 | 13 | 14 |
| Expected return on plan assets | (235) | (253) | (244) | (106) | (105) | (94) | (2) | (3) | (4) |
| Amortization | 62 | 94 | 83 | 38 | 39 | 51 | (14) | (13) | (13) |
| | 56 | 63 | 58 | 47 | 49 | 83 | — | (1) | — |
| Settlements, curtailments and special termination benefits | 48 | 46 | 62 | 14 | 2 | 5 | — | — | — |
| Total expense | <u>\$ 104</u> | <u>\$ 109</u> | <u>\$ 120</u> | <u>\$ 61</u> | <u>\$ 51</u> | <u>\$ 88</u> | <u>\$ —</u> | <u>\$ (1)</u> | <u>\$ —</u> |

Total pension benefits expense of \$165 includes \$8 of settlement expense related to the sale of the Automotive Fluid Conveyance Business discussed in Note 2. The components of retirement benefits expense other than service costs are included in Other expense (income) - net.

The estimated pre-tax net amounts that will be recognized from Accumulated other comprehensive loss into net periodic benefit cost in 2020 follow:

| | United States pension liabilities | Non-United States pension liabilities | Other postretirement liabilities |
|-----------------------------|--------------------------------------|--|-------------------------------------|
| Actuarial loss | \$ 144 | \$ 59 | \$ 1 |
| Prior service cost (credit) | 1 | 3 | (14) |
| Total | \$ 145 | \$ 62 | \$ (13) |

Retirement Benefits Plans Assumptions

For purposes of determining liabilities related to pension plans and other postretirement benefits plans in the United States, in 2017 the Company used 2014 mortality tables and a generational improvement scale that is based on MP-2017. In 2018 and 2019, for the majority of its plans in the United States, the Company used mortality tables that are based on the Company's own experience and generational improvement scales that are based on MP-2018 and MP-2019, respectively.

To estimate the service and interest cost components of net periodic benefit cost for the vast majority of its defined benefits pension and other postretirement benefits plans, the Company used a spot rate approach by applying the specific spot rates along the yield curve used to measure the benefit obligation at the beginning of the period to the relevant projected cash flows.

Pension Plans

| | United States pension plans | | | Non-United States pension plans | | |
|---|--------------------------------|-------|-------|------------------------------------|-------|-------|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| Assumptions used to determine benefit obligation at year-end | | | | | | |
| Discount rate | 3.22% | 4.28% | 3.64% | 2.02% | 2.83% | 2.62% |
| Rate of compensation increase | 3.14% | 3.14% | 3.15% | 3.05% | 3.10% | 3.11% |
| Assumptions used to determine expense | | | | | | |
| Discount rate used to determine benefit obligation | 4.28% | 3.64% | 4.12% | 2.83% | 2.62% | 2.63% |
| Discount rate used to determine service cost | 4.39% | 3.78% | 4.31% | 4.02% | 3.54% | 3.38% |
| Discount rate used to determine interest cost | 3.94% | 3.19% | 3.40% | 2.56% | 2.31% | 2.34% |
| Expected long-term return on plan assets | 7.25% | 7.52% | 7.90% | 6.42% | 6.40% | 6.30% |
| Rate of compensation increase | 3.14% | 3.15% | 3.15% | 3.10% | 3.11% | 3.13% |

The expected long-term rate of return on pension assets was determined for each country and reflects long-term historical data taking into account each plan's target asset allocation. The expected long-term rates of return on pension assets for United States pension plans and Non-United States pension plans for 2020 are 7.25% and 5.84%, respectively. The discount rates were determined using appropriate bond data for each country.

Other Postretirement Benefits Plans

Substantially all of the obligation for other postretirement benefits plans relates to United States plans. Assumptions used to determine other postretirement benefits obligations and expense follow:

| | Other postretirement benefits plans | | |
|--|-------------------------------------|-------|-------|
| | 2019 | 2018 | 2017 |
| Assumptions used to determine benefit obligation at year-end | | | |
| Discount rate | 3.13% | 4.23% | 3.55% |
| Health care cost trend rate assumed for next year | 6.95% | 7.10% | 8.25% |
| Ultimate health care cost trend rate | 4.75% | 4.75% | 4.75% |
| Year ultimate health care cost trend rate is achieved | 2029 | 2028 | 2027 |
| Assumptions used to determine expense | | | |
| Discount rate used to determine benefit obligation | 4.23% | 3.55% | 3.96% |
| Discount rate used to determine service cost | 4.29% | 3.62% | 4.11% |
| Discount rate used to determine interest cost | 3.85% | 3.04% | 3.18% |
| Initial health care cost trend rate | 7.10% | 8.25% | 7.35% |
| Ultimate health care cost trend rate | 4.75% | 4.75% | 4.75% |
| Year ultimate health care cost trend rate is achieved | 2028 | 2027 | 2026 |

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A 1-percentage point change in the assumed health care cost trend rates would have the following effects:

| | 1% increase | 1% decrease |
|--|-------------|-------------|
| Effect on total service and interest cost | \$ 1 | \$ — |
| Effect on other postretirement liabilities | 10 | (8) |

Employer Contributions to Retirement Benefits Plans

Contributions to pension plans that Eaton expects to make in 2020, and made in 2019, 2018 and 2017, follow:

| | 2020 | 2019 | 2018 | 2017 |
|-------------------------|--------|--------|--------|--------|
| United States plans | \$ 24 | \$ 17 | \$ 17 | \$ 374 |
| Non-United States plans | 104 | 102 | 109 | 99 |
| Total contributions | \$ 128 | \$ 119 | \$ 126 | \$ 473 |

The following table provides the estimated pension and other postretirement benefit payments for each of the next five years, and the five years thereafter in the aggregate. For other postretirement benefits liabilities, the expected subsidy receipts related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 would reduce the gross payments listed below.

| | Estimated United States pension payments | Estimated non-United States pension payments | Estimated other postretirement benefit payments | |
|-------------|--|--|---|------------------------------------|
| | | | Gross | Medicare prescription drug subsidy |
| 2020 | \$ 316 | \$ 96 | \$ 36 | \$ (1) |
| 2021 | 313 | 96 | 31 | (1) |
| 2022 | 307 | 100 | 31 | — |
| 2023 | 306 | 103 | 28 | — |
| 2024 | 299 | 106 | 26 | — |
| 2025 - 2029 | 1,436 | 594 | 112 | (1) |

Pension Plan Assets

Investment policies and strategies are developed on a country specific basis. The United States plans, representing 64% of worldwide pension assets, and the United Kingdom plans representing 28% of worldwide pension assets, are invested primarily for growth, as the majority of the assets are in plans with active participants and ongoing accruals. In general, the plans have their primary allocation to diversified global equities, primarily through index funds in the form of common collective and other trusts. The United States plans' target allocation is 25% United States equities, 25% non-United States equities, 8% real estate (primarily equity of real estate investment trusts), 37% debt securities and 5% other, including private equity and cash equivalents. The United Kingdom plans' target asset allocations are 60% equities and the remainder in debt securities, cash equivalents and real estate investments. The equity risk for the plans is managed through broad geographic diversification and diversification across industries and levels of market capitalization. The majority of debt allocations for these plans are longer duration government and corporate debt. The United States, United Kingdom and Canada pension plans are authorized to use derivatives to achieve more economically desired market exposures and to use futures, swaps and options to gain or hedge exposures.

Fair Value Measurements

Financial instruments included in pension and other postretirement benefits plan assets are categorized into a fair value hierarchy of three levels, based on the degree of subjectivity inherent in the valuation methodology as follows:

- Level 1 - Quoted prices (unadjusted) for identical assets in active markets.
- Level 2 - Quoted prices for similar assets in active markets, and inputs that are observable for the asset, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - Unobservable prices or inputs.

Certain investments that are measured at fair value using the net asset value per share practical expedient have not been categorized in the fair value hierarchy and are being presented in the tables to permit a reconciliation to total plan assets.

Pension Plans

A summary of the fair value of pension plan assets at December 31, 2019 and 2018, follows:

| | Total | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Unobservable inputs (Level 3) ¹ |
|---|-----------------|---|--|--|
| 2019 | | | | |
| Common collective trusts | | | | |
| Non-United States equity and global equities | \$ 606 | \$ — | \$ 606 | \$ — |
| United States equity | 74 | — | 74 | — |
| Fixed income | 571 | — | 571 | — |
| Fixed income securities | 885 | — | 885 | — |
| United States treasuries | 330 | 330 | — | — |
| Bank loans | 104 | — | 104 | — |
| Real estate | 299 | 225 | 13 | 61 |
| Cash equivalents | 196 | 67 | 129 | — |
| Exchange traded funds | 79 | 79 | — | — |
| Other | 167 | — | 38 | 129 |
| Common collective and other trusts measured at net asset value | 2,108 | | | |
| Money market funds measured at net asset value | 6 | | | |
| Pending purchases and sales of plan assets, and interest receivable | (89) | | | |
| Total pension plan assets | <u>\$ 5,336</u> | <u>\$ 701</u> | <u>\$ 2,420</u> | <u>\$ 190</u> |

¹ These pension plan assets include private real estate, private credit and private equity funds that generally have redemption notice periods of six months or longer, and are not eligible for redemption until the underlying assets are liquidated or distributed. The Company has unfunded commitments to these funds of approximately \$334 at December 31, 2019, which will be satisfied by a reallocation of pension plan assets.

| | Total | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Unobservable inputs (Level 3) ¹ |
|---|-----------------|---|--|--|
| 2018 | | | | |
| Common collective trusts | | | | |
| Non-United States equity and global equities | \$ 612 | \$ — | \$ 612 | \$ — |
| United States equity | 50 | — | 50 | — |
| Fixed income | 483 | — | 483 | — |
| Fixed income securities | 721 | — | 721 | — |
| United States treasuries | 262 | 262 | — | — |
| Bank loans | 107 | — | 107 | — |
| Real estate | 202 | 181 | — | 21 |
| Equity securities | 51 | 51 | — | — |
| Cash equivalents | 176 | 130 | 46 | — |
| Exchange traded funds | 60 | 60 | — | — |
| Other | 90 | — | 15 | 75 |
| Common collective and other trusts measured at net asset value | 1,833 | | | |
| Money market funds measured at net asset value | 5 | | | |
| Pending purchases and sales of plan assets, and interest receivable | (24) | | | |
| Total pension plan assets | <u>\$ 4,628</u> | <u>\$ 684</u> | <u>\$ 2,034</u> | <u>\$ 96</u> |

¹ These pension plan assets include private real estate and private equity funds that generally have redemption notice periods of six months or longer, and are not eligible for redemption until the underlying assets are liquidated or distributed. The Company has unfunded commitments to these funds of approximately \$180 at December 31, 2018, which will be satisfied by a reallocation of pension plan assets.

The fair value measurement of plan assets using significant unobservable inputs (Level 3) changed during 2018 and 2019 due to the following:

| | Real estate | Other | Total |
|--|--------------|---------------|---------------|
| Balance at January 1, 2018 | \$ 19 | \$ 73 | \$ 92 |
| Actual return on plan assets: | | | |
| Gains (losses) relating to assets still held at year-end | (1) | — | (1) |
| Purchases, sales, settlements - net | 3 | 2 | 5 |
| Transfers into or out of Level 3 | — | — | — |
| Balance at December 31, 2018 | 21 | 75 | 96 |
| Actual return on plan assets: | | | |
| Gains (losses) relating to assets still held at year-end | 4 | 12 | 16 |
| Purchases, sales, settlements - net | 36 | 42 | 78 |
| Transfers into or out of Level 3 | — | — | — |
| Balance at December 31, 2019 | <u>\$ 61</u> | <u>\$ 129</u> | <u>\$ 190</u> |

Other Postretirement Benefits Plans

A summary of the fair value of other postretirement benefits plan assets at December 31, 2019 and 2018, follows:

| | Total | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Unobservable inputs (Level 3) |
|--|--------------|---|--|-------------------------------------|
| 2019 | | | | |
| Cash equivalents | \$ 5 | \$ 5 | \$ — | \$ — |
| Common collective and other trusts measured at net asset value | 18 | | | |
| Total other postretirement benefits plan assets | <u>\$ 23</u> | <u>\$ 5</u> | <u>\$ —</u> | <u>\$ —</u> |

| | Total | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Unobservable inputs (Level 3) |
|--|--------------|---|--|-------------------------------------|
| 2018 | | | | |
| Cash equivalents | \$ 6 | \$ 6 | \$ — | \$ — |
| Common collective and other trusts measured at net asset value | 31 | | | |
| Total other postretirement benefits plan assets | <u>\$ 37</u> | <u>\$ 6</u> | <u>\$ —</u> | <u>\$ —</u> |

Valuation Methodologies

Following is a description of the valuation methodologies used for pension and other postretirement benefits plan assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

Common collective and other trusts - Valued at the net unit value of units held by the trust at year end. The unit value is determined by the total value of fund assets divided by the total number of units of the fund owned. The equity investments in collective trusts are predominantly in index funds for which the underlying securities are actively traded in public markets based upon readily measurable prices. The investments in other trusts are predominantly in exchange traded funds for which the underlying securities are actively traded in public markets based upon readily measurable prices. Common collective and other trusts measured at fair value using the net asset value per share practical expedient have not been categorized in the fair value hierarchy and are being presented in the tables above to permit a reconciliation of the fair value hierarchy to the total plan assets.

Fixed income securities - These securities consist of publicly traded United States and non-United States fixed interest obligations (principally corporate and government bonds and debentures). The fair value of corporate and government debt securities is determined through third-party pricing models that consider various assumptions, including time value, yield curves, credit ratings, and current market prices. The Company verifies the results of trustees or custodians and evaluates the pricing classification of these securities by performing analyses using other third-party sources.

United States treasuries - Valued at the closing price of each security.

Bank loans - These securities consist of senior secured term loans of publicly traded and privately held United States and non-United States floating rate obligations (principally corporations of non-investment grade rating). The fair value is determined through third-party pricing models that primarily utilize dealer quoted current market prices. The Company verifies the results of trustees or custodians and evaluates the pricing classification of these securities by performing analyses using other third-party sources.

Equity securities - These securities consist of direct investments in the stock of publicly traded companies. Such investments are valued based on the closing price reported in an active market on which the individual securities are traded. As such, the direct investments are classified as Level 1.

Real estate - Consists of direct investments in the stock of publicly traded companies and investments in pooled funds that invest directly in real estate. The publicly traded companies are valued based on the closing price reported in an active market on which the individual securities are traded and as such are classified as Level 1. The pooled funds rely on appraisal based valuations and as such are classified as Level 3.

Cash equivalents - Primarily certificates of deposit, commercial paper, and repurchase agreements.

Exchange traded funds - Valued at the closing price of the exchange traded fund's shares.

Money market funds - Money market funds measured at fair value using the net asset value per share practical expedient have not been categorized in the fair value hierarchy and are being presented in the tables above to permit a reconciliation of the fair value hierarchy to the total plan assets.

Other - Primarily insurance contracts for international plans and also futures contracts and over-the-counter options. These investments are valued based on the closing prices of future contracts or indices as available on Bloomberg or similar service, private credit and private equity investments.

For additional information regarding fair value measurements, see Note 12.

Defined Contribution Plans

The Company has various defined contribution benefit plans, primarily consisting of the plans in the United States. The total contributions related to these plans are charged to expense and were as follows:

| | | |
|------|----|-----|
| 2019 | \$ | 130 |
| 2018 | | 124 |
| 2017 | | 114 |

Note 8. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

Eaton is subject to a broad range of claims, administrative and legal proceedings such as lawsuits that relate to contractual allegations, tax audits, patent infringement, personal injuries, antitrust matters, and employment-related matters. Eaton is also subject to asbestos claims from historic products which may have contained asbestos. Insurance may cover some of the costs associated with these claims and proceedings. Although it is not possible to predict with certainty the outcome or cost of these matters, the Company believes they will not have a material adverse effect on the consolidated financial statements.

In December 2011, Pepsi-Cola Metropolitan Bottling Company, Inc. (“Pepsi”) filed an action against (a) Cooper Industries, LLC, Cooper Industries, Ltd., Cooper Holdings, Ltd., Cooper US, Inc., and Cooper Industries plc (collectively, “Cooper”), (b) M&F Worldwide Corp., Mafco Worldwide Corp., Mafco Consolidated Group LLC, and PCT International Holdings, Inc. (collectively, “Mafco”), and (c) the Pneumo Abex Asbestos Claims Settlement Trust (the “Trust”) in Texas state court. Pepsi alleged that it was harmed by a 2011 settlement agreement (“2011 Settlement”) among Cooper, Mafco, and Pneumo Abex, LLC (“Pneumo,” which prior to the 2011 Settlement was a Mafco subsidiary), which settlement resolved litigation that Pneumo had previously brought against Cooper involving, among other things, a guaranty related to Pneumo’s friction products business. In November 2015, after a Texas court ruled that Pepsi’s claims should be heard in arbitration, Pepsi filed a demand for arbitration against Cooper, Mafco, the Trust, and Pneumo. Pepsi subsequently dropped claims against all parties except Cooper. An arbitration under the auspices of the American Arbitration Association commenced in October 2017. Pepsi’s experts opined, among other things, that the value contributed to the Trust for a release of the guaranty was below reasonably equivalent value, and that an inability of Pneumo to satisfy future liabilities could result in plaintiffs suing Pepsi under various theories. Cooper submitted various expert reports and, among other things, Cooper’s experts opined that Pepsi had no basis to seek any damages and that Cooper paid reasonably equivalent value for the release of its indemnity obligations under the guaranty. The arbitration proceedings closed in December 2017. On July 11, 2018, the arbitration panel made certain findings and concluded that the value contributed to the Trust did not constitute reasonably equivalent value, but ordered the parties to recalculate the amount that should have been contributed to the Trust as of the date of the 2011 transaction. Based on the findings made by the panel and the recalculation ordered by the panel, Cooper believed that no additional amount should be contributed. Pepsi argued that an additional \$347 should be contributed. Cooper and its expert disagreed with Pepsi’s argument and believed that Pepsi’s recalculation was flawed and failed to comply with the instructions of the panel. On August 23, 2018, the panel issued its final award and ordered Cooper to pay \$293 to Pneumo Abex. On August 30, 2018, Pepsi sought to confirm the award in Texas state court, which Cooper opposed on October 9, 2018. Cooper further requested that the court vacate the award on various grounds, including that Cooper was prejudiced by the conduct of the proceedings, the panel exceeded its powers, and because the panel denied Cooper a full and fair opportunity to present certain evidence. The court confirmed the award at the confirmation hearing, which was held on October 12, 2018. On November 2, 2018, the Company appealed. On November 28, 2018, the Company paid \$297, the full judgment plus accrued post-judgment interest, to Pneumo Abex and preserved its rights, including to appeal. On April 25, 2019, the appeal that Cooper filed was dismissed.

Environmental Contingencies

Eaton has established policies to ensure that its operations are conducted in keeping with good corporate citizenship and with a positive commitment to the protection of the natural and workplace environments. The Company’s manufacturing facilities are required to be certified to ISO 14001, an international standard for environmental management systems. The Company routinely reviews EHS performance at each of its facilities and continuously strives to improve pollution prevention.

Eaton is involved in remedial response and voluntary environmental remediation at a number of sites, including certain of its currently-owned or formerly-owned plants. The Company has also been named a potentially responsible party under the United States federal Superfund law, or the state equivalents thereof, at a number of disposal sites. The Company became involved in these sites as a result of government action or in connection with business acquisitions. At the end of 2019, the Company was involved with a total of 111 sites worldwide, including the Superfund sites mentioned above, with none of these sites being individually significant to the Company.

Remediation activities, generally involving soil and/or groundwater contamination, include pre-cleanup activities such as fact finding and investigation, risk assessment, feasibility study, design and action planning, performance (where actions may range from monitoring, to removal of contaminants, to installation of longer-term remediation systems), and operation and maintenance of a remediation system. The extent of expected remediation activities and costs varies by site. A number of factors affect the cost of environmental remediation, including the number of parties involved at a particular site, the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations, and the continuing advancement of remediation technology. Taking these factors into account, Eaton has estimated the costs of remediation, which will be paid over a period of years. The Company accrues an amount on an undiscounted basis, consistent with the estimates of these costs, when it is probable that a liability has been incurred. Actual results may differ from these estimates. At December 31, 2019 and 2018, the Company had an accrual totaling \$104 and \$116, respectively, for these costs.

Based upon Eaton's analysis and subject to the difficulty in estimating these future costs, the Company expects that any sum it may be required to pay in connection with environmental matters is not reasonably possible to exceed the recorded liability by an amount that would have a material effect on its financial position, results of operations or cash flows.

Warranty Accruals

Product warranty accruals are established at the time the related sale is recognized through a charge to Cost of products sold. Warranty accrual estimates are based primarily on historical warranty claim experience and specific customer contracts. Provisions for warranty accruals are comprised of basic warranties for products sold, as well as accruals for product recalls and other events when they are known and estimable. A summary of the current and long-term warranty accruals follows:

| | 2019 | 2018 | 2017 |
|---|---------------|---------------|---------------|
| Balance at January 1 | \$ 176 | \$ 188 | \$ 180 |
| Provision | 204 | 139 | 163 |
| Settled | (175) | (145) | (156) |
| Other | (2) | (6) | 1 |
| Warranty accruals reclassified to held for sale | (16) | — | — |
| Balance at December 31 | <u>\$ 187</u> | <u>\$ 176</u> | <u>\$ 188</u> |

Note 9. INCOME TAXES

Eaton Corporation plc is domiciled in Ireland. Income (loss) before income taxes and income tax (benefit) expense are summarized below based on the geographic location of the operation to which such earnings and income taxes are attributable.

| | Income (loss) before income taxes | | |
|---|-----------------------------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| Ireland | \$ (201) | \$ (365) | \$ (1,090) |
| Foreign | 2,792 | 2,789 | 4,458 |
| Total income before income taxes | <u>\$ 2,591</u> | <u>\$ 2,424</u> | <u>\$ 3,368</u> |
| | Income tax expense (benefit) | | |
| | 2019 | 2018 | 2017 |
| Current | | | |
| Ireland | \$ 26 | \$ 47 | \$ 1 |
| Foreign | 410 | 370 | 357 |
| Total current income tax expense | <u>436</u> | <u>417</u> | <u>358</u> |
| Deferred | | | |
| Ireland | 3 | 6 | — |
| Foreign | (61) | (145) | 24 |
| Total deferred income tax expense (benefit) | <u>(58)</u> | <u>(139)</u> | <u>24</u> |
| Total income tax expense | <u>\$ 378</u> | <u>\$ 278</u> | <u>\$ 382</u> |

Reconciliations of income taxes from the Ireland national statutory rate of 25% to the consolidated effective income tax rate follow:

| | 2019 | 2018 | 2017 |
|--|---------------|---------------|---------------|
| Income taxes at the applicable statutory rate | 25.0 % | 25.0 % | 25.0 % |
| Ireland operations | | | |
| Ireland tax on trading income | (1.0)% | (2.0)% | — % |
| Nondeductible interest expense | 3.9 % | 7.8 % | 8.2 % |
| Ireland Other - net | 0.1 % | 0.1 % | — % |
| Foreign operations | | | |
| U.S. federal tax rate change | — % | — % | (7.5)% |
| U.S. tax on foreign earnings | — % | — % | 4.8 % |
| U.S. foreign tax credit | 0.8 % | (0.2)% | (3.9)% |
| Tax on foreign currency loss | — % | (1.6)% | — % |
| Earnings taxed at other than the applicable statutory tax rate | (14.8)% | (19.6)% | (21.2)% |
| Other items | 2.5 % | 2.3 % | 3.1 % |
| Worldwide operations | | | |
| Adjustments to tax liabilities | (0.5)% | 1.1 % | (1.8)% |
| Adjustments to valuation allowances | (1.4)% | (1.4)% | 4.6 % |
| Effective income tax expense rate | <u>14.6 %</u> | <u>11.5 %</u> | <u>11.3 %</u> |

During 2019, income tax expense of \$378 was recognized (an effective tax rate of 14.6%) compared to income tax expense of \$278 in 2018 (an effective tax rate of 11.5%) and income tax expense of \$382 in 2017 (an effective tax rate of 11.3%). The 2018 effective tax rate includes a tax benefit of \$69 on the arbitration decision expense discussed in Note 8. The 2017 effective tax rate includes tax expense of \$234 on the gain related to the sale of a business discussed in Note 2 and a tax benefit of \$62 related to the U.S. Tax Cuts and Jobs Act (TCJA) which is discussed in further detail below. Excluding the impacts of the 2018 arbitration decision, the 2017 sale of business, and the 2017 TCJA, the effective tax rate was 12.8% in 2018 and 9.2% in 2017. The increase in the tax rate from 12.8% in 2018 to 14.6% in 2019 was primarily due to greater levels of income in higher tax jurisdictions. The increase from 9.2% in 2017 compared to 12.8% in 2018 was due to greater levels of income in higher tax jurisdictions and an increase in tax contingencies offset by net decreases of related valuation allowances.

The TCJA was enacted on December 22, 2017, which reduced the U.S. federal corporate tax rate from 35% to 21% and required a one-time transition tax on certain unremitted earnings of non-U.S. subsidiaries owned directly or indirectly by U.S. subsidiaries of the Company. In December 2017, the Company recorded a provisional tax benefit amount of \$79 for the impact of the tax rate change on deferred tax balances and a provisional tax expense of \$17 for the one-time transition tax, for a net tax benefit of \$62. During 2018, the Company finalized its accounting for the 2017 enactment of the TCJA and recorded an adjustment of \$17 tax expense, primarily related to the one-time transition tax, resulting in a final net tax benefit of \$45.

No provision has been made for income taxes on undistributed earnings of foreign subsidiaries of approximately \$28.5 billion at December 31, 2019, since it is the Company's intention to indefinitely reinvest undistributed earnings of its foreign subsidiaries. The Company expects to deploy capital to those markets which offer particularly attractive growth opportunities. The cash that is permanently reinvested is typically used to expand operations either organically or through acquisitions. It is not practicable to estimate the additional income taxes and applicable withholding taxes that would be payable on the remittance of such undistributed earnings.

Worldwide income tax payments, net of tax refunds, follow:

| | | |
|------|----|-----|
| 2019 | \$ | 425 |
| 2018 | | 379 |
| 2017 | | 288 |

Deferred Income Tax Assets and Liabilities

Components of noncurrent deferred income taxes follow:

| | 2019 | 2018 |
|---|---|---|
| | Noncurrent assets and liabilities | Noncurrent assets and liabilities |
| Accruals and other adjustments | | |
| Employee benefits | \$ 514 | \$ 481 |
| Depreciation and amortization | (1,245) | (1,198) |
| Other accruals and adjustments | 498 | 434 |
| Ireland income tax loss carryforwards | 1 | 1 |
| Foreign income tax loss carryforwards | 1,826 | 1,915 |
| Foreign income tax credit carryforwards | 349 | 396 |
| Valuation allowance for income tax loss and income tax credit carryforwards | (1,914) | (2,032) |
| Other valuation allowances | (52) | (53) |
| Total deferred income taxes | (23) | (56) |
| Deferred income taxes reported as assets held for sale | 1 | — |
| Deferred income taxes | \$ (24) | \$ (56) |

At December 31, 2019, Eaton Corporation plc and certain Irish subsidiaries had tax loss carryforwards that are available to reduce future taxable income and tax liabilities. These carryforwards and their respective expiration dates are summarized below:

| | 2020 through 2024 | 2025 through 2029 | 2030 through 2034 | 2035 through 2044 | Not subject to expiration | Valuation allowance |
|--|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------------|------------------------|
| Ireland income tax loss carryforwards | \$ — | \$ — | \$ — | \$ — | \$ 8 | \$ — |
| Ireland deferred income tax assets for income tax loss carryforwards | — | — | — | — | 1 | (1) |

At December 31, 2019, the Company's foreign subsidiaries had income tax loss carryforwards and income tax credit carryforwards that are available to reduce future taxable income or tax liabilities. These carryforwards and their respective expiration dates are summarized below:

| | 2020 through 2024 | 2025 through 2029 | 2030 through 2034 | 2035 through 2044 | Not subject to expiration | Valuation allowance |
|--|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------------|------------------------|
| Foreign income tax loss carryforwards | \$ 874 | \$ 52 | \$ 7,931 | \$ 367 | \$ 3,233 | \$ — |
| Foreign deferred income tax assets for income tax loss carryforwards | 108 | 23 | 819 | 108 | 797 | (1,690) |
| Foreign deferred income tax assets for income tax loss carryforwards after ASU 2013-11 | 90 | 22 | 810 | 108 | 796 | (1,690) |
| Foreign income tax credit carryforwards | 115 | 189 | 40 | 90 | 30 | (223) |
| Foreign income tax credit carryforwards after ASU 2013-11 | 111 | 165 | 24 | 19 | 30 | (223) |

Recoverability of Deferred Income Tax Assets

Eaton is subject to the income tax laws in the jurisdictions in which it operates. In order to determine its income tax provision for financial statement purposes, Eaton must make significant estimates and judgments about its business operations in these jurisdictions. These estimates and judgments are also used in determining the deferred income tax assets and liabilities that have been recognized for differences between the financial statement and income tax basis of assets and liabilities, and income tax loss carryforwards and income tax credit carryforwards.

Management evaluates the realizability of deferred income tax assets for each of the jurisdictions in which it operates. If the Company experiences cumulative pre-tax income in a particular jurisdiction in the three-year period including the current and prior two years, management normally concludes that the deferred income tax assets will more likely than not be realizable and no valuation allowance is recognized, unless known or planned operating developments, or changes in tax laws, would lead management to conclude otherwise. However, if the Company experiences cumulative pre-tax losses in a particular jurisdiction in the three-year period including the current and prior two years, management then considers a series of factors in the determination of whether the deferred income tax assets can be realized. These factors include historical operating results, known or planned operating developments, the period of time over which certain temporary differences will reverse, consideration of the utilization of certain deferred income tax liabilities, tax law carryback capability in the particular country, prudent and feasible tax planning strategies, changes in tax laws, and estimates of future earnings and taxable income using the same assumptions as those used for the Company's goodwill and other impairment testing. After evaluation of these factors, if the deferred income tax assets are expected to be realized within the tax carryforward period allowed for that specific country, management would conclude that no valuation allowance would be required. To the extent that the deferred income tax assets exceed the amount that is expected to be realized within the tax carryforward period for a particular jurisdiction, management would establish a valuation allowance.

Applying the above methodology, valuation allowances have been established for certain deferred income tax assets to the extent they are not expected to be realized within the particular tax carryforward period.

Unrecognized Income Tax Benefits

A summary of gross unrecognized income tax benefits follows:

| | 2019 | 2018 | 2017 |
|---|-----------------|---------------|---------------|
| Balance at January 1 | \$ 913 | \$ 735 | \$ 629 |
| Increases and decreases as a result of positions taken during prior years | | | |
| Transfers from valuation allowances | 15 | 2 | — |
| Other increases, including currency translation | 22 | 164 | 10 |
| Other decreases, including currency translation | (10) | (35) | (30) |
| Increases as a result of positions taken during the current year | | | |
| Decreases relating to settlements with tax authorities | (16) | (3) | (10) |
| Decreases as a result of a lapse of the applicable statute of limitations | (3) | (19) | (26) |
| Balance at December 31 | <u>\$ 1,001</u> | <u>\$ 913</u> | <u>\$ 735</u> |

Eaton recognizes an income tax benefit from an uncertain tax position only if it is more likely than not that the benefit would be sustained upon examination by taxing authorities, based on the technical merits of the position. The Company evaluates and adjusts the amount of unrecognized income tax benefits based on changes in facts and circumstances. The Company does not enter into any of the United States Internal Revenue Service (IRS) Listed Transactions as set forth in Treasury Regulation 1.6011-4.

If all unrecognized income tax benefits were recognized, the net impact on the provision for income tax expense would be \$660, which includes the impact of deferred tax netting pursuant to ASU 2013-11.

As of December 31, 2019 and 2018, Eaton had accrued approximately \$93 and \$74, respectively, for the payment of worldwide interest and penalties, which are not included in the table of unrecognized income tax benefits above. Eaton recognizes interest and penalties related to unrecognized income tax benefits in the provision for income tax expense.

The resolution of the majority of Eaton's unrecognized income tax benefits is dependent upon uncontrollable factors such as the prospect of retroactive regulations; new case law; and the willingness of the income tax authority to settle the issue, including the timing thereof. Therefore, for the majority of unrecognized income tax benefits, it is not reasonably possible to estimate the increase or decrease in the next 12 months. For each of the unrecognized income tax benefits where it is possible to estimate the increase or decrease in the balance within the next 12 months, the Company does not anticipate any significant change.

Eaton or its subsidiaries file income tax returns in Ireland and many countries around the world. With only a few exceptions, Irish and non-United States subsidiaries of Eaton are no longer subject to examinations for years before 2012.

The United States Internal Revenue Service ("IRS") has completed its examination of the consolidated income tax returns of the Company's United States subsidiaries ("Eaton US") for 2005 through 2010 and has issued Statutory Notices of Deficiency (Notices) as discussed below. The statute of limitations on these tax years remains open until the matters are resolved. The IRS has also completed its examination of the consolidated income tax returns of Eaton US for 2011 through 2013 and has issued proposed adjustments as discussed below. The statute of limitations on these tax years remains open until June 30, 2021. The IRS is currently examining tax years 2014 through 2016. The statute of limitations for tax years 2014 through 2016 is open until May 31, 2021. Tax years 2017 and 2018 are still subject to examination by the IRS.

Eaton US is also under examination for the income tax filings in various states and localities of the United States. Income tax returns of states and localities within the United States will be reopened to the extent of United States federal income tax adjustments, if any, going back to 2005 when those audit years are finalized. Some states and localities might not limit their assessment to the United States federal adjustments, and may require the opening of the entire tax year.

In 2011, the IRS issued a Notice for Eaton US for the 2005 and 2006 tax years (the 2011 Notice). The 2011 Notice proposed assessments of \$75 in additional taxes plus \$52 in penalties related primarily to transfer pricing adjustments for products manufactured in the Company's facilities in Puerto Rico and the Dominican Republic and sold to affiliated companies located in the United States. Eaton US has set its transfer prices for products sold between these affiliates at the same prices that Eaton US sells such products to third parties as required by two successive Advance Pricing Agreements (APAs) Eaton US entered into with the IRS that governed the 2005-2010 tax years. Eaton US has continued to apply the arms-length transfer pricing methodology for 2011 through the current reporting period. Immediately prior to the 2011 Notice being issued, the IRS sent a letter stating that it was retrospectively canceling the APAs. Eaton US contested the proposed assessments in United States Tax Court. The case involved both whether the APAs should be enforced and, if not, the appropriate transfer pricing methodology. On July 26, 2017, the United States Tax Court issued a ruling in which it agreed with Eaton US that the IRS must abide by the terms of the APAs for the tax years 2005-2006. The Tax Court's ruling on the APAs did not have a material impact on Eaton's consolidated financial statements.

In 2014, Eaton US received a Notice from the IRS for the 2007 through 2010 tax years (the 2014 Notice) proposing assessments of \$190 in additional taxes plus \$72 in penalties, net of agreed credits and deductions, which the Company has also contested in Tax Court. The proposed assessments pertain primarily to the same transfer pricing issues and APA for which the Tax Court has issued its ruling during 2017 as noted above. The Company believes that the Tax Court's ruling for tax years 2005-2006 will also be applicable to the 2007-2010 years. Following the issuance of the Tax Court's ruling, Eaton and the IRS recognized that the ruling on the enforceability of the APAs did not address a secondary issue regarding the transfer pricing for a certain royalty paid from 2006-2010. Eaton US reported a consistent royalty rate for 2006-2010. The IRS has agreed to the royalty rate as reported by Eaton US in 2006. Although the IRS has not proposed an alternative rate, it has not agreed to apply the same royalty rate in the 2007-2010 years.

The 2014 Notice also includes a separate proposed assessment involving the recognition of income for several of Eaton US's controlled foreign corporations. The Company believes that the proposed assessment is without merit and is contesting the matter in Tax Court. In October 2017, Eaton and the IRS both moved for partial summary judgment on this issue. On February 25, 2019 the Tax Court granted the IRS's motion for partial summary judgment and denied Eaton's. The Company intends to appeal the Tax Court's partial summary judgment decision to the United States Sixth Circuit Court of Appeals. The Company believes that it will be successful on appeal and has not recorded any additional impact of the Tax Court's decision in its consolidated financial statements. The total potential impact of the Tax Court's partial summary judgment decision on the controlled foreign corporation income recognition issue is not estimable until all matters in the open tax years have been resolved.

In 2018 the IRS completed its examination of the Eaton US tax years 2011 through 2013 and has proposed adjustments to certain transfer pricing tax positions, including adjustments similar to those proposed in the 2011 and 2014 Notices for products manufactured in the Company's facilities in Puerto Rico and the Dominican Republic and sold to affiliated companies located in the United States. The IRS also proposed adjustments involving the recognition of income for several of Eaton US's controlled foreign corporation, which is the same issue included in the 2014 Notice described above and subject to litigation in Tax Court. The Company intends to pursue its administrative appeals alternatives with respect to each of the IRS adjustments and believes that final resolution of the proposed adjustments will not have a material impact on its consolidated financial statements.

During 2010, the Company received a tax assessment, which included interest and penalties, in Brazil for the tax years 2005 through 2008 that relates to the amortization of certain goodwill generated from the acquisition of third-party businesses and corporate reorganizations. In 2018 the Company received an unfavorable result at the final tax administrative appeals level, resulting in an alleged tax deficiency of \$31 plus \$84 of interest and penalties (translated at the December 31, 2019 exchange rate). The Company is challenging the assessment in the judicial system. During 2014, the Company received a tax assessment, which included interest and penalties, for the 2009 through 2012 tax years (primarily relating to the same issues concerning the 2005 through 2008 tax years). In November 2019, the Company received an unfavorable result at the final tax administrative appeals level, resulting in an alleged tax deficiency of \$33 plus \$117 of interest and penalties (translated at the December 31, 2019 exchange rate). The Company plans to challenge the assessment in the judicial system. Challenges in the judicial system are expected to take up to 10 years to resolve. The Company continues to believe that final resolution of both of the assessments will not have a material impact on its consolidated financial statements.

Note 10. EATON SHAREHOLDERS' EQUITY

There are 750 million Eaton ordinary shares authorized (\$0.01 par value per share), 413.3 million and 423.6 million of which were issued and outstanding at December 31, 2019 and 2018, respectively. Eaton's Memorandum and Articles of Association authorized 40 thousand deferred ordinary shares (€1.00 par value per share) and 10 thousand preferred A shares (\$1.00 par value per share), all of which were issued and outstanding at December 31, 2019 and 2018, and 10 million serial preferred shares (\$0.01 par value per share), none of which is outstanding at December 31, 2019 and 2018. At December 31, 2019, there were 12,072 holders of record of Eaton ordinary shares. Additionally, 17,699 current and former employees were shareholders through participation in the Eaton Savings Plan, the Eaton Personal Investment Plan, or the Eaton Puerto Rico Retirement Savings Plan.

On February 24, 2016, the Board of Directors adopted a share repurchase program for share repurchases up to \$2,500 of ordinary shares (2016 Program). Under the 2016 Program, the ordinary shares were expected to be repurchased over time, depending on market conditions, the market price of ordinary shares, capital levels, and other considerations. During 2018 and 2017, 13.2 million and 11.5 million shares, respectively, were purchased on the open market under the 2016 Program for a total cost of \$1,002 and \$850, respectively. An additional 4.3 million shares were purchased on the open market in December 2018 outside of the 2016 Program for a total cost of \$298. On February 27, 2019, the Board of Directors adopted a new share repurchase program for share repurchases up to \$5,000 of ordinary shares (2019 Program). Under the 2019 Program, the ordinary shares are expected to be repurchased over time, depending on market conditions, the market price of ordinary shares, capital levels, and other considerations. During 2019, 12.5 million ordinary shares were repurchased under the 2019 Program in the open market at a total cost of \$1,000.

Eaton has deferral plans that permit certain employees and directors to defer a portion of their compensation. A trust contains \$5 and \$8 of ordinary shares and marketable securities at December 31, 2019 and 2018, respectively, to fund a portion of these liabilities. The marketable securities were included in Other assets and the ordinary shares were included in Shareholders' equity at historical cost.

On February 26, 2020, Eaton's Board of Directors declared a quarterly dividend of \$0.73 per ordinary share, a 3% increase over the dividend paid in the fourth quarter of 2019. The dividend is payable on March 27, 2020 to shareholders of record on March 13, 2020.

Comprehensive Income (Loss)

Comprehensive income (loss) consists primarily of net income, currency translation and related hedging instruments, changes in unrecognized costs of pension and other postretirement benefits, and changes in the effective portion of open derivative contracts designated as cash flow hedges. The following table summarizes the pre-tax and after-tax amounts recognized in Comprehensive income (loss):

| | 2019 | | 2018 | | 2017 | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Pre-tax | After-tax | Pre-tax | After-tax | Pre-tax | After-tax |
| Currency translation and related hedging instruments | \$ 15 | \$ 16 | \$ (613) | \$ (609) | \$ 800 | \$ 807 |
| Pensions and other postretirement benefits | | | | | | |
| Prior service credit (cost) arising during the year | (2) | (2) | (25) | (20) | (1) | — |
| Net gain (loss) arising during the year | (294) | (232) | (358) | (274) | 215 | 169 |
| Currency translation | (16) | (13) | 37 | 29 | (67) | (53) |
| Other | — | — | — | 5 | — | (5) |
| Amortization of actuarial loss and prior service cost reclassified to earnings | 148 | 117 | 168 | 121 | 188 | 130 |
| | <u>(164)</u> | <u>(130)</u> | <u>(178)</u> | <u>(139)</u> | <u>335</u> | <u>241</u> |
| Cash flow hedges | | | | | | |
| Gain (loss) on derivatives designated as cash flow hedges | (33) | (27) | (8) | (6) | (24) | (15) |
| Changes in cash flow hedges reclassified to earnings | (5) | (4) | 16 | 13 | 17 | 11 |
| Cash flow hedges, net of reclassification adjustments | <u>(38)</u> | <u>(31)</u> | <u>8</u> | <u>7</u> | <u>(7)</u> | <u>(4)</u> |
| Other comprehensive income (loss) attributable to Eaton ordinary shareholders | <u>\$ (187)</u> | <u>\$ (145)</u> | <u>\$ (783)</u> | <u>\$ (741)</u> | <u>\$ 1,128</u> | <u>\$ 1,044</u> |

The changes in Accumulated other comprehensive loss follow:

| | Currency translation and related hedging instruments | Pensions and other postretirement benefits | Cash flow hedges | Total |
|---|--|--|------------------|------------|
| Balance at January 1, 2019 | \$ (2,864) | \$ (1,278) | \$ (3) | \$ (4,145) |
| Other comprehensive income (loss) before reclassifications | 16 | (247) | (27) | (258) |
| Amounts reclassified from Accumulated other comprehensive loss (income) | — | 117 | (4) | 113 |
| Net current-period Other comprehensive income (loss) | 16 | (130) | (31) | (145) |
| Balance at December 31, 2019 | \$ (2,848) | \$ (1,408) | \$ (34) | \$ (4,290) |

The reclassifications out of Accumulated other comprehensive loss follow:

| | December 31, 2019 | Consolidated Statements of Income classification |
|--|-------------------|--|
| Amortization of defined benefits pension and other postretirement benefits items | | |
| Actuarial loss and prior service cost | \$ (148) | ¹ |
| Tax benefit | 31 | |
| Total, net of tax | (117) | |
| Gains and (losses) on cash flow hedges | | |
| Currency exchange contracts | 5 | Net sales and Cost of products sold |
| Tax expense | (1) | |
| Total, net of tax | 4 | |
| Total reclassifications for the period | \$ (113) | |

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

Net Income Per Share Attributable to Eaton Ordinary Shareholders

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

| (Shares in millions) | 2019 | 2018 | 2017 |
|--|----------|----------|----------|
| Net income attributable to Eaton ordinary shareholders | \$ 2,211 | \$ 2,145 | \$ 2,985 |
| Weighted-average number of ordinary shares outstanding - diluted | 420.8 | 436.9 | 447 |
| Less dilutive effect of equity-based compensation | 1.8 | 2.6 | 2.5 |
| Weighted-average number of ordinary shares outstanding - basic | 419.0 | 434.3 | 444.5 |
| Net income per share attributable to Eaton ordinary shareholders | | | |
| Diluted | \$ 5.25 | \$ 4.91 | \$ 6.68 |
| Basic | 5.28 | 4.93 | 6.71 |

In 2019, 2018, and 2017, 0.8 million, 0.5 million, and 0.4 million stock options, respectively, were excluded from the calculation of diluted net income per share attributable to Eaton ordinary shareholders because the exercise price of the options exceeded the average market price of the ordinary shares during the period and their effect, accordingly, would have been antidilutive.

Note 11. EQUITY-BASED COMPENSATION

Eaton recognizes equity-based compensation expense based on the grant date fair value of the award. Awards with service conditions or both service and market conditions are expensed over the period during which an employee is required to provide service in exchange for the award. Awards with both service and performance conditions are expensed over the period an employee is required to provide service based on the number of units for which achievement of the performance objective is probable. The Company estimates forfeitures as part of recording equity-based compensation expense.

Restricted Stock Units and Awards

Restricted stock units (RSUs) and restricted stock awards (RSAs) have been issued to certain employees and directors. The fair value of RSUs awarded in 2017, 2018 and 2019, and RSAs are determined based on the closing market price of the Company's ordinary shares at the date of grant. The RSUs entitle the holder to receive one ordinary share for each RSU upon vesting, generally over three years. RSAs are issued and outstanding at the time of grant, but remain subject to forfeiture until vested, generally over three or four years. A summary of the RSU and RSA activity for 2019 follows:

| (Restricted stock units and awards in millions) | Number of restricted stock units and awards | Weighted-average fair value per unit and award |
|---|---|--|
| Non-vested at January 1 | 2.1 | \$ 68.56 |
| Granted | 0.9 | 80.59 |
| Vested | (1.2) | 65.45 |
| Forfeited | (0.1) | 76.24 |
| Non-vested at December 31 | 1.7 | \$ 76.79 |

Information related to RSUs and RSAs follows:

| | 2019 | 2018 | 2017 |
|-------------------------------------|-------|-------|-------|
| Pre-tax expense for RSUs and RSAs | \$ 57 | \$ 59 | \$ 66 |
| After-tax expense for RSUs and RSAs | 45 | 46 | 43 |
| Fair value of vested RSUs and RSAs | 103 | 71 | 73 |

As of December 31, 2019, total compensation expense not yet recognized related to non-vested RSUs and RSAs was \$75, and the weighted-average period in which the expense is expected to be recognized is 2.3 years. Excess tax benefit for RSUs and RSAs totaled \$3, \$3 and \$2 for 2019, 2018, and 2017, respectively.

Performance Share Units

In February 2019, 2018 and 2017, the Compensation and Organization Committee of the Board of Directors approved the grant of performance share units (PSUs) to certain employees that vest based on the satisfaction of a three-year service period and total shareholder return relative to that of a group of peers. Awards earned at the end of the three-year vesting period range from 0% to 200% of the targeted number of PSUs granted based on the ranking of total shareholder return of the Company, assuming reinvestment of all dividends, relative to a defined peer group of companies. Equity-based compensation expense for these PSUs is recognized over the period during which an employee is required to provide service in exchange for the award. Upon vesting, dividends that have accumulated during the vesting period are paid on earned awards.

The Company uses a Monte Carlo simulation to estimate the fair value of PSUs with market conditions. The principal assumptions utilized in valuing these PSUs include the expected stock price volatility (based on the most recent 3-year period as of the grant date) and the risk-free interest rate (an estimate based on the yield of United States Treasury zero coupon bonds with a 3-year maturity as of the grant date). A summary of the assumptions used in determining fair value of these PSUs follows:

| | 2019 | 2018 | 2017 |
|---|----------|-----------|----------|
| Expected volatility | 21% | 22% | 24% |
| Risk-free interest rate | 2.42% | 2.38% | 1.46% |
| Weighted-average fair value of PSUs granted | \$ 92.50 | \$ 100.86 | \$ 80.07 |

A summary of these PSUs that vested follows:

| (Performance share units in millions) | 2019 | 2018 |
|---------------------------------------|------|------|
| Percent payout | 130% | 116% |
| Shares vested | 0.3 | 0.5 |

A summary of the 2019 activity for these PSUs follows:

| (Performance share units in millions) | Number of performance share units | Weighted-average fair value per unit |
|--|-----------------------------------|--------------------------------------|
| Non-vested at January 1 | 0.6 | \$ 89.95 |
| Granted ¹ | 0.3 | 92.50 |
| Adjusted for performance results achieved ² | 0.1 | 80.07 |
| Vested | (0.3) | 80.07 |
| Forfeited | (0.1) | 90.91 |
| Non-vested at December 31 | 0.6 | \$ 96.14 |

¹ Performance shares granted assuming the Company will perform at target relative to peers.

² Adjustments for the number of shares vested under the 2017 awards at the end of the three-year performance period ended December 31, 2019, being higher than the target number of shares.

In February 2016, performance share units were granted to certain employees that entitles the holder to receive one ordinary share for each PSU that vest based on the satisfaction of a three-year service period and the achievement of certain performance metrics over that same period. Upon vesting, PSU holders receive dividends that accumulate during the vesting period. The fair value of these PSUs is determined based on the closing market price of the Company's ordinary shares at the date of grant. Equity-based compensation expense is recognized over the period an employee is required to provide service based on the number of PSUs for which achievement of the performance objectives is probable. A summary of the 2019 activity for these PSUs follows:

| (Performance share units in millions) | Number of performance share units | Weighted-average fair value per unit |
|---------------------------------------|-----------------------------------|--------------------------------------|
| Non-vested at January 1 | 0.1 | \$ 56.55 |
| Granted | — | — |
| Vested | (0.1) | 56.55 |
| Forfeited | — | — |
| Non-vested at December 31 | — | \$ — |

Information related to PSUs follows:

| | 2019 | 2018 | 2017 |
|----------------------------|-------|-------|-------|
| Pre-tax expense for PSUs | \$ 21 | \$ 28 | \$ 22 |
| After-tax expense for PSUs | 17 | 22 | 13 |

As of December 31, 2019, total compensation expense not yet recognized related to non-vested PSUs was \$30 and the weighted-average period in which the expense is to be recognized is 1.7 years. Excess tax benefit for PSUs totaled \$1 in 2019, and there was no excess tax benefit for PSUs in 2018 and 2017.

Stock Options

Under various plans, stock options have been granted to certain employees and directors to purchase ordinary shares at prices equal to fair market value on the date of grant. Substantially all of these options vest ratably during the three-year period following the date of grant and expire 10 years from the date of grant. Compensation expense is recognized for stock options based on the fair value of the options at the date of grant and amortized on a straight-line basis over the period the employee or director is required to provide service.

The Company uses a Black-Scholes option pricing model to estimate the fair value of stock options. The principal assumptions utilized in valuing stock options include the expected stock price volatility (based on the most recent historical period equal to the expected life of the option); the expected option life (an estimate based on historical experience); the expected dividend yield; and the risk-free interest rate (an estimate based on the yield of United States Treasury zero coupon with a maturity equal to the expected life of the option). A summary of the assumptions used in determining the fair value of stock options follows:

| | 2019 | 2018 | 2017 |
|--|-------------|-------------|-------------|
| Expected volatility | 23% | 26% | 27% |
| Expected option life in years | 6.6 | 6.7 | 6.6 |
| Expected dividend yield | 3.2% | 3.0% | 2.8% |
| Risk-free interest rate | 1.9 to 2.6% | 2.6 to 2.9% | 1.8 to 2.1% |
| Weighted-average fair value of stock options granted | \$ 14.08 | \$ 16.93 | \$ 15.11 |

A summary of stock option activity follows:

| (Options in millions) | Weighted-average exercise price per option | Options | Weighted-average remaining contractual life in years | Aggregate intrinsic value |
|---|--|---------|--|---------------------------|
| Outstanding at January 1, 2019 | \$ 65.96 | 4.6 | | |
| Granted | 80.47 | 0.8 | | |
| Exercised | 60.47 | (1.2) | | |
| Forfeited and canceled | 74.08 | (0.1) | | |
| Outstanding at December 31, 2019 | \$ 69.95 | 4.1 | 6.2 | \$ 102.5 |
| Exercisable at December 31, 2019 | \$ 65.59 | 2.8 | 5.2 | \$ 82.6 |
| Reserved for future grants at December 31, 2019 | | 9.3 | | |

The aggregate intrinsic value in the table above represents the total excess of the \$94.72 closing price of Eaton ordinary shares on the last trading day of 2019 over the exercise price of the stock option, multiplied by the related number of options outstanding and exercisable. The aggregate intrinsic value is not recognized for financial accounting purposes and the value changes based on the daily changes in the fair market value of the Company's ordinary shares.

Information related to stock options follows:

| | 2019 | 2018 | 2017 |
|---|------|-------|-------|
| Pre-tax expense for stock options | \$ 9 | \$ 11 | \$ 11 |
| After-tax expense for stock options | 7 | 9 | 8 |
| Proceeds from stock options exercised | 67 | 29 | 66 |
| Income tax benefit related to stock options exercised | | | |
| Tax benefit classified in operating activities in the Consolidated Statements of Cash Flows | 4 | 3 | 13 |
| Intrinsic value of stock options exercised | 29 | 17 | 41 |
| Total fair value of stock options vested | \$ 9 | \$ 11 | \$ 11 |
| Stock options exercised, in millions of options | 1.2 | 0.6 | 1.5 |

As of December 31, 2019, total compensation expense not yet recognized related to non-vested stock options was \$10, and the weighted-average period in which the expense is expected to be recognized is 1.8 years.

Note 12. 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) |
|--------------------------|--------|---|--|-------------------------------------|
| 2019 | | | | |
| Cash | \$ 370 | \$ 370 | \$ — | \$ — |
| Short-term investments | 221 | 221 | — | — |
| Net derivative contracts | 53 | — | 53 | — |
| 2018 | | | | |
| Cash | \$ 283 | \$ 283 | \$ — | \$ — |
| Short-term investments | 157 | 157 | — | — |
| Net derivative contracts | 14 | — | 14 | — |

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

Other Fair Value Measurements

Long-term debt and the current portion of long-term debt had a carrying value of \$8,067 and fair value of \$8,638 at December 31, 2019 compared to \$7,107 and \$7,061, respectively, at December 31, 2018. The fair value of Eaton's debt instruments was estimated using prevailing market interest rates on debt with similar creditworthiness, terms and maturities and is considered a Level 2 fair value measurement.

As discussed in Note 2, on July 31, 2017 Eaton sold a 50% interest in its heavy-duty and medium-duty commercial vehicle automated transmission business to Cummins, Inc. Eaton's remaining 50% interest was remeasured to a fair value of \$600 on July 31, 2017 using a discounted cash flow model which is considered a Level 3 fair value measurement. The model includes estimates of future cash flows, future growth rates, terminal value amounts, and the applicable weighted-average cost of capital used to discount those estimated cash flows. Eaton accounts for its investment on the equity method of accounting.

Short-Term Investments

Eaton invests excess cash generated from operations in short-term marketable investments. A summary of the carrying value, which approximates the fair value due to the short-term maturities of these investments, follows:

| | 2019 | 2018 |
|--|--------|--------|
| Time deposits and certificates of deposit with banks | \$ 150 | \$ 111 |
| Money market investments | 71 | 46 |
| Total short-term investments | \$ 221 | \$ 157 |

Note 13. 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, 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 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 gain or loss from the derivative financial instrument is recognized in Accumulated other comprehensive income 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 gain or loss from the derivative financial instrument is recognized in Accumulated other comprehensive income 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 is classified in the same line of the Consolidated Statements of Income as the offsetting loss or gain on the hedged item. The cash flows resulting from these financial instruments are classified in operating activities on the Consolidated Statements of Cash Flows.

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

Eaton uses certain of its debt denominated in foreign currency to hedge portions of its net investments in foreign operations against foreign currency exposure (net investment hedges). Foreign currency denominated debt designated as non-derivative net investment hedging instruments had a carrying value on an after-tax basis of \$1,845 and on a pre-tax basis of \$623 at December 31, 2019 and 2018, respectively. See Note 6 for additional information about debt.

Interest Rate Risk

Eaton has entered into fixed-to-floating interest rate swaps to manage interest rate risk of certain long-term debt. These interest rate swaps are accounted for as fair value hedges of certain long-term debt. The maturity of the swap corresponds with the maturity of the debt instrument as noted in the table of long-term debt in Note 6. Eaton also entered into several forward starting floating-to-fixed interest rate swaps to manage interest rate risk on a future anticipated debt issuance.

A summary of interest rate swaps outstanding at December 31, 2019, follows:

Fixed-to-Floating Interest Rate Swaps

| Notional amount | Fixed interest rate received | Floating interest rate paid | Basis for contracted floating interest rate paid |
|-----------------|------------------------------|-----------------------------|--|
| 150 | 3.88% | 4.35% | 1 month LIBOR + 2.12% |
| 275 | 3.47% | 3.97% | 1 month LIBOR + 1.74% |
| 100 | 8.10% | 8.13% | 1 month LIBOR + 5.90% |
| 1,400 | 2.75% | 2.85% | 1 month LIBOR + 0.58% |
| 200 | 3.68% | 3.30% | 1 month LIBOR + 1.07% |
| 25 | 7.63% | 4.87% | 6 month LIBOR + 2.48% |
| 50 | 7.65% | 5.21% | 6 month LIBOR + 2.57% |
| 25 | 5.45% | 2.79% | 6 month LIBOR + 0.28% |

Forward Starting Floating-to-Fixed Interest Rate Swaps

| Notional amount | Floating interest rate to be received | Fixed interest rate to be paid | Basis for contracted floating interest rate received |
|-----------------|---------------------------------------|--------------------------------|--|
| \$ 50 | —% | 3.10% | 3 month LIBOR + 0.00% |
| 50 | —% | 3.06% | 3 month LIBOR + 0.00% |
| 50 | —% | 2.80% | 3 month LIBOR + 0.00% |
| 50 | —% | 2.81% | 3 month LIBOR + 0.00% |
| 50 | —% | 2.64% | 3 month LIBOR + 0.00% |
| 50 | —% | 2.64% | 3 month LIBOR + 0.00% |
| 50 | —% | 2.30% | 3 month LIBOR + 0.00% |
| 50 | —% | 2.08% | 3 month LIBOR + 0.00% |
| 50 | —% | 1.77% | 3 month LIBOR + 0.00% |
| 50 | —% | 1.51% | 3 month LIBOR + 0.00% |

Derivative Financial Statement Impacts

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

| | Notional amount | Other current assets | Other noncurrent assets | Other current liabilities | Other noncurrent liabilities | Type of hedge | Term |
|--|-----------------|----------------------|-------------------------|---------------------------|------------------------------|---------------|-----------------------|
| December 31, 2019 | | | | | | | |
| Derivatives designated as hedges | | | | | | | |
| Fixed-to-floating interest rate swaps | \$ 2,225 | \$ — | \$ 57 | \$ — | \$ — | Fair value | 12 months to 15 years |
| Forward starting floating-to-fixed interest rate swaps | 500 | — | 3 | — | 42 | Cash flow | 13 to 33 years |
| Currency exchange contracts | 1,146 | 14 | 3 | 11 | 6 | Cash flow | 1 to 36 months |
| Commodity contracts | 9 | — | — | — | — | Cash flow | 1 to 9 months |
| Total | | <u>\$ 14</u> | <u>\$ 63</u> | <u>\$ 11</u> | <u>\$ 48</u> | | |
| Derivatives not designated as hedges | | | | | | | |
| Currency exchange contracts | \$ 4,975 | \$ 48 | | \$ 13 | | | 1 to 12 months |
| Commodity contracts | 3 | — | | — | | | 1 month |
| Total | | <u>\$ 48</u> | | <u>\$ 13</u> | | | |
| December 31, 2018 | | | | | | | |
| Derivatives designated as hedges | | | | | | | |
| Fixed-to-floating interest rate swaps | \$ 2,550 | \$ — | \$ 22 | \$ 1 | \$ 26 | Fair value | 3 months to 16 years |
| Forward starting floating-to-fixed interest rate swaps | 100 | — | — | — | 3 | Cash flow | 34 years |
| Currency exchange contracts | 951 | 19 | 2 | 11 | 8 | Cash flow | 1 to 36 months |
| Total | | <u>\$ 19</u> | <u>\$ 24</u> | <u>\$ 12</u> | <u>\$ 37</u> | | |
| Derivatives not designated as hedges | | | | | | | |
| Currency exchange contracts | \$ 3,886 | \$ 40 | | \$ 20 | | | 1 to 12 months |
| Total | | <u>\$ 40</u> | | <u>\$ 20</u> | | | |

The currency exchange contracts shown in the table above as derivatives not designated as hedges are primarily contracts entered into to manage currency volatility or exposure on intercompany receivables, payables and loans. While Eaton does not elect hedge accounting treatment for these derivatives, Eaton targets managing 100% of the intercompany balance sheet exposure to minimize the effect of currency volatility related to the movement of goods and services in the normal course of its operations. This activity represents the great majority of these currency exchange contracts. For the years ended December 31, 2019 and 2018, \$54 of cash inflow and \$110 of cash outflow, respectively, resulting from the settlement of these derivatives have been classified in investing activities in the Consolidated Statement of Cash Flows. The net cash flow from the settlement of these derivatives has been presented in operating activities in 2017 and have not been restated as such amounts are not material.

As of December 31, 2019, the volume of outstanding commodity contracts that were entered into to hedge forecasted transactions:

| Commodity | December 31, 2019 | Term |
|-----------|----------------------|---------------|
| Copper | 2 millions of pounds | 1 to 4 months |
| Gold | 2,158 Troy ounces | 1 to 9 months |

The following amounts were recorded on the Consolidated Balance Sheets related to fixed-to-floating interest rate swaps:

| Location on Consolidated Balance Sheets | Carrying amount of the hedged assets (liabilities) | Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged asset (liabilities) ^(a) |
|---|--|---|
| | December 31, 2019 | December 31, 2019 |
| Long-term debt | \$ (2,838) | \$ (97) |

^(a) At December 31, 2019, these amounts include the cumulative liability amount of fair value hedging adjustments remaining for which the hedge accounting has been discontinued of \$40.

The impact of hedging activities to the Consolidated Statements of Income are as follow:

| | 2019 | | |
|--|-----------|--------------------------|---------------------------|
| | Net Sales | Cost of products sold | Interest expense - net |
| Amounts from Consolidated Statements of Income | \$ 21,390 | \$ 14,338 | \$ 236 |
| Gain (loss) on derivatives designated as cash flow hedges | | | |
| Currency exchange contracts | | | |
| Hedged item | \$ 7 | \$ (12) | \$ — |
| Derivative designated as hedging instrument | (7) | 12 | — |
| Commodity contracts | | | |
| Hedged item | \$ — | \$ — | \$ — |
| Derivative designated as hedging instrument | — | — | — |
| Gain (loss) on derivatives designated as fair value hedges | | | |
| Fixed-to-floating interest rate swaps | | | |
| Hedged item | \$ — | \$ — | \$ (62) |
| Derivative designated as hedging instrument | — | — | 62 |

The impact of derivatives not designated as hedges to the Consolidated Statements of Income are as follow:

| | Gain (loss) recognized in Consolidated Statements of Income | Consolidated Statements of Income classification |
|---|---|---|
| | 2019 | |
| Gain (loss) on derivatives not designated as hedges | | |
| Currency exchange contracts | \$ 73 | Other income - net |
| Commodity Contracts | — | Cost of products sold |
| Total | \$ 73 | |

The impact of derivative and non-derivative instruments designated as hedges to the Consolidated Statements of Income and Comprehensive Income follow:

| | Gain (loss) recognized in other comprehensive (loss) income | | Location of gain (loss) reclassified from Accumulated other comprehensive loss | Gain (loss) reclassified from Accumulated other comprehensive loss | |
|---|---|--------------|--|--|----------------|
| | 2019 | 2018 | | 2019 | 2018 |
| Derivatives designated as cash flow hedges | | | | | |
| Forward starting floating-to-fixed interest rate swaps | \$ (36) | \$ (4) | Interest expense - net | \$ — | \$ — |
| Currency exchange contracts | 3 | (4) | Net sales and Cost of products sold | 5 | (16) |
| Commodity contracts | — | — | Cost of products sold | — | — |
| Non-derivative designated as net investment hedges | | | | | |
| Foreign currency denominated debt | 15 | 47 | Other income - net | — | — |
| Total | \$ (18) | \$ 39 | | \$ 5 | \$ (16) |

At December 31, 2019, a gain of \$2 of estimated unrealized net gains or losses associated with our cash flow hedges were expected to be reclassified to income from Accumulated other comprehensive loss within the next twelve months. These reclassifications relate to our designated foreign currency and commodity hedges that will mature in the next 12 months.

Note 14. ACCOUNTS RECEIVABLE AND INVENTORY

Accounts Receivable

Eaton performs ongoing credit evaluation of its customers and maintains sufficient allowances for potential credit losses. The Company evaluates the collectability of its accounts receivable based on the length of time the receivable is past due and any anticipated future write-off based on historic experience. Accounts receivable balances are written off against an allowance for doubtful accounts after a final determination of uncollectability has been made. Accounts receivable are net of an allowance for doubtful accounts of \$49 and \$55 at December 31, 2019 and 2018.

Inventory

Inventory is carried at lower of cost or net realizable value using the first-in, first-out (FIFO) method. Cost components include raw materials, purchased components, direct labor, indirect labor, utilities, depreciation, inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, and costs of the distribution network.

The components of inventory follow:

| | 2019 | 2018 |
|------------------------|-----------------|-----------------|
| Raw materials | \$ 986 | \$ 1,077 |
| Work-in-process | 640 | 500 |
| Finished goods | 1,179 | 1,208 |
| Total inventory | \$ 2,805 | \$ 2,785 |

Note 15. BUSINESS SEGMENT AND GEOGRAPHIC REGION 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 segments are as follows:

Electrical Products and Electrical Systems and Services

The Electrical Products segment consists of electrical components, industrial components, residential products, single phase power quality, emergency lighting, fire detection, wiring devices, structural support systems, circuit protection, and lighting products. The Electrical Systems and Services segment consists of power distribution and assemblies, three phase power quality, hazardous duty electrical equipment, intrinsically safe explosion-proof instrumentation, utility power distribution, power reliability equipment, and services. The principal markets for these segments are industrial, institutional, governmental, utility, commercial, residential and information technology. These products are used wherever there is a demand for electrical power in commercial buildings, data centers, residences, apartment and office buildings, hospitals, factories, utilities, and industrial and energy facilities. The segments share several common global customers, but a large number of customers are located regionally. Sales are made directly to original equipment manufacturers, utilities, and certain other end users, as well as through distributors, resellers, and manufacturers' representatives.

Hydraulics

The Hydraulics segment is a global leader in hydraulics components, systems and services for industrial and mobile equipment. Eaton offers a wide range of power products including pumps, motors and hydraulic power units; a broad range of controls and sensing products including valves, cylinders and electronic controls; a full range of fluid conveyance products including industrial and hydraulic hose, fittings, and assemblies, thermoplastic hose and tubing, couplings, connectors, and assembly equipment; filtration systems solutions; industrial drum and disc brakes; and golf grips. The principal markets for the Hydraulics segment include renewable energy, marine, agriculture, oil and gas, construction, mining, forestry, utility, material handling, truck and bus, machine tools, molding, primary metals, and power generation. Key manufacturing customers in these markets and other customers are located globally. Products are sold and serviced through a variety of channels.

Aerospace

The Aerospace segment is a leading global supplier of aerospace fuel, hydraulics, and pneumatic systems for commercial and military use. Products include hydraulic power generation systems for aerospace applications including pumps, motors, hydraulic power units, hose and fittings, electro-hydraulic pumps; controls and sensing products including valves, cylinders, electronic controls, electromechanical actuators, sensors, aircraft flap and slat systems and nose wheel steering systems; fluid conveyance products, including hose, thermoplastic tubing, fittings, adapters, couplings, sealing and ducting; and fuel systems including fuel pumps, sensors, valves, adapters and regulators. The principal markets for the Aerospace segment are manufacturers of commercial and military aircraft and related after-market customers. These manufacturers and other customers operate globally. Products are sold and serviced through a variety of channels.

Vehicle

The Vehicle segment is a leader in the design, manufacture, marketing, and supply of: drivetrain, powertrain systems and critical components that reduce emissions and improve fuel economy, stability, performance, and safety of cars, light trucks and commercial vehicles. Products include transmissions, clutches, hybrid power systems, superchargers, engine valves and valve actuation systems, cylinder heads, locking and limited slip differentials, transmission controls, and fuel vapor components for the global vehicle industry. The principal markets for the Vehicle segment are original equipment manufacturers and aftermarket customers of heavy-, medium-, and light-duty trucks, SUVs, CUVs, passenger cars and agricultural equipment.

eMobility

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

Other Information

No single customer represented greater than 10% of net sales in 2019, 2018 or 2017, respectively.

The accounting policies of the business segments are generally the same as the policies described in Note 1, except that operating profit only reflects the service cost component and the cost of any special termination benefits related to pensions and other postretirement benefits. Intersegment sales and transfers are accounted for at the same prices as if the sales and transfers were made to third parties. These intersegment sales are eliminated in consolidation. Operating profit includes the operating profit from intersegment sales.

For purposes of business segment performance measurement, the Company does not allocate items that are of a non-operating nature or are of a corporate or functional governance nature. Corporate expenses consist of costs associated with acquisitions, divestitures, and gains and losses on the sale of certain businesses, and corporate office expenses including compensation, benefits, occupancy, depreciation, and other administrative costs. Identifiable assets of the business segments exclude goodwill, other intangible assets, and general corporate assets, which principally consist of certain cash, short-term investments, deferred income taxes, certain accounts receivable, certain property, plant and equipment, and certain other assets.

Business Segment Information

| | 2019 | 2018 | 2017 |
|---|------------------|------------------|------------------|
| Net sales | | | |
| Electrical Products | \$ 7,148 | \$ 7,124 | \$ 6,917 |
| Electrical Systems and Services | 6,287 | 6,024 | 5,666 |
| Hydraulics | 2,552 | 2,756 | 2,468 |
| Aerospace | 2,044 | 1,896 | 1,744 |
| Vehicle | 3,038 | 3,489 | 3,326 |
| eMobility | 321 | 320 | 283 |
| Total net sales | \$ 21,390 | \$ 21,609 | \$ 20,404 |
| Segment operating profit | | | |
| Electrical Products | \$ 1,390 | \$ 1,311 | \$ 1,233 |
| Electrical Systems and Services | 1,027 | 896 | 770 |
| Hydraulics | 286 | 370 | 288 |
| Aerospace | 495 | 398 | 332 |
| Vehicle | 460 | 611 | 541 |
| eMobility | 17 | 44 | 50 |
| Total segment operating profit | 3,675 | 3,630 | 3,214 |
| Corporate | | | |
| Amortization of intangible assets | (367) | (382) | (388) |
| Interest expense - net | (236) | (271) | (246) |
| Pension and other postretirement benefits expense | (12) | (1) | (45) |
| Gain on sale of business | — | — | 1,077 |
| Arbitration decision expense | — | (275) | — |
| Other corporate expense - net | (469) | (277) | (244) |
| Income before income taxes | 2,591 | 2,424 | 3,368 |
| Income tax expense | 378 | 278 | 382 |
| Net income | 2,213 | 2,146 | 2,986 |
| Less net income for noncontrolling interests | (2) | (1) | (1) |
| Net income attributable to Eaton ordinary shareholders | \$ 2,211 | \$ 2,145 | \$ 2,985 |

| | 2019 | 2018 | 2017 |
|---------------------------------|------------------|------------------|------------------|
| Identifiable assets | | | |
| Electrical Products | \$ 2,201 | \$ 2,451 | \$ 2,446 |
| Electrical Systems and Services | 2,532 | 2,243 | 2,141 |
| Hydraulics | 1,439 | 1,473 | 1,345 |
| Aerospace | 1,362 | 935 | 938 |
| Vehicle | 2,145 | 2,289 | 2,367 |
| eMobility | 141 | 139 | 136 |
| Total identifiable assets | 9,820 | 9,530 | 9,373 |
| Goodwill | 13,456 | 13,328 | 13,568 |
| Other intangible assets | 4,638 | 4,846 | 5,265 |
| Corporate | 3,514 | 3,388 | 4,417 |
| Assets held for sale | 1,377 | — | — |
| Total assets | \$ 32,805 | \$ 31,092 | \$ 32,623 |

| | | | |
|---|---------------|---------------|---------------|
| Capital expenditures for property, plant and equipment | | | |
| Electrical Products | \$ 162 | \$ 135 | \$ 130 |
| Electrical Systems and Services | 108 | 101 | 83 |
| Hydraulics | 90 | 106 | 96 |
| Aerospace | 47 | 38 | 37 |
| Vehicle | 127 | 143 | 141 |
| eMobility | 8 | 4 | 4 |
| Total | 542 | 527 | 491 |
| Corporate | 45 | 38 | 29 |
| Total expenditures for property, plant and equipment | \$ 587 | \$ 565 | \$ 520 |

| | | | |
|--|---------------|---------------|---------------|
| Depreciation of property, plant and equipment | | | |
| Electrical Products | \$ 126 | \$ 136 | \$ 138 |
| Electrical Systems and Services | 87 | 85 | 83 |
| Hydraulics | 66 | 64 | 61 |
| Aerospace | 27 | 26 | 26 |
| Vehicle | 102 | 104 | 109 |
| eMobility | 5 | 5 | 5 |
| Total | 413 | 420 | 422 |
| Corporate | 52 | 53 | 54 |
| Total depreciation of property, plant and equipment | \$ 465 | \$ 473 | \$ 476 |

Geographic Region Information

Net sales are measured based on the geographic destination of sales. Long-lived assets consist of property, plant and equipment - net.

| | 2019 | 2018 | 2017 |
|--------------------------|------------------|------------------|------------------|
| Net sales | | | |
| United States | \$ 12,336 | \$ 12,034 | \$ 11,222 |
| Canada | 941 | 931 | 942 |
| Latin America | 1,312 | 1,442 | 1,485 |
| Europe | 4,311 | 4,553 | 4,394 |
| Asia Pacific | 2,490 | 2,649 | 2,361 |
| Total | \$ 21,390 | \$ 21,609 | \$ 20,404 |
| Long-lived assets | | | |
| United States | \$ 1,821 | \$ 1,898 | \$ 1,872 |
| Canada | 24 | 20 | 20 |
| Latin America | 316 | 286 | 290 |
| Europe | 797 | 723 | 769 |
| Asia Pacific | 538 | 540 | 551 |
| Total | \$ 3,496 | \$ 3,467 | \$ 3,502 |

Note 16. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The Registered Senior Notes issued by Eaton Corporation are registered under the Securities Act of 1933. Eaton and certain of Eaton's 100% owned direct and indirect subsidiaries (the Guarantors) fully and unconditionally guaranteed (subject, in the case of the Guarantors, other than Eaton, to customary release provisions as described below), on a joint and several basis, the Registered Senior Notes. The following condensed consolidating financial statements are included so that separate financial statements of Eaton, Eaton Corporation and each of the Guarantors are not required to be filed with the Securities and Exchange Commission. The consolidating adjustments primarily relate to eliminations of investments in subsidiaries and intercompany balances and transactions. The condensed consolidating financial statements present investments in subsidiaries using the equity method of accounting. See Note 6 for additional information related to the Registered Senior Notes.

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

During 2019, 2018 and 2017, the Company undertook certain steps to restructure ownership of various subsidiaries. The transactions were entirely among wholly-owned subsidiaries under the common control of Eaton. These restructurings have been reflected as of the beginning of the earliest period presented below.

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME YEAR ENDED DECEMBER 31, 2019

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|-----------------|-----------------------|------------------------------|-----------------|
| Net sales | \$ — | \$ 7,322 | \$ 6,995 | \$ 12,101 | \$ (5,028) | \$ 21,390 |
| Cost of products sold | — | 5,646 | 5,073 | 8,651 | (5,032) | 14,338 |
| Selling and administrative expense | 11 | 1,480 | 780 | 1,312 | — | 3,583 |
| Research and development expense | — | 141 | 140 | 325 | — | 606 |
| Interest expense (income) - net | — | 248 | 19 | (29) | (2) | 236 |
| Other expense (income) - net | (12) | 16 | (8) | 40 | — | 36 |
| Equity in loss (earnings) of subsidiaries, net of tax | (2,423) | (593) | (2,492) | (2,563) | 8,071 | — |
| Intercompany expense (income) - net | 213 | 1 | 520 | (734) | — | — |
| Income (loss) before income taxes | 2,211 | 383 | 2,963 | 5,099 | (8,065) | 2,591 |
| Income tax expense (benefit) | — | 3 | 135 | 239 | 1 | 378 |
| Net income (loss) | 2,211 | 380 | 2,828 | 4,860 | (8,066) | 2,213 |
| Less net loss (income) for noncontrolling interests | — | — | — | (2) | — | (2) |
| Net income (loss) attributable to Eaton ordinary shareholders | <u>\$ 2,211</u> | <u>\$ 380</u> | <u>\$ 2,828</u> | <u>\$ 4,858</u> | <u>\$ (8,066)</u> | <u>\$ 2,211</u> |
| Other comprehensive income (loss) | (145) | (6) | (109) | (312) | 427 | (145) |
| Total comprehensive income (loss) attributable to Eaton ordinary shareholders | <u>\$ 2,066</u> | <u>\$ 374</u> | <u>\$ 2,719</u> | <u>\$ 4,546</u> | <u>\$ (7,639)</u> | <u>\$ 2,066</u> |

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2018

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|-----------------|-----------------------|------------------------------|-----------------|
| Net sales | \$ — | \$ 7,395 | \$ 6,875 | \$ 12,649 | \$ (5,310) | \$ 21,609 |
| Cost of products sold | — | 5,805 | 5,012 | 9,011 | (5,317) | 14,511 |
| Selling and administrative expense | 10 | 1,451 | 756 | 1,331 | — | 3,548 |
| Research and development expense | — | 151 | 146 | 287 | — | 584 |
| Interest expense (income) - net | — | 273 | 15 | (18) | 1 | 271 |
| Arbitration decision expense | — | — | 275 | — | — | 275 |
| Other expense (income) - net | (29) | 55 | 22 | (52) | — | (4) |
| Equity in loss (earnings) of subsidiaries, net of tax | (2,302) | (716) | (2,867) | (2,338) | 8,223 | — |
| Intercompany expense (income) - net | 176 | 133 | 1,022 | (1,331) | — | — |
| Income (loss) before income taxes | 2,145 | 243 | 2,494 | 5,759 | (8,217) | 2,424 |
| Income tax expense (benefit) | — | 1 | 28 | 248 | 1 | 278 |
| Net income (loss) | 2,145 | 242 | 2,466 | 5,511 | (8,218) | 2,146 |
| Less net loss (income) for noncontrolling interests | — | — | — | (1) | — | (1) |
| Net income (loss) attributable to Eaton ordinary shareholders | \$ 2,145 | \$ 242 | \$ 2,466 | \$ 5,510 | \$ (8,218) | \$ 2,145 |
| Other comprehensive income (loss) | (741) | (162) | (765) | (1,565) | 2,492 | (741) |
| Total comprehensive income (loss) attributable to Eaton ordinary shareholders | \$ 1,404 | \$ 80 | \$ 1,701 | \$ 3,945 | \$ (5,726) | \$ 1,404 |

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2017

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|-----------------|-----------------------|------------------------------|-----------------|
| Net sales | \$ — | \$ 6,900 | \$ 6,563 | \$ 12,358 | \$ (5,417) | \$ 20,404 |
| Cost of products sold | — | 5,434 | 4,840 | 8,895 | (5,413) | 13,756 |
| Selling and administrative expense | 11 | 1,387 | 768 | 1,360 | — | 3,526 |
| Research and development expense | — | 183 | 176 | 225 | — | 584 |
| Interest expense (income) - net | — | 244 | 20 | (20) | 2 | 246 |
| Gain on sale of business | — | 561 | — | 516 | — | 1,077 |
| Other expense (income) - net | 79 | 48 | (76) | (50) | — | 1 |
| Equity in loss (earnings) of subsidiaries, net of tax | (3,644) | (1,644) | (5,063) | (3,832) | 14,183 | — |
| Intercompany expense (income) - net | 569 | (309) | 794 | (1,054) | — | — |
| Income (loss) before income taxes | 2,985 | 2,118 | 5,104 | 7,350 | (14,189) | 3,368 |
| Income tax expense (benefit) | — | 337 | (52) | 99 | (2) | 382 |
| Net income (loss) | 2,985 | 1,781 | 5,156 | 7,251 | (14,187) | 2,986 |
| Less net loss (income) for noncontrolling interests | — | — | — | (3) | 2 | (1) |
| Net income (loss) attributable to Eaton ordinary shareholders | \$ 2,985 | \$ 1,781 | \$ 5,156 | \$ 7,248 | \$ (14,185) | \$ 2,985 |
| Other comprehensive income (loss) | 1,044 | 104 | 1,021 | 2,252 | (3,377) | 1,044 |
| Total comprehensive income (loss) attributable to Eaton ordinary shareholders | \$ 4,029 | \$ 1,885 | \$ 6,177 | \$ 9,500 | \$ (17,562) | \$ 4,029 |

CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2019

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|---|-----------------------------|----------------------|------------------|-----------------------|------------------------------|------------------|
| Assets | | | | | | |
| Current assets | | | | | | |
| Cash | \$ — | \$ 27 | \$ — | \$ 343 | \$ — | \$ 370 |
| Short-term investments | — | — | — | 221 | — | 221 |
| Accounts receivable - net | — | 460 | 982 | 1,995 | — | 3,437 |
| Intercompany accounts receivable | 9 | 937 | 1,848 | 1,683 | (4,477) | — |
| Inventory | — | 596 | 672 | 1,609 | (72) | 2,805 |
| Assets held for sale | — | — | 1,211 | 166 | — | 1,377 |
| Prepaid expenses and other current assets | — | 106 | 28 | 371 | 13 | 518 |
| Total current assets | 9 | 2,126 | 4,741 | 6,388 | (4,536) | 8,728 |
| Property, plant and equipment - net | — | 854 | 563 | 2,079 | — | 3,496 |
| Other noncurrent assets | | | | | | |
| Goodwill | — | 1,742 | 5,839 | 5,875 | — | 13,456 |
| Other intangible assets | — | 302 | 2,406 | 1,930 | — | 4,638 |
| Operating lease assets | — | 173 | 31 | 232 | — | 436 |
| Deferred income taxes | — | 250 | 74 | 279 | (231) | 372 |
| Investment in subsidiaries | 17,195 | 10,610 | 58,610 | 23,019 | (109,434) | — |
| Intercompany loans receivable | — | 2,643 | 2,983 | 38,671 | (44,297) | — |
| Other assets | — | 817 | 129 | 733 | — | 1,679 |
| Total assets | <u>\$ 17,204</u> | <u>\$ 19,517</u> | <u>\$ 75,376</u> | <u>\$ 79,206</u> | <u>\$ (158,498)</u> | <u>\$ 32,805</u> |
| Liabilities and shareholders' equity | | | | | | |
| Current liabilities | | | | | | |
| Short-term debt | \$ — | \$ 255 | \$ — | \$ — | \$ — | \$ 255 |
| Current portion of long-term debt | — | 4 | 242 | 2 | — | 248 |
| Accounts payable | — | 529 | 340 | 1,245 | — | 2,114 |
| Intercompany accounts payable | 25 | 953 | 2,275 | 1,224 | (4,477) | — |
| Accrued compensation | — | 113 | 58 | 278 | — | 449 |
| Liabilities held for sale | — | — | 232 | 93 | — | 325 |
| Other current liabilities | 1 | 531 | 400 | 809 | — | 1,741 |
| Total current liabilities | <u>26</u> | <u>2,385</u> | <u>3,547</u> | <u>3,651</u> | <u>(4,477)</u> | <u>5,132</u> |
| Noncurrent liabilities | | | | | | |
| Long-term debt | — | 5,886 | 1,921 | 12 | — | 7,819 |
| Pension liabilities | — | 420 | 122 | 920 | — | 1,462 |
| Other postretirement benefits liabilities | — | 172 | 80 | 76 | — | 328 |
| Operating lease liabilities | — | 128 | 21 | 182 | — | 331 |
| Deferred income taxes | — | — | 432 | 195 | (231) | 396 |
| Intercompany loans payable | 1,096 | 5,120 | 36,000 | 2,081 | (44,297) | — |
| Other noncurrent liabilities | — | 570 | 272 | 362 | — | 1,204 |
| Total noncurrent liabilities | <u>1,096</u> | <u>12,296</u> | <u>38,848</u> | <u>3,828</u> | <u>(44,528)</u> | <u>11,540</u> |
| Shareholders' equity | | | | | | |
| Eaton shareholders' equity | 16,082 | 4,836 | 32,981 | 71,676 | (109,493) | 16,082 |
| Noncontrolling interests | — | — | — | 51 | — | 51 |
| Total equity | <u>16,082</u> | <u>4,836</u> | <u>32,981</u> | <u>71,727</u> | <u>(109,493)</u> | <u>16,133</u> |
| Total liabilities and equity | <u>\$ 17,204</u> | <u>\$ 19,517</u> | <u>\$ 75,376</u> | <u>\$ 79,206</u> | <u>\$ (158,498)</u> | <u>\$ 32,805</u> |

CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2018

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|---|-----------------------------|----------------------|------------------|-----------------------|------------------------------|------------------|
| Assets | | | | | | |
| Current assets | | | | | | |
| Cash | \$ 1 | \$ 21 | \$ 1 | \$ 260 | \$ — | \$ 283 |
| Short-term investments | — | — | — | 157 | — | 157 |
| Accounts receivable - net | — | 501 | 1,381 | 1,976 | — | 3,858 |
| Intercompany accounts receivable | — | 2,457 | 1,877 | 2,159 | (6,493) | — |
| Inventory | — | 592 | 714 | 1,555 | (76) | 2,785 |
| Prepaid expenses and other current assets | — | 109 | 29 | 355 | 14 | 507 |
| Total current assets | <u>1</u> | <u>3,680</u> | <u>4,002</u> | <u>6,462</u> | <u>(6,555)</u> | <u>7,590</u> |
| Property, plant and equipment - net | — | 858 | 663 | 1,946 | — | 3,467 |
| Other noncurrent assets | | | | | | |
| Goodwill | — | 1,742 | 6,293 | 5,293 | — | 13,328 |
| Other intangible assets | — | 322 | 2,860 | 1,664 | — | 4,846 |
| Deferred income taxes | — | 252 | 134 | 287 | (380) | 293 |
| Investment in subsidiaries | 16,476 | 13,101 | 68,196 | 32,625 | (130,398) | — |
| Intercompany loans receivable | 1,508 | 2,208 | 8,406 | 39,757 | (51,879) | — |
| Other assets | — | 758 | 115 | 695 | — | 1,568 |
| Total assets | <u>\$ 17,985</u> | <u>\$ 22,921</u> | <u>\$ 90,669</u> | <u>\$ 88,729</u> | <u>\$ (189,212)</u> | <u>\$ 31,092</u> |
| Liabilities and shareholders' equity | | | | | | |
| Current liabilities | | | | | | |
| Short-term debt | \$ — | \$ 388 | \$ — | \$ 26 | \$ — | \$ 414 |
| Current portion of long-term debt | — | 338 | — | 1 | — | 339 |
| Accounts payable | — | 515 | 397 | 1,218 | — | 2,130 |
| Intercompany accounts payable | 32 | 1,718 | 2,864 | 1,879 | (6,493) | — |
| Accrued compensation | — | 139 | 67 | 251 | — | 457 |
| Other current liabilities | 30 | 536 | 386 | 864 | (2) | 1,814 |
| Total current liabilities | <u>62</u> | <u>3,634</u> | <u>3,714</u> | <u>4,239</u> | <u>(6,495)</u> | <u>5,154</u> |
| Noncurrent liabilities | | | | | | |
| Long-term debt | — | 5,814 | 945 | 7 | 2 | 6,768 |
| Pension liabilities | — | 391 | 122 | 791 | — | 1,304 |
| Other postretirement benefits liabilities | — | 168 | 81 | 72 | — | 321 |
| Deferred income taxes | — | 1 | 553 | 175 | (380) | 349 |
| Intercompany loans payable | 1,816 | 7,681 | 39,552 | 2,830 | (51,879) | — |
| Other noncurrent liabilities | — | 391 | 290 | 373 | — | 1,054 |
| Total noncurrent liabilities | <u>1,816</u> | <u>14,446</u> | <u>41,543</u> | <u>4,248</u> | <u>(52,257)</u> | <u>9,796</u> |
| Shareholders' equity | | | | | | |
| Eaton shareholders' equity | 16,107 | 4,841 | 45,412 | 80,207 | (130,460) | 16,107 |
| Noncontrolling interests | — | — | — | 35 | — | 35 |
| Total equity | <u>16,107</u> | <u>4,841</u> | <u>45,412</u> | <u>80,242</u> | <u>(130,460)</u> | <u>16,142</u> |
| Total liabilities and equity | <u>\$ 17,985</u> | <u>\$ 22,921</u> | <u>\$ 90,669</u> | <u>\$ 88,729</u> | <u>\$ (189,212)</u> | <u>\$ 31,092</u> |

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
DECEMBER 31, 2019

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|---|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net cash provided by (used in) operating activities | \$ (78) | \$ 1,316 | \$ 652 | \$ 1,561 | \$ — | \$ 3,451 |
| Investing activities | | | | | | |
| Capital expenditures for property, plant and equipment | — | (101) | (114) | (372) | — | (587) |
| Cash paid for acquisitions of businesses, net of cash acquired | — | (152) | (30) | (998) | — | (1,180) |
| Payments for sale of a business | — | — | — | (36) | — | (36) |
| Sales (purchases) of short-term investments - net | — | — | — | (70) | — | (70) |
| Loans to affiliates | — | (470) | (811) | (8,440) | 9,721 | — |
| Repayments of loans from affiliates | — | 841 | — | 6,830 | (7,671) | — |
| Proceeds from (payments for) settlement of currency exchange contracts not designated as hedges - net | — | 3 | — | 51 | — | 54 |
| Other - net | — | (32) | 29 | (44) | — | (47) |
| Net cash provided by (used in) investing activities | — | 89 | (926) | (3,079) | 2,050 | (1,866) |
| Financing activities | | | | | | |
| Proceeds from borrowings | — | — | 1,232 | — | — | 1,232 |
| Payments on borrowings | — | (474) | — | (33) | — | (507) |
| Proceeds from borrowings from affiliates | 2,426 | 5,341 | 673 | 1,281 | (9,721) | — |
| Payments on borrowings from affiliates | (185) | (6,286) | (459) | (741) | 7,671 | — |
| Other intercompany financing activities | — | 51 | (1,162) | 1,111 | — | — |
| Cash dividends paid | (1,201) | — | — | — | — | (1,201) |
| Exercise of employee stock options | 66 | — | — | — | — | 66 |
| Repurchase of shares | (1,029) | — | — | — | — | (1,029) |
| Employee taxes paid from shares withheld | — | (31) | (5) | (10) | — | (46) |
| Other - net | — | — | (6) | (3) | — | (9) |
| Net cash provided by (used in) financing activities | 77 | (1,399) | 273 | 1,605 | (2,050) | (1,494) |
| Effect of currency on cash | — | — | — | (4) | — | (4) |
| Total increase (decrease) in cash | (1) | 6 | (1) | 83 | — | 87 |
| Cash at the beginning of the period | 1 | 21 | 1 | 260 | — | 283 |
| Cash at the end of the period | \$ — | \$ 27 | \$ — | \$ 343 | \$ — | \$ 370 |

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
DECEMBER 31, 2018

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|---|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net cash provided by (used in) operating activities | \$ (26) | \$ (84) | \$ 220 | \$ 2,643 | \$ (95) | \$ 2,658 |
| Investing activities | | | | | | |
| Capital expenditures for property, plant and equipment | — | (98) | (91) | (376) | — | (565) |
| Sales (purchases) of short-term investments - net | — | — | — | 355 | — | 355 |
| Investments in affiliates | (4) | (36) | — | — | 40 | — |
| Loans to affiliates | — | (100) | (84) | (6,442) | 6,626 | — |
| Repayments of loans from affiliates | — | 647 | 1,044 | 4,455 | (6,146) | — |
| Proceeds from (payments for) settlement of currency exchange contracts not designated as hedges - net | — | 11 | — | (121) | — | (110) |
| Other - net | — | (78) | 23 | (23) | — | (78) |
| Net cash provided by (used in) investing activities | (4) | 346 | 892 | (2,152) | 520 | (398) |
| Financing activities | | | | | | |
| Proceeds from borrowings | — | 388 | — | 22 | — | 410 |
| Payments on borrowings | — | (538) | (35) | (1) | — | (574) |
| Proceeds from borrowings from affiliates | 3,756 | 2,452 | 318 | 100 | (6,626) | — |
| Payments on borrowings from affiliates | (1,334) | (3,178) | (710) | (924) | 6,146 | — |
| Capital contributions from affiliates | — | — | — | 40 | (40) | — |
| Other intercompany financing activities | — | 463 | (692) | 229 | — | — |
| Cash dividends paid | (1,149) | — | — | — | — | (1,149) |
| Cash dividends paid to affiliates | — | — | — | (95) | 95 | — |
| Exercise of employee stock options | 29 | — | — | — | — | 29 |
| Repurchase of shares | (1,271) | — | — | — | — | (1,271) |
| Employee taxes paid from shares withheld | — | (16) | (5) | (3) | — | (24) |
| Other - net | — | (1) | — | (1) | — | (2) |
| Net cash provided by (used in) financing activities | 31 | (430) | (1,124) | (633) | (425) | (2,581) |
| Effect of currency on cash | — | — | — | 43 | — | 43 |
| Total increase (decrease) in cash | 1 | (168) | (12) | (99) | — | (278) |
| Cash at the beginning of the period | — | 189 | 13 | 359 | — | 561 |
| Cash at the end of the period | \$ 1 | \$ 21 | \$ 1 | \$ 260 | \$ — | \$ 283 |

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
DECEMBER 31, 2017

| | Eaton Corporation plc | Eaton Corporation | Guarantors | Other subsidiaries | Consolidating adjustments | Total |
|--|-----------------------------|----------------------|------------|-----------------------|------------------------------|----------|
| Net cash provided by (used in) operating activities | \$ 258 | \$ (470) | \$ 15 | \$ 4,472 | \$ (1,609) | \$ 2,666 |
| Investing activities | | | | | | |
| Capital expenditures for property, plant and equipment | — | (92) | (110) | (318) | — | (520) |
| Proceeds from the sales of businesses | — | 338 | — | 269 | — | 607 |
| Cash received from sales (paid for acquisitions) of affiliates | — | — | (92) | 92 | — | — |
| Sales (purchases) of short-term investments - net | — | — | — | (298) | — | (298) |
| Investments in affiliates | (190) | (108) | — | (90) | 388 | — |
| Return of investments in affiliates | — | — | 90 | — | (90) | — |
| Loans to affiliates | — | (443) | (415) | (6,309) | 7,167 | — |
| Repayments of loans from affiliates | — | 303 | 385 | 3,478 | (4,166) | — |
| Other - net | — | (45) | 10 | 29 | — | (6) |
| Net cash provided by (used in) investing activities | (190) | (47) | (132) | (3,147) | 3,299 | (217) |
| Financing activities | | | | | | |
| Proceeds from borrowings | — | 1,000 | — | — | — | 1,000 |
| Payments on borrowings | — | (1,250) | (297) | (7) | — | (1,554) |
| Proceeds from borrowings from affiliates | 2,605 | 3,129 | 991 | 442 | (7,167) | — |
| Payments on borrowings from affiliates | (822) | (2,904) | (353) | (87) | 4,166 | — |
| Capital contribution from affiliates | — | — | 90 | 298 | (388) | — |
| Return of capital to affiliates | — | — | — | (90) | 90 | — |
| Other intercompany financing activities | — | 652 | 500 | (1,152) | — | — |
| Cash dividends paid | (1,068) | — | — | — | — | (1,068) |
| Cash dividends paid to affiliates | — | — | (800) | (809) | 1,609 | — |
| Exercise of employee stock options | 66 | — | — | — | — | 66 |
| Repurchase of shares | (850) | — | — | — | — | (850) |
| Employee taxes paid from shares withheld | — | (15) | (4) | (3) | — | (22) |
| Other - net | — | (8) | (1) | (5) | — | (14) |
| Net cash provided by (used in) financing activities | (69) | 604 | 126 | (1,413) | (1,690) | (2,442) |
| Effect of currency on cash | — | — | — | 11 | — | 11 |
| Total increase (decrease) in cash | (1) | 87 | 9 | (77) | — | 18 |
| Cash at the beginning of the period | 1 | 102 | 4 | 436 | — | 543 |
| Cash at the end of the period | \$ — | \$ 189 | \$ 13 | \$ 359 | \$ — | \$ 561 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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

COMPANY OVERVIEW

Eaton Corporation plc (Eaton or the Company) is a power management company with 2019 net sales of \$21.4 billion. Eaton's mission is to improve the quality of life and the environment through the use of power management technologies and services. We provide sustainable solutions that help our customers effectively manage electrical, hydraulic and mechanical power – more safely, more efficiently and more reliably. Eaton has approximately 101,000 employees in 60 countries and sells products to customers in more than 175 countries.

Summary of Results of Operations

During 2019, the Company's results of operations were impacted by negative currency translation and weaker than expected growth in the Company's end markets, particularly in the second half of 2019. Despite the declining market conditions and unfavorable impact of currency translation, the Company generated solid operating margins and Net income per ordinary share.

On April 15, 2019, Eaton completed the acquisition of an 82.275% controlling interest in Ulusoy Elektrik Imalat Taahhut ve Ticaret A.S. (Ulusoy Elektrik), a leading manufacturer of electrical switchgear based in Ankara, Turkey, with a primary focus on medium voltage solutions for industrial and utility customers. Its sales for the 12 months ended September 30, 2018 were \$126. The purchase price for the shares was \$214 on a cash and debt free basis. As required by the Turkish capital markets legislation, Eaton filed an application to execute a mandatory tender offer for the remaining shares shortly after the transaction closed. During the tender offer, Eaton purchased additional shares for \$33 through July 2019 to increase its ownership interest to 93.7%. Ulusoy Elektrik is reported within the Electrical Systems and Services business segment.

On July 19, 2019, Eaton acquired Innovative Switchgear Solutions, Inc. (ISG), a specialty manufacturer of medium-voltage electrical equipment serving the North American utility, commercial and industrial markets. Its 2018 sales were approximately \$18. ISG is reported within the Electrical Systems and Services business segment.

On December 20, 2019, Eaton acquired the Souriau-Sunbank Connection Technologies (Souriau-Sunbank) business of TransDigm Group Inc. for a cash purchase price of \$903, net of cash received. Headquartered in Versailles, France, Souriau-Sunbank is a global leader in highly engineered electrical interconnect solutions for harsh environments in the aerospace, defense, industrial, energy, and transport markets. Its sales for the 12 months ended June 30, 2019 were \$363. Souriau-Sunbank is reported within the Aerospace business segment.

On December 31, 2019, Eaton sold its Automotive Fluid Conveyance Business. The transaction resulted in a pre-tax loss of \$66 which was recorded in Other expense (income) - net. This business was reported within the Vehicle business segment.

On October 15, 2019, Eaton entered into an agreement to sell its Lighting business to Signify N.V. for a cash purchase price of \$1.4 billion. The Lighting business, which had sales of \$1.6 billion in 2019 as part of the Electrical Products business segment, serves customers in commercial, industrial, residential and municipal markets. During the fourth quarter of 2019, the Company determined the Lighting business met the criteria to be classified as held for sale. Therefore, its assets and liabilities have been presented as held for sale in the Consolidated Balance Sheet as of December 31, 2019. Assets and liabilities classified as held for sale are measured at the lower of carrying value or fair value less costs to sell. There was no write-down as fair value of the Lighting business assets less costs to sell exceeded carrying value. Depreciation and amortization expense is not recorded for the period in which Other long-lived assets are classified as held for sale. The transaction is subject to customary closing conditions and regulatory approvals and is expected to close in the first quarter of 2020.

On January 21, 2020, Eaton entered into an agreement to sell its Hydraulics business to Danfoss A/S, a Danish industrial company, for \$3.3 billion in cash. Eaton's Hydraulics business, which accounted for 86% of Eaton's Hydraulics segment revenue in 2019, is a global leader in hydraulics components, systems, and services for industrial and mobile equipment. The business had sales of \$2.2 billion in 2019. Eaton is retaining the Filtration and Golf Grip businesses currently reported in the company's Hydraulics segment. Eaton expects the Hydraulics business to be classified as held for sale during the first quarter of 2020. The Hydraulics business did not meet the criteria to be classified as discontinued operations as the sale does not represent a strategic shift that will have a major effect on the Company's operations. The transaction is subject to customary closing conditions and regulatory approvals and is expected to close by the end of 2020.

On February 25, 2020, Eaton completed the acquisition of Power Distribution, Inc. a leading supplier of mission critical power distribution, static switching, and power monitoring equipment and services for data centers and industrial and commercial customers. The company is headquartered in Richmond, Virginia, and had 2019 sales of \$125. Power Distribution, Inc. will be reported within the Electrical Systems and Services business segment.

During 2018, the Company's results of operations delivered strong sales growth as major global end markets expanded.

As discussed in Note 8, certain Eaton subsidiaries acquired in the 2012 acquisition of Cooper Industries have been ordered to pay \$293 by an arbitration panel. The panel's award, issued on August 23, 2018, relate to claims brought by Pepsi-Cola Metropolitan Bottling Company, Inc. ("Pepsi") in 2011. A Texas state court confirmed the arbitration award at the confirmation hearing, which was held on October 12, 2018. On November 2, 2018, the Company appealed. On November 28, 2018, the Company paid the full judgment plus accrued post-judgment interest to Pneumo Abex and preserved its rights, including to pursue the appeal, which is pending. The impact of the arbitration award was an after-tax expense of \$206 in the third quarter of 2018, reducing earnings per share by \$0.48.

During 2017, the Company's results of operations returned to solid growth as global end markets expanded, particularly in the second half of 2017. During the year, the Company completed its multi-year restructuring program, reducing its cost structure and expanding operating margins.

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

The tax rate for 2017 includes a tax benefit of \$62 related to the United States Tax Cuts and Jobs Act ("TCJA"), which was signed into law on December 22, 2017. The tax benefit of \$62 related to the TCJA is comprised of a tax benefit of \$79 for adjusting deferred tax assets and liabilities, offset by a tax expense of \$17 for the taxation of unremitted earnings of non-U.S. subsidiaries owned directly or indirectly by U.S. subsidiaries of Eaton.

Additional information related to acquisitions and divestitures of businesses, and the arbitration decision expense, is presented in Note 2 and Note 8, respectively, of the Notes to the Consolidated Financial Statements.

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

| | 2019 | 2018 | 2017 |
|--|-----------|-----------|-----------|
| Net sales | \$ 21,390 | \$ 21,609 | \$ 20,404 |
| Net income attributable to Eaton ordinary shareholders | 2,211 | 2,145 | 2,985 |
| Net income per share attributable to Eaton ordinary shareholders - diluted | \$ 5.25 | \$ 4.91 | \$ 6.68 |

RESULTS OF OPERATIONS

Non-GAAP Financial Measures

The following discussion of Consolidated Financial Results and Business Segment Results of Operations includes certain non-GAAP financial measures. These financial measures include adjusted earnings, adjusted earnings per ordinary share, and operating profit before acquisition integration and divestiture charges for each business segment as well as corporate, each of which differs from the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). A reconciliation of adjusted earnings and adjusted earnings per ordinary share to the most directly comparable GAAP measure is included in the table below. Operating profit before acquisition integration and divestiture charges is reconciled in the discussion of the operating results of each business segment, and excludes acquisition integration and divestiture expense related primarily to the planned divestiture of the Lighting business and the acquisitions of Ulusoy Elektrik, ISG and Souriau-Sunbank discussed in Note 2. Management believes that these financial measures are useful to investors because they exclude certain transactions, allowing investors to more easily compare Eaton's financial performance period to period. Management uses this information in monitoring and evaluating the on-going performance of Eaton and each business segment.

Acquisition Integration and Divestiture Charges

Eaton incurs integration charges and transaction costs to acquire businesses, and transaction and other charges to divest and exit businesses. A summary of these charges follows:

| | 2019 | 2018 | 2017 |
|--|---------|------|------|
| Electrical Products | \$ 21 | \$ — | \$ 4 |
| Electrical Systems and Services | 14 | — | — |
| Aerospace | 1 | — | — |
| Total business segments | 36 | — | 4 |
| Corporate | 162 | — | — |
| Total acquisition integration, divestiture charges and transaction costs before income taxes | 198 | — | 4 |
| Income taxes | 24 | — | 2 |
| Total after income taxes | \$ 174 | \$ — | \$ 2 |
| Per ordinary share - diluted | \$ 0.42 | \$ — | \$ — |

Business segment charges in 2019 related to the planned divestiture of the Lighting business and the acquisitions of Ulusoy Elektrik, ISG and Souriau-Sunbank, and were included in Cost of products sold, Selling and administrative expense or Research and development expense. Business segment acquisition integration charges in 2017 related to the integration of Ephesus Lighting, Inc. (Ephesus), which was acquired in 2015. The charges associated with Ephesus were included in Selling and administrative expense. In Business Segment Information in Note 15, the charges reduced Operating profit of the related business segment.

Corporate charges in 2019 are primarily related to the planned divestiture of the Lighting business, the loss on the sale of the Automotive Fluid Conveyance business, and other charges to exit businesses, and were included in Selling and administrative expense and Other (income) expense-net. In Business Segment Information in Note 15, the charges were included in Other corporate expense - net.

Consolidated Financial Results

| | 2019 | Change from 2018 | 2018 | Change from 2017 | 2017 |
|--|-----------|---------------------|-----------|---------------------|-----------|
| Net sales | \$ 21,390 | (1)% | \$ 21,609 | 6 % | \$ 20,404 |
| Gross profit | 7,052 | (1)% | 7,098 | 7 % | 6,648 |
| Percent of net sales | 33.0% | | 32.8% | | 32.6% |
| Income before income taxes | 2,591 | 7 % | 2,424 | (28)% | 3,368 |
| Net income | 2,213 | 3 % | 2,146 | (28)% | 2,986 |
| Less net income for noncontrolling interests | (2) | | (1) | | (1) |
| Net income attributable to Eaton ordinary shareholders | 2,211 | 3 % | 2,145 | (28)% | 2,985 |
| Excluding acquisition integration and divestiture charges, after-tax | 174 | | — | | 2 |
| Adjusted earnings | \$ 2,385 | 11 % | \$ 2,145 | (28)% | \$ 2,987 |
| Net income per share attributable to Eaton ordinary shareholders - diluted | \$ 5.25 | 7 % | \$ 4.91 | (26)% | \$ 6.68 |
| Excluding per share impact of acquisition integration and divestiture charges, after-tax | 0.42 | | — | | — |
| Adjusted earnings per ordinary share | \$ 5.67 | 15 % | \$ 4.91 | (26)% | \$ 6.68 |

Net Sales

Net sales in 2019 decreased by 1% compared to 2018 due to a decrease of 1% from the impact of negative currency translation. Net sales in 2018 increased by 6% compared to 2017 due to an increase of 6% in organic sales. The increase in organic sales in 2018 was primarily due to higher sales volumes in all business segments.

Gross Profit

Gross profit margin increased from 32.8% in 2018 to 33.0% in 2019. The increase in gross profit margin in 2019 was primarily due to higher sales volumes and other operating improvements in Electrical Products and Electrical Systems and Services business segments, and higher sales volumes and favorable product mix in the Aerospace business segment, partially offset by lower sales volumes in the Hydraulics and Vehicle business segments and the charge for the expected warranty costs in the Vehicle business segment to correct the performance of a product which incorporated a defective part from a supplier. Gross profit increased from 32.6% in 2017 to 32.8% in 2018. The increase in gross profit margin in 2018 was primarily due to higher sales volumes, savings from restructuring actions, and lower restructuring charges, partially offset by commodity inflation and increased freight costs.

Income Taxes

During 2019, income tax expense of \$378 was recognized (an effective tax rate of 14.6%) compared to income tax expense of \$278 in 2018 (an effective tax rate of 11.5%) and income tax expense of \$382 in 2017 (an effective tax rate of 11.3%). The 2018 effective tax rate includes a tax benefit of \$69 on the arbitration decision expense discussed in Note 8. The 2017 effective tax rate includes tax expense of \$234 on the gain related to the sale of business discussed in Note 2 and a tax benefit of \$62 related to the U.S. Tax Cuts and Jobs Act (TCJA). Excluding the impacts of the 2018 arbitration decision, the 2017 sale of business, and the 2017 TCJA, the effective tax rate was 12.8% in 2018 and 9.2% in 2017. The increase in the tax rate from 12.8% in 2018 to 14.6% in 2019 was primarily due to greater levels of income in higher tax jurisdictions. The increase from 9.2% in 2017 compared to 12.8% in 2018 was due to greater levels of income in higher tax jurisdictions and an increase in tax contingencies offset by net decreases of related valuation allowances.

Net Income

Net income attributable to Eaton ordinary shareholders of \$2,211 in 2019 increased 3% compared to \$2,145 in 2018. Net income in 2018 included after-tax expense of \$206 from the arbitration decision discussed in Note 8. Excluding the arbitration decision, the decrease in 2019 net income was primarily due to higher acquisition integration and divestiture charges and a higher effective income tax rate. Net income attributable to Eaton ordinary shareholders of \$2,145 in 2018 decreased 28% compared to \$2,985 in 2017. Net income in 2017 included \$843 from the after-tax gain on the sale of the business discussed in Note 2 and \$62 of income from the new U.S. tax bill discussed in Note 9. Excluding these items and the 2018 arbitration decision, the increase in 2018 net income was primarily due to higher sales volumes, savings from restructuring actions, and lower restructuring charges, partially offset by commodity inflation and increased freight costs.

Net income per ordinary share increased to \$5.25 in 2019 compared to \$4.91 in 2018. Net income per ordinary share in 2018 included an unfavorable \$0.48 from the arbitration decision expense discussed in Note 8. Excluding the arbitration decision, the decrease in net income per ordinary share was primarily due to lower Net income attributable to Eaton ordinary shareholders, partially offset by the Company's share repurchases over the past year. Net income per ordinary share decreased to \$4.91 in 2018 compared to \$6.68 in 2017. Net income per ordinary share in 2017 included \$1.89 from the gain on the sale of business discussed in Note 2 and \$0.14 income from the 2017 U.S. Tax Cuts and Jobs Act discussed in Note 9. Excluding these items and the 2018 arbitration decision, Net income per ordinary share increased in 2018 due to higher Net income attributable to Eaton ordinary shareholders and the Company's share repurchases over the past year.

Adjusted Earnings

Adjusted earnings of \$2,385 in 2019 increased 11% compared to Adjusted earnings of \$2,145 in 2018. The increase in Adjusted earnings in 2019 was primarily due to higher Net income attributable to Eaton ordinary shareholders excluding higher acquisition integration and divestiture charges. There were no acquisition integration charges in 2018 and \$2 in 2017 after-tax, which resulted in the same percent change for both Net income attributable to Eaton ordinary shareholders and Adjusted earnings from 2017 to 2018.

Adjusted earnings per ordinary share increased to \$5.67 in 2019 compared to \$4.91 in 2018. The increase in Adjusted earnings per ordinary share in 2019 was due to higher Adjusted earnings and the impact of the Company's share repurchases over the past year. There was no impact of excluding the acquisition integration and divestiture charges per share from Net income attributable to Eaton ordinary shareholders to arrive at Adjusted earnings per ordinary share for 2018 and 2017.

Business Segment Results of Operations

The following is a discussion of Net sales, operating profit and operating profit margin by business segment, which includes a discussion of operating profit and operating profit margin before acquisition integration and divestiture charges. For additional information related to acquisition integration and divestiture charges, see Non-GAAP Financial Measures section.

Electrical Products

| | 2019 | Change from 2018 | 2018 | Change from 2017 | 2017 |
|--|----------|---------------------|----------|---------------------|----------|
| Net sales | \$ 7,148 | —% | \$ 7,124 | 3% | \$ 6,917 |
| Operating profit | \$ 1,390 | 6% | \$ 1,311 | 6% | \$ 1,233 |
| Operating margin | 19.4% | | 18.4% | | 17.8% |
| Acquisition integration and divestiture charges | \$ 21 | | \$ — | | \$ 4 |
| Before acquisition integration and divestiture charges | | | | | |
| Operating profit | \$ 1,411 | 8% | \$ 1,311 | 6% | \$ 1,237 |
| Operating margin | 19.7% | | 18.4% | | 17.9% |

Net sales were broadly flat in 2019 compared to 2018 due to an increase of 2% in organic sales, offset by a 2% decrease from the impact of negative currency translation. Organic sales grew in 2019 in North America, primarily driven by growth in products going into residential and commercial applications. Net sales increased 3% in 2018 compared to 2017 due to an increase of 3% in organic sales. Organic sales grew in 2018 in North America and Europe, primarily driven by growth in commercial, residential and industrial applications, partially offset by weakness in North American lighting sales.

Operating margin increased from 18.4% in 2018 to 19.4% in 2019. The increase in operating margin in 2019 was primarily due to higher sales volumes and other operating improvements. Operating margin increased from 17.8% in 2017 to 18.4% in 2018. The increase in operating margin in 2018 was primarily due to higher sales volumes, lower restructuring costs, and savings from restructuring actions, partially offset by commodity inflation and increased freight costs.

Operating margin before acquisition integration and divestiture charges increased from 18.4% in 2018 to 19.7% in 2019. The increase in operating margin before acquisition integration and divestiture charges in 2019 was primarily due to an increase in operating margin. Operating margin before acquisition integration and divestiture charges increased from 17.9% in 2017 to 18.4% in 2018. The increase in operating margin before acquisition integration and divestiture charges in 2018 was primarily due to an increase in operating margin, partially offset by lower acquisition integration and divestiture charges.

Electrical Systems and Services

| | 2019 | Change from 2018 | 2018 | Change from 2017 | 2017 |
|--|----------|---------------------|----------|---------------------|----------|
| Net sales | \$ 6,287 | 4% | \$ 6,024 | 6% | \$ 5,666 |
| Operating profit | \$ 1,027 | 15% | \$ 896 | 16% | \$ 770 |
| Operating margin | 16.3% | | 14.9% | | 13.6% |
| Acquisition integration and divestiture charges | \$ 14 | | \$ — | | \$ — |
| Before acquisition integration and divestiture charges | | | | | |
| Operating profit | \$ 1,041 | 16% | \$ 896 | 16% | \$ 770 |
| Operating margin | 16.6% | | 14.9% | | 13.6% |

Net sales increased 4% in 2019 compared to 2018 due to an increase of 4% in organic sales and an increase of 1% from the acquisitions of businesses, partially offset by a decrease of 1% from the impact of negative currency translation. The organic sales increase in 2019 was primarily due to strength in commercial construction, industrial projects, utilities and data centers. Net sales increased 6% in 2018 compared to 2017 due to an increase of 7% in organic sales, partially offset by a decrease of 1% from the sale of a stake in a joint venture in the fourth quarter of 2017. The organic sales increase in 2018 was primarily due to strength in large industrial projects and commercial construction markets, data centers, and oil and gas markets.

Operating margin increased from 14.9% in 2018 to 16.3% in 2019. Operating margin increased in 2019 primarily due to higher sales volumes and other operating improvements. Operating margin increased from 13.6% in 2017 to 14.9% in 2018. Operating margin increased in 2018 primarily due to higher sales volumes, savings from restructuring actions, and lower restructuring costs, partially offset by commodity inflation, unfavorable product mix, and increased freight costs.

Operating margin before acquisition integration and divestiture charges increased from 14.9% in 2018 to 16.6% in 2019. The increase in operating margin before acquisition integration and divestiture charges was primarily due to an increase in operating margin.

Hydraulics

| | 2019 | Change from 2018 | 2018 | Change from 2017 | 2017 |
|------------------|----------|---------------------|----------|---------------------|----------|
| Net sales | \$ 2,552 | (7)% | \$ 2,756 | 12% | \$ 2,468 |
| Operating profit | \$ 286 | (23)% | \$ 370 | 28% | \$ 288 |
| Operating margin | 11.2% | | 13.4% | | 11.7% |

Net sales in 2019 decreased 7% compared to 2018 due to a decrease in organic sales of 5% and a decrease of 2% from the impact of negative currency translation. The decrease in organic sales in 2019 was due to weakness in global mobile equipment markets and destocking at both OEMs and distributors. Net sales in 2018 increased 12% compared to 2017 due to an increase in organic sales of 11% and an increase of 1% from the impact of positive currency translation. The increase in organic sales in 2018 was due to strength in global mobile equipment markets.

Operating margin decreased from 13.4% in 2018 to 11.2% in 2019. The decrease in operating margin in 2019 was primarily due to lower sales volumes, unfavorable product mix and operating inefficiencies. Operating margin increased from 11.7% in 2017 to 13.4% in 2018. The increase in operating margin in 2018 was primarily due to higher sales volumes, lower restructuring costs, and savings from restructuring actions, partially offset by commodity inflation, unfavorable product mix and increased freight costs.

Aerospace

| | 2019 | Change from 2018 | 2018 | Change from 2017 | 2017 |
|--|----------|---------------------|----------|---------------------|----------|
| Net sales | \$ 2,044 | 8% | \$ 1,896 | 9% | \$ 1,744 |
| Operating profit | \$ 495 | 24% | \$ 398 | 20% | \$ 332 |
| Operating margin | 24.2% | | 21.0% | | 19.0% |
| Acquisition integration and divestiture charges | \$ 1 | | \$ — | | \$ — |
| Before acquisition integration and divestiture charges | | | | | |
| Operating profit | \$ 496 | 25% | \$ 398 | 20% | \$ 332 |
| Operating margin | 24.3% | | 21.0% | | 19.0% |

Net sales in 2019 increased 8% compared to 2018 due to an increase in organic sales. The increase in organic sales during 2019 was primarily due to strength in sales to commercial OEM and aftermarket. Net sales in 2018 increased 9% compared to 2017 due to an increase in organic sales of 9%. The increase in organic sales during 2018 was primarily due to higher sales in all major commercial and military end markets.

Operating margin increased from 21.0% in 2018 to 24.2% in 2019. The increase was primarily due to higher sales volumes and favorable product mix. Operating margin increased from 19.0% in 2017 to 21.0% in 2018. The increase was primarily due to higher sales volume and favorable product mix.

Operating margin before acquisition integration and divestiture charges increased from 21.0% in 2018 to 24.3% in 2019. The increase in operating margin before acquisition integration and divestiture charges was primarily due to an increase in operating margin.

Vehicle

| | 2019 | Change from 2018 | 2018 | Change from 2017 | 2017 |
|------------------|----------|---------------------|----------|---------------------|----------|
| Net sales | \$ 3,038 | (13)% | \$ 3,489 | 5% | \$ 3,326 |
| Operating profit | \$ 460 | (25)% | \$ 611 | 13% | \$ 541 |
| Operating margin | 15.1% | | 17.5% | | 16.3% |

Net sales decreased 13% in 2019 compared to 2018 due to a decrease in organic sales of 11% and a decrease of 2% from the impact of negative currency translation. The decrease in organic sales in 2019 was primarily driven by weakness in global light vehicle markets and revenues transferring over to the Eaton Cummins Automated Transmission Technologies joint venture. Net sales increased 5% in 2018 compared to 2017 due to an increase in organic sales of 7%, partially offset by a decrease of 2% from the sale of the business discussed in Note 2. The increase in organic sales in 2018 was driven by growth in the Americas and Asia Pacific regions, with particular strength in the North American Class 8 truck market, partially offset by weakness in light vehicle markets in the European region.

Operating margin decreased from 17.5% in 2018 to 15.1% in 2019. The decrease in operating margin in 2019 was primarily due to lower sales volumes and the charge for the expected warranty costs to correct the performance of a product which incorporated a defective part from a supplier. Operating margin increased from 16.3% in 2017 to 17.5% in 2018. The increase in operating margin in 2018 was primarily due to higher sales volumes, partially offset by unfavorable product mix, commodity inflation and increased freight costs.

eMobility

| | 2019 | Change from 2018 | 2018 | Change from 2017 | 2017 |
|------------------|--------|---------------------|--------|---------------------|--------|
| Net sales | \$ 321 | — % | \$ 320 | 13 % | \$ 283 |
| Operating profit | \$ 17 | (61)% | \$ 44 | (12)% | \$ 50 |
| Operating margin | 5.3% | | 13.8% | | 17.7% |

Net sales were flat in 2019 compared to 2018 due to an increase in organic sales of 1%, offset by a decrease of 1% from the impact of negative currency translation. The increase in organic sales in 2019 was primarily due to growth in Europe. Net sales increased 13% in 2018 compared to 2017 due to an increase in organic sales of 12% and an increase of 1% from the impact of positive currency translation. The increase in organic sales in 2018 was primarily due to strength in North America and Europe.

Operating margin decreased from 17.7% in 2017 to 13.8% in 2018 to 5.3% in 2019. The decrease in operating margin in 2019 and 2018 was primarily due to increased research and development costs.

Corporate Expense (Income)

| | 2019 | Change from 2018 | 2018 | Change from 2017 | 2017 |
|---|----------|---------------------|----------|---------------------|----------|
| Amortization of intangible assets | \$ 367 | (4)% | \$ 382 | (2)% | \$ 388 |
| Interest expense - net | 236 | (13)% | 271 | 10 % | 246 |
| Pension and other postretirement benefits expense | 12 | 1,100 % | 1 | (98)% | 45 |
| Gain on sale of a business | — | NM | — | NM | (1,077) |
| Arbitration decision expense | — | NM | 275 | NM | — |
| Other corporate expense - net | 469 | 69 % | 277 | 14 % | 244 |
| Total corporate expense (income) | \$ 1,084 | (10)% | \$ 1,206 | (883)% | \$ (154) |

Total corporate expense decreased 10% in 2019 to \$1,084 from \$1,206 in 2018 primarily due to the 2018 arbitration decision discussed in Note 8, partially offset by higher acquisition integration and divestiture charges. Corporate results were expense of \$1,206 in 2018 compared to income of \$154 in 2017. The change in Total corporate expense (income) in 2018 was primarily due to the 2018 arbitration decision discussed in Note 8 and the 2017 gain on the sale of the business discussed in Note 2.

LIQUIDITY, CAPITAL RESOURCES AND CHANGES IN FINANCIAL CONDITION

Financial Condition and Liquidity

Eaton's objective is to finance its business through operating cash flow and an appropriate mix of equity and long-term and short-term debt. By diversifying its debt maturity structure, Eaton reduces liquidity risk. The Company maintains access to the commercial paper markets through a \$2,000 commercial paper program. The Company maintains long-term revolving credit facilities totaling \$2,000, consisting of a \$750 five-year revolving credit facility that will expire November 17, 2022, a \$500 four-year revolving credit facility that will expire November 7, 2023, and a \$750 five-year revolving credit facility that will expire November 7, 2024. 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 December 31, 2019 or 2018. The Company had available lines of credit of \$1,027 from various banks primarily for the issuance of letters of credit, of which there was \$263 outstanding at December 31, 2019. 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.

On May 14, 2019, a subsidiary of Eaton issued euro denominated notes (2019 Euro Notes) with a face value of €1,100 (\$1,232 based on the May 14, 2019 spot rate), in accordance with Regulation S promulgated under the Securities Act of 1933, as amended. The 2019 Euro Notes are comprised of two tranches of €600 and €500, which mature in 2021 and 2025, respectively, with interest payable annually at a respective rate of 0.02% and 0.70%. The issuer received proceeds totaling €1,097 (\$1,229 based on the May 14, 2019 spot rate) from the issuance, net of financing costs and discounts.

For additional information on financing transactions and debt, see Note 6 to the Consolidated Financial Statements.

Eaton's credit facilities and indentures governing certain long-term debt contain various covenants, the violation of which would limit or preclude the use of the credit facilities for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the indentures. At Eaton's present credit rating level, the most restrictive financial covenant provides that the ratio of secured debt (or lease payments due under a sale and leaseback transaction) to adjusted consolidated net worth (or consolidated net tangible assets, in each case as defined in the relevant credit agreement or indenture) may not exceed 10%. Eaton's actual ratios are substantially below the required threshold. In addition, Eaton is in compliance with each of its debt covenants for all periods presented.

Sources and Uses of Cash

Operating Cash Flow

Net cash provided by operating activities was \$3,451 in 2019, an increase of \$793 compared to \$2,658 in 2018. The increase in net cash provided by operating activities in 2019 was driven by lower working capital balances compared to 2018, and the absence of a \$297 payment made during 2018 for the arbitration decision discussed in Note 8. Other-net includes the impact of foreign currency gains and losses related to the remeasurement of intercompany balance sheet exposures, which have no impact on Operating cash flow.

Net cash provided by operating activities was \$2,658 in 2018, a decrease of \$8 compared to \$2,666 in 2017. The decrease was driven by a \$297 payment made during 2018 for the arbitration decision, offset by lower pension contributions to Eaton's U.S. qualified pension plans in 2018. Other-net includes the impact of foreign currency gains and losses related to the remeasurement of intercompany balance sheet exposures, which have no impact on Operating cash flow.

Investing Cash Flow

Net cash used in investing activities was \$1,866 in 2019, an increase in the use of cash of \$1,468 compared to \$398 in 2018. The increase in the use of cash was primarily driven by cash paid for business acquisitions discussed in Note 2 and by net purchases of short-term investments of \$70 in 2019 compared to net sales of \$355 in 2018, partially offset by \$54 of net proceeds in 2019 compared to net payments of \$110 in 2018 from the settlement of currency exchange contracts not designated as hedges. Capital expenditures were \$587 in 2019 compared to \$565 in 2018. Eaton expects approximately \$550 in capital expenditures in 2020.

Net cash used in investing activities was \$398 in 2018, an increase in the use of cash of \$181 compared to \$217 in 2017. The increase in the use of cash was primarily driven by proceeds from the sale of a business as part of the formation of the Eaton Cummins joint venture in 2017 discussed in Note 2 and \$110 in payments for the settlement of currency exchange contracts not designated as hedges discussed in Note 13, partially offset by net sales of short-term investments of \$355 in 2018 compared to net purchases of \$298 in 2017. Capital expenditures were \$565 in 2018 compared to \$520 in 2017.

Financing Cash Flow

Net cash used in financing activities was \$1,494 in 2019, a decrease in the use of cash of \$1,087 compared to \$2,581 in 2018. The decrease in the use of cash was primarily due to higher proceeds from borrowings of \$1,232 in 2019 compared to \$410 in 2018 and lower share repurchases of \$1,029 in 2019 compared to \$1,271 in 2018.

Net cash used in financing activities was \$2,581 in 2018, an increase in the use of cash of \$139 compared to \$2,442 in 2017. The increase in the use of cash was primarily due to lower proceeds from borrowings of \$410 in 2018 compared to \$1,000 in 2017, higher share repurchases of \$1,271 in 2018 compared to \$850 in 2017, and higher dividends paid of \$1,149 in 2018 compared to \$1,068 in 2017, partially offset by lower payments on borrowings of \$574 compared to \$1,554 in 2017.

Credit Ratings

Eaton's debt has been assigned the following credit ratings:

| Credit Rating Agency (long- /short-term rating) | Rating | Outlook |
|---|----------|------------------|
| Standard & Poor's | A-/A-2 | Stable outlook |
| Moody's | Baa1/P-2 | Positive outlook |
| Fitch | BBB+/F1 | Stable outlook |

Defined Benefits Plans

Pension Plans

During 2019, the fair value of plan assets in the Company's employee pension plans increased \$708 to \$5,336 at December 31, 2019. The increase in plan assets was primarily due to higher than expected return on plan assets. At December 31, 2019, the net unfunded position of \$1,439 in pension liabilities consisted of \$407 in the U.S. qualified pension plan, \$1,006 in plans that have no minimum funding requirements, and \$99 in all other plans that require minimum funding, partially offset by \$73 in plans that are overfunded.

Funding requirements are a major consideration in making contributions to Eaton's pension plans. With respect to the Company's pension plans worldwide, the Company intends to contribute annually not less than the minimum required by applicable law and regulations. In 2019, \$119 was contributed to the pension plans. The Company anticipates making \$128 of contributions to certain pension plans during 2020. The funded status of the Company's pension plans at the end of 2020, and future contributions, will depend primarily on the actual return on assets during the year and the discount rate used to calculate certain benefits at the end of the year.

Off-Balance Sheet Arrangements

Eaton does not have off-balance sheet arrangements or financings with unconsolidated entities or other persons. The Company made an accounting policy election to not recognize lease assets or liabilities for leases with a term of 12 months or less.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States requires management to make certain estimates and assumptions that may involve the exercise of significant judgment. For any estimate or assumption used, there may be other reasonable estimates or assumptions that could have been used. However, based on facts and circumstances inherent in developing estimates and assumptions, management believes it is unlikely that applying other such estimates and assumptions would have caused materially different amounts to have been reported. Actual results may differ from these estimates.

Revenue Recognition

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

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

Eaton records reductions to sales for returns, and customer and distributor incentives, primarily comprised of rebates, at the time of the initial sale. Rebates are estimated based on sales terms, historical experience, trend analysis, and projected market conditions in the various markets served. The rebate programs offered vary across businesses due to the numerous markets Eaton serves, but the most common incentives relate to amounts paid or credited to customers for achieving defined volume levels. Returns are estimated at the time of the sale primarily based on historical experience and recorded gross on the Consolidated Balance Sheet. See Note 3 for additional information.

Impairment of Goodwill and Other Long-Lived Assets

Goodwill

Goodwill is evaluated annually for impairment as of July 1 using either a quantitative or qualitative analysis. Goodwill is tested for impairment at the reporting unit level, which is equivalent to Eaton's operating segments and based on the net assets for each segment, including goodwill and intangible assets. Goodwill is assigned to each operating segment, as this represents the lowest level that constitutes a business and is the level at which management regularly reviews the operating results. The Company performs a quantitative analysis using a discounted cash flow model and other valuation techniques, but may elect to perform a qualitative analysis.

Additionally, goodwill is evaluated for impairment whenever an event occurs or circumstances change that would indicate that it is more likely than not that the fair value of an operating segment is less than its carrying amount. Events or circumstances that may result in an impairment review include changes in macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant entity-specific events, specific events affecting the reporting unit or sustained decrease in share price.

The annual goodwill impairment test was performed using a qualitative analysis in 2019 and 2018, except for the Hydraulics segment which used a quantitative analysis in 2019. A qualitative analysis is performed by assessing certain trends and factors, including projected market outlook and growth rates, forecasted and actual sales and operating profit margins, discount rates, industry data, and other relevant qualitative factors. These trends and factors are compared to, and based on, the assumptions used in the most recent quantitative analysis performed for each reporting unit. The results of the qualitative analyses did not indicate a need to perform quantitative analysis.

Goodwill impairment testing was also performed using quantitative analyses in 2019 as a result of the Lighting business being classified as held for sale as discussed in Note 2, and in 2018 for the Electrical Products, Vehicle and eMobility segments due to a reorganization of the Company's businesses resulting in the creation of the eMobility segment. The Company used the relative fair value method to reallocate goodwill.

Quantitative analyses were performed by estimating the fair value for each reporting unit using a discounted cash flow model, which considered forecasted cash flows discounted at an estimated weighted-average cost of capital. The forecasted cash flows were based on the Company's long-term operating plan and a terminal value was used to estimate the operating segment's cash flows beyond the period covered by the operating plan. The weighted-average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt market holders of a business enterprise. These analyses require the exercise of judgments, including judgments about appropriate discount rates, perpetual growth rates, revenue growth, and margin assumptions of the respective reporting unit. Sensitivity analyses were performed around certain of these assumptions in order to assess the reasonableness of the assumptions and the resulting estimated fair values.

Based on these analyses performed in 2019 and 2018, the fair value of Eaton's reporting units continue to substantially exceed their respective carrying amounts and thus, no impairment exists.

Indefinite Life Intangible Assets

Indefinite life intangible assets consist of certain trademarks. They are evaluated annually for impairment as of July 1 using either a quantitative or qualitative analysis to determine whether their fair values exceed their respective carrying amounts. Indefinite life intangible asset impairment testing for 2019 and 2018 was performed using a quantitative analysis. Determining the fair value of these assets requires significant judgment and the Company uses a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability.

Additionally, indefinite life intangible assets are evaluated for impairment whenever an event occurs or circumstances change that would indicate that it is more likely than not that the asset is impaired. Events or circumstances that may result in an impairment review include changes in industry and market considerations, cost factors, financial performance, and other relevant entity-specific events that could affect inputs used to determine the respective fair values of the indefinite-lived intangible assets.

For 2019 and 2018, the fair value of indefinite lived intangible assets exceeded the respective carrying value.

Other Long-Lived Assets

Other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Events or circumstances that may result in an impairment review include operations reporting losses, a significant adverse change in the use of an asset, the planned disposal or sale of the asset, a significant adverse change in the business climate or legal factors related to the asset, or a significant decrease in the estimated market value of an asset. Upon indications of impairment, assets and liabilities are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The asset group would be considered impaired when the estimated future net undiscounted cash flows generated by the asset group are less than its carrying value. In instances where the carrying amount of the asset group exceeded the undiscounted cash flows, the fair value of the asset group would be determined and an impairment loss would be recognized based on the amount by which the carrying value of the asset group exceeds its fair value. Determining asset groups and underlying cash flows requires the use of significant judgment.

For additional information about goodwill and other intangible assets, see Note 4 to the Consolidated Financial Statements.

Divestitures of Businesses

The Company records assets and liabilities of a business to be sold as held for sale in the Consolidated Balance Sheet when all the required criteria are met. The held for sale assets and liabilities are initially measured at the lesser of their carrying value or fair value less cost to sell, with any resulting loss being immediately recognized. In each subsequent reporting period until the business is sold, the Company continues to estimate the fair value less cost to sell of the business and recognizes any additional losses, or any gains to the extent losses were previously recorded on the held for sale assets and liabilities.

The Company used the relative fair value method to allocate goodwill to the Lighting business. The fair values of the Electrical Products segment and Lighting business were estimated based on a combination of the price paid to Eaton by Signify N.V. and a discounted cash flow model. The model includes estimates of future cash flows, future growth rates, terminal value amounts, and the applicable weighted-average cost of capital used to discount those estimated cash flows. The weighted-average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt market holders of a business enterprise. These analyses require the exercise of judgments, including judgments about appropriate discount rates, perpetual growth rates, revenue growth, and margin assumptions. For additional information about the divestitures of businesses, see Note 2 to the Consolidated Financial Statements.

Recoverability of Deferred Income Tax Assets

Eaton is subject to the income tax laws in the jurisdictions in which it operates. In order to determine the income tax provision for financial statement purposes, Eaton must make significant estimates and judgments about its business operations in these jurisdictions. These estimates and judgments are also used in determining the deferred income tax assets and liabilities that have been recognized for differences between the financial statement and income tax basis of assets and liabilities, and income tax loss carryforwards and income tax credit carryforwards.

Management evaluates the realizability of deferred income tax assets for each jurisdiction in which it operates. If the Company experiences cumulative pre-tax income in a particular jurisdiction in a three-year period including the current and prior two years, management normally concludes that the deferred income tax assets will more likely than not be realizable and no valuation allowance is recognized, unless known or planned operating developments, or changes in tax laws, would lead management to conclude otherwise. However, if the Company experiences cumulative pre-tax losses in a particular jurisdiction in a three-year period including the current and prior two years, management then considers a series of factors in the determination of whether the deferred income tax assets can be realized. These factors include historical operating results, known or planned operating developments, the period of time over which certain temporary differences will reverse, consideration of the utilization of certain deferred income tax liabilities, tax law carryback capability in a particular country, prudent and feasible tax planning strategies, changes in tax laws, and estimates of future earnings and taxable income using the same assumptions as those used for the Company's goodwill and other impairment testing. After evaluation of these factors, if the deferred income tax assets are expected to be realized within the tax carryforward period allowed for that specific country, management would conclude that no valuation allowance would be required. To the extent that the deferred income tax assets exceed the amount that is expected to be realized within the tax carryforward period for a particular jurisdiction, management would establish a valuation allowance. For additional information about income taxes, see Note 9 to the Consolidated Financial Statements.

Unrecognized Income Tax Benefits

Eaton recognizes an income tax benefit from an uncertain tax position only if it is more likely than not that the benefit would be sustained upon examination by taxing authorities, based on the technical merits of the position. The Company evaluates and adjusts the amount of unrecognized income tax benefits based on changes in law, facts and circumstances. Eaton also estimates, where reasonably possible, the increase or decrease in the amount of unrecognized income tax benefits in the next 12 months.

The evaluation and determination of the amount of unrecognized income tax benefits related to uncertain tax positions is complex and involves both the exercise of judgement and the utilization of certain estimates and assumptions. Each tax position carries unique facts and circumstances that must be evaluated in light of current tax laws, regulations, and judicial decisions. Additionally, the ultimate resolution of the majority of Eaton's unrecognized income tax benefits is dependent upon uncontrollable factors such as the prospect of retroactive regulations; new case law; and the willingness of the income tax authority to settle the issue, including the timing thereof.

Pension and Other Postretirement Benefits Plans

The measurement of liabilities related to pension plans and other postretirement benefits plans is based on assumptions related to future events including interest rates, return on plan assets, rate of compensation increases, and health care cost trend rates. Actual plan asset performance will either reduce or increase losses included in accumulated other comprehensive loss, which ultimately affects net income.

The discount rate for United States plans was determined by discounting the expected future benefit payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date and solving for the single rate that generated the same benefit obligation. Only corporate bonds with a rating of Aa or higher by either Moody's or Standard & Poor's were included. Callable bonds that are not make-whole bonds and certain other non-comparable bonds were eliminated. Finally, a subset of bonds was selected by grouping the universe of bonds by duration and retaining 50% of the bonds that had the highest yields.

The discount rates for non-United States plans were determined by region and are based on high quality long-term corporate and government bonds. Consideration has been given to the duration of the liabilities in each plan when selecting the bonds to be used in determining the discount rate.

To estimate the service and interest cost components of net periodic benefit cost for the vast majority of its defined benefits pension and other postretirement benefits plans, the Company used a spot rate approach by applying the specific spot rates along the yield curve used to measure the benefit obligation at the beginning of the period to the relevant projected cash flows.

Key assumptions used to calculate pension and other postretirement benefits expense are adjusted at each year-end. A 1-percentage point change in the assumed rate of return on pension plan assets is estimated to have approximately a \$49 effect on pension expense. Likewise, a 1-percentage point change in the discount rate is estimated to have approximately a \$64 effect on pension expense. A 1-percentage point change in the assumed rate of return on other postretirement benefits assets is estimated to have less than \$1 effect on other postretirement benefits expense. A 1-percentage point change in the discount rate is estimated to have approximately a \$1 effect on expense for other postretirement benefits plans.

Additional information related to changes in key assumptions used to recognize expense for other postretirement benefits plans is found in Note 7 to the Consolidated Financial Statements.

MARKET RISK DISCLOSURE

On a regular basis, Eaton monitors third-party depository institutions that hold its cash and short-term investments, primarily for safety of principal and secondarily for maximizing yield on those funds. The Company diversifies its cash and short-term investments among counterparties to minimize exposure to any one of these entities. Eaton also monitors the creditworthiness of its customers and suppliers to mitigate any adverse impact.

Eaton uses derivative instruments to manage exposure to volatility in raw material costs, currency, and interest rates on certain debt instruments. Derivative financial instruments used by the Company are straightforward and non-leveraged. 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. See Note 13 to the Consolidated Financial Statements for additional information about hedges and derivative financial instruments.

Eaton's ability to access the commercial paper market, and the related cost of these borrowings, is based on the strength of its credit rating and overall market conditions. The Company has not experienced any material limitations in its ability to access these sources of liquidity. At December 31, 2019, Eaton had \$2,000 of long-term revolving credit facilities with banks in support of its commercial paper program. It has no borrowings outstanding under these credit facilities.

Interest rate risk can be measured by calculating the short-term earnings impact that would result from adverse changes in interest rates. This exposure results from short-term debt, which includes commercial paper at a floating interest rate, long-term debt that has been swapped to floating rates, and money market investments that have not been swapped to fixed rates. Based upon the balances of investments and floating rate debt at year end 2019, a 100 basis point increase in short-term interest rates would have increased the Company's net, pre-tax interest expense by \$20.

Eaton also measures interest rate risk by estimating the net amount by which the fair value of the Company's financial liabilities would change as a result of movements in interest rates. Based on Eaton's best estimate for a hypothetical, 100 basis point increase in interest rates at December 31, 2019, the market value of the Company's debt and interest rate swap portfolio, in aggregate, would increase by \$515.

The Company is exposed to fluctuations in commodity prices due to volatility in raw material costs and contractual agreements with suppliers. To partially mitigate this exposure, Eaton enters into commodity contracts for certain raw material purchases with the objective of minimizing changes in inventory cost due to market price fluctuations. These commodity contracts are designated for hedge accounting and are generally less than one year in duration. Based on Eaton's best estimate for a hypothetical 10% fluctuation in commodity prices the gain or loss would be less than \$1. The sensitivity analysis of the effects of changes in commodity prices assumes the notional value to remain constant for the next 12 months. Any change in the value of the contracts would be offset by an inverse change in the value of the underlying hedged transactions.

The Company is exposed to currency risk associated with translating its functional currency financial statements into its reporting currency, which is the U.S. dollar. As a result, the Company is exposed to movements in the exchange rates of various currencies against the U.S. dollar. Eaton also monitors exposure to transactions denominated in currencies other than the functional currency of each country in which the Company operates, and regularly enters into forward contracts to mitigate that exposure. In the aggregate, Eaton's portfolio of forward contracts related to such transactions was not material to its Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS

A summary of contractual obligations as of December 31, 2019 follows:

| | 2020 | 2021 to 2022 | 2023 to 2024 | Thereafter | Total |
|--|-----------------|--------------------|--------------------|-----------------|------------------|
| Long-term debt, including current portion ⁽¹⁾ | \$ 242 | \$ 2,674 | \$ 984 | \$ 4,082 | \$ 7,982 |
| Interest expense related to long-term debt | 252 | 460 | 339 | 1,634 | 2,685 |
| Reduction of interest expense from interest rate swap agreements related to long-term debt | (18) | (39) | (14) | (37) | (108) |
| Operating leases | 142 | 195 | 93 | 82 | 512 |
| Finance leases | 8 | 14 | 6 | 9 | 37 |
| Purchase obligations | 1,091 | 183 | 83 | 91 | 1,448 |
| Other obligations | 169 | 10 | 12 | 23 | 214 |
| Held for sale obligations | 65 | 9 | 4 | 6 | 84 |
| Total | \$ 1,951 | \$ 3,506 | \$ 1,507 | \$ 5,890 | \$ 12,854 |

⁽¹⁾ Long-term debt excludes deferred gains and losses on derivatives related to debt, adjustments to fair market value, premiums and discounts on long-term debentures, debt issuance costs, and finance leases.

Interest expense related to long-term debt is based on the applicable interest rate related to the debt instrument, whether fixed or floating. The reduction of interest expense due to interest rate swap agreements related to long-term debt is based on the difference in the fixed interest rate the Company receives from the swap, compared to the floating interest rate the Company pays on the swap. Purchase obligations are entered into with various vendors in the normal course of business. These amounts include commitments for purchases of raw materials, outstanding non-cancelable purchase orders, releases under blanket purchase orders, and commitments under ongoing service arrangements. Other obligations principally include \$128 of anticipated contributions to pension plans in 2020, \$34 of other postretirement benefits payments expected to be paid in 2020, and \$49 of deferred compensation earned under various plans for which the participants have elected to receive disbursement at a later date. The table above does not include all other future expected pension and other postretirement benefits payments. Information related to the amounts of these future payments is described in Note 7 to the Consolidated Financial Statements. The table above also excludes the liability for unrecognized income tax benefits, since the Company cannot predict with reasonable certainty the timing of cash settlements with the respective taxing authorities. At December 31, 2019, the gross liability for unrecognized income tax benefits totaled \$1,001 and interest and penalties were \$93.

FORWARD-LOOKING STATEMENTS

This Annual Report to Shareholders contains forward-looking statements concerning litigation and regulatory developments, expected pension or other post-retirement benefits payments and rates of return, and expected future liquidity. These statements may discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to Eaton, based on current beliefs of management as well as assumptions made by, and information currently available to, management. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “guidance,” “intend,” “may,” “possible,” “potential,” “predict,” “project” or other similar words, phrases or expressions. These statements should be used with caution and are subject to various risks and uncertainties, many of which are outside Eaton’s control. The following factors could cause actual results to differ materially from those in the forward-looking statements: unanticipated changes in the markets for the Company’s business segments; unanticipated downturns in business relationships with customers or their purchases from us; the availability of credit to customers and suppliers; competitive pressures on sales and pricing; unanticipated changes in the cost of material and other production costs, or unexpected costs that cannot be recouped in product pricing; the introduction of competing technologies; unexpected technical or marketing difficulties; unexpected claims, charges, litigation or dispute resolutions; strikes or other labor unrest; the impact of acquisitions and divestitures; unanticipated difficulties integrating acquisitions; new laws and governmental regulations; interest rate changes; tax rate changes or exposure to additional income tax liability; stock market and currency fluctuations; war, natural disasters, civil or political unrest or terrorism; and unanticipated deterioration of economic and financial conditions in the United States and around the world. Eaton does not assume any obligation to update these forward-looking statements.

QUARTERLY DATA (unaudited)

| (In millions except for per share data) | Quarter ended in 2019 | | | | Quarter ended in 2018 | | | |
|--|-----------------------|---------------|---------------|---------------|-----------------------|---------------|---------------|---------------|
| | Dec. 31 | Sept. 30 | June 30 | Mar. 31 | Dec. 31 | Sept. 30 | June 30 | Mar. 31 |
| Net sales | \$ 5,238 | \$ 5,314 | \$ 5,533 | \$ 5,305 | \$ 5,459 | \$ 5,412 | \$ 5,487 | \$ 5,251 |
| Gross profit | 1,682 | 1,802 | 1,836 | 1,732 | 1,789 | 1,815 | 1,816 | 1,678 |
| Percent of net sales | 32.1% | 33.9% | 33.2% | 32.6% | 32.8% | 33.5% | 33.1% | 32.0% |
| Income before income taxes | 532 | 718 | 738 | 603 | 726 | 439 | 694 | 565 |
| Net income | 453 | 602 | 636 | 522 | 632 | 416 | 611 | 487 |
| Less net (income) loss for noncontrolling interests | (1) | (1) | — | — | (1) | — | (1) | 1 |
| Net income attributable to Eaton ordinary shareholders | <u>\$ 452</u> | <u>\$ 601</u> | <u>\$ 636</u> | <u>\$ 522</u> | <u>\$ 631</u> | <u>\$ 416</u> | <u>\$ 610</u> | <u>\$ 488</u> |
| Net income per share attributable to Eaton ordinary shareholders | | | | | | | | |
| Diluted | \$ 1.09 | \$ 1.44 | \$ 1.50 | \$ 1.23 | \$ 1.46 | \$ 0.95 | \$ 1.39 | \$ 1.10 |
| Basic | 1.09 | 1.44 | 1.51 | 1.23 | 1.46 | 0.96 | 1.40 | 1.11 |
| Cash dividends declared per ordinary share | \$ 0.71 | \$ 0.71 | \$ 0.71 | \$ 0.71 | \$ 0.66 | \$ 0.66 | \$ 0.66 | \$ 0.66 |

Earnings per share for the four quarters in a year may not equal full year earnings per share.

Acquisition integration, divestiture charges and transaction costs included in Income before income taxes are as follows:

| | Quarter ended in 2019 | | | | Quarter ended in 2018 | | | |
|--|-----------------------|----------|---------|---------|-----------------------|----------|---------|---------|
| | Dec. 31 | Sept. 30 | June 30 | Mar. 31 | Dec. 31 | Sept. 30 | June 30 | Mar. 31 |
| Acquisition integration, divestiture charges and transaction costs | \$ 133 | \$ 39 | \$ 14 | \$ 12 | \$ — | \$ — | \$ — | \$ — |

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY (unaudited)

| (In millions except for per share data) | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net sales | \$21,390 | \$21,609 | \$20,404 | \$19,747 | \$20,855 |
| Income before income taxes | 2,591 | 2,424 | 3,368 | 2,118 | 2,133 |
| Net income | 2,213 | 2,146 | 2,986 | 1,919 | 1,974 |
| Less net income for noncontrolling interests | (2) | (1) | (1) | (3) | (2) |
| Net income attributable to Eaton ordinary shareholders | <u>\$ 2,211</u> | <u>\$ 2,145</u> | <u>\$ 2,985</u> | <u>\$ 1,916</u> | <u>\$ 1,972</u> |
| Net income per share attributable to Eaton ordinary shareholders | | | | | |
| Diluted | \$ 5.25 | \$ 4.91 | \$ 6.68 | \$ 4.20 | \$ 4.22 |
| Basic | 5.28 | 4.93 | 6.71 | 4.21 | 4.23 |
| Weighted-average number of ordinary shares outstanding | | | | | |
| Diluted | 420.8 | 436.9 | 447.0 | 456.5 | 467.1 |
| Basic | 419.0 | 434.3 | 444.5 | 455.0 | 465.5 |
| Cash dividends declared per ordinary share | \$ 2.84 | \$ 2.64 | \$ 2.40 | \$ 2.28 | \$ 2.20 |
| Total assets ⁽¹⁾ | \$32,805 | \$31,092 | \$32,623 | \$30,476 | \$31,059 |
| Long-term debt | 7,819 | 6,768 | 7,167 | 6,711 | 7,746 |
| Total debt | 8,322 | 7,521 | 7,751 | 8,277 | 8,414 |
| Eaton shareholders' equity | 16,082 | 16,107 | 17,253 | 14,954 | 15,249 |
| Eaton shareholders' equity per ordinary share | \$ 38.91 | \$ 38.02 | \$ 39.22 | \$ 33.28 | \$ 33.24 |
| Ordinary shares outstanding | 413.3 | 423.6 | 439.9 | 449.4 | 458.8 |

⁽¹⁾ Total assets in 2019 reflect the adoption of Accounting Standard Update 2016-02, Leases, using the optional transition method and prior periods were not restated, as described in Note 1 to the consolidated financial statements.

Eaton Corporation plc
2019 Annual Report on Form 10-K
Item 15(b)
Exhibit 31.1
Certification

I, Craig Arnold, certify that:

1. I have reviewed this annual report on Form 10-K of Eaton Corporation plc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2020

/s/ Craig Arnold

Craig Arnold

Principal Executive Officer

Eaton Corporation plc
2019 Annual Report on Form 10-K
Item 15(b)
Exhibit 31.2
Certification

I, Richard H. Fearon, certify that:

1. I have reviewed this annual report on Form 10-K of Eaton Corporation plc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2020

/s/ Richard H. Fearon

Richard H. Fearon
Principal Financial Officer

Eaton Corporation plc
2019 Annual Report on Form 10-K
Item 15(b)
Exhibit 32.1
Certification

This written statement is submitted in accordance with Section 906 of the Sarbanes-Oxley Act of 2002. It accompanies Eaton Corporation plc's Annual Report on Form 10-K for the year ended December 31, 2019 ("10-K Report").

I hereby certify that, based on my knowledge, the Report on Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C 78m), and information contained in the 10-K Report fairly presents, in all material respects, the financial condition and results of operations of Eaton Corporation plc and its consolidated subsidiaries.

Date: February 26, 2020

/s/ Craig Arnold

Craig Arnold

Principal Executive Officer

Eaton Corporation plc
2019 Annual Report on Form 10-K
Item 15(b)
Exhibit 32.2
Certification

This written statement is submitted in accordance with Section 906 of the Sarbanes-Oxley Act of 2002. It accompanies Eaton Corporation plc's Annual Report on Form 10-K for the year ended December 31, 2019 ("10-K Report").

I hereby certify that, based on my knowledge, the Report on Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C 78m), and information contained in the 10-K Report fairly presents, in all material respects, the financial condition and results of operations of Eaton Corporation plc and its consolidated subsidiaries.

Date: February 26, 2020

/s/ Richard H. Fearon

Richard H. Fearon

Principal Financial Officer

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Eaton Shareholder Contact Information

Investor Relations, Eaton
1000 Eaton Boulevard
Cleveland, OH 44122 USA
+1 440.523.3634
Eaton.com

Quarterly Financial Releases

Eaton's financial results are available approximately four weeks after the end of each quarter. Releases are available on Eaton's website at Eaton.com. Copies may also be obtained by calling +1 440.523.3634.

Common Shares

Listed for trading:
New York Stock Exchange
(Ticker Symbol: ETN)

Annual General Meeting of Shareholders

The company's 2020 Annual General Meeting of Shareholders will be held at 8:00 a.m., Dublin time, on Wednesday, April 22, 2020, at Eaton House, 30 Pembroke Road, Dublin 4, Ireland. Formal notice of the meeting will be made available on or about March 13, 2020, to each shareholder of record as of February 24, 2020.

Most Eaton shareholders will not receive a mailed copy of the Proxy Statement and Annual Report to Shareholders, but rather a notice that these materials are available online. Eaton shareholders who currently receive paper copies, due to a prior election or due to participation in an employee benefit plan, can register for electronic delivery of these materials as well as online proxy voting, at <http://enroll.icsdelivery.com/etn>.

Annual Report to Shareholders

This 2019 Annual Report to Shareholders is available online at Eaton.com/annualreport. Any shareholder may obtain at no charge a printed copy of this Annual Report upon written request to the address shown to the left. Other public financial reports also are available on Eaton's website at Eaton.com.

Annual Certifications

The most recent certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 were filed as Exhibits 31.1, 31.2, 32.1 and 32.2 to Eaton's Annual Report on Form 10-K for 2019. Additionally, Eaton submitted to the New York Stock Exchange its 2019 Chief Executive Officer Certification regarding Eaton's compliance with the corporate governance listing standards of the Exchange.

Broadridge Corporate Issuer Solutions

Regular Mail: P.O. Box 1342, Brentwood, NY 11717
Registered/Overnight Packages: ATTN: IWS, 1155 Long Island Ave., Edgewood, NY 11717
Phone: +1 888.597.8625 (U.S. & Canada) +1 303.562.9631 (Toll)
TDD: +1 855.627.5080 (hearing impaired inside the U.S.)
TDD: +1 720.399.2074 (hearing impaired outside the U.S.)
Email: shareholder@broadridge.com
Website: <https://shareholder.broadridge.com/eaton-corp/>



This publication was printed at an FSC®-certified printer. The FSC Logo identifies products that contain wood or wood fiber from well-managed forests certified in accordance with the rules of the Forest Stewardship Council®. Soy-based inks and elemental chlorine-free, acid-free, recycled content and recyclable papers were employed throughout this publication.

Dividend Reinvestment Plan

A dividend reinvestment plan is available at no charge to shareholders of record of Eaton Ordinary Shares. Through the plan, shareholders of record may buy additional shares by reinvesting their cash dividends or investing additional cash up to \$60,000 per year.

Direct Deposit of Dividends

Shareholders of record may have their dividends directly deposited into their bank accounts. Interested shareholders of record should contact Broadridge, as shown above.

Forward-Looking Statements

This Annual Report to Shareholders, including the Chairman's letter, contains forward-looking statements concerning our corporate strategy, in addition to the forward-looking statements made in the Form 10-K included in this Annual Report. These statements should be used with caution and are subject to various risks and uncertainties, many of which are outside of Eaton's control. Please see the factors described in the paragraph under the heading "Forward-Looking Statements" on page 93 of the Form 10-K included in this Annual Report to Shareholders for a discussion of the factors that could cause actual results to differ materially from these forward-looking statements.

Directors, Eaton Corporation plc

Craig Arnold ^{5*}

Chairman and Chief Executive Officer

Todd M. Bluedorn ^{2*,3,5}

Chairman and Chief Executive Officer, Lennox International Inc., Richardson, Texas, a global provider of climate control solutions for heating, air conditioning and refrigeration markets

Christopher M. Connor ^{2,4,5}

Retired Chairman and Chief Executive Officer, The Sherwin-Williams Company, Cleveland, Ohio, a global manufacturer of paint, architectural coatings, industrial finishes and associated supplies

Michael J. Critelli ^{2,3}

Retired Chairman and Chief Executive Officer, Pitney Bowes Inc., Stamford, Connecticut, a global mailstream solutions company

Richard H. Fearon

Vice Chairman and Chief Financial and Planning Officer, Eaton Corporation

Olivier Leonetti ^{1,4}

Chief Financial Officer, Zebra Technologies Corporation, Lincolnshire, Illinois, a global leader in designing and marketing enterprise software solutions, services and products

Deborah L. McCoy ^{1,4}

Independent consultant. Former Senior Vice President, Flight Operations, Continental Airlines Inc., Houston, Texas, a commercial airline

Silvio Napoli ^{2,4}

Executive Chairman of the Board of Directors, Schindler Holding AG, Lucerne, Switzerland, a global provider of elevators, escalators and related services

Gregory R. Page ^{2,3}

Retired Chairman and Chief Executive Officer, Cargill Incorporated, Minneapolis, Minnesota, an international marketer, processor and distributor of agricultural, food, financial and industrial products and services

Sandra Pianalto ^{1,3*,5}

Retired President and Chief Executive Officer, Federal Reserve Bank of Cleveland, Cleveland, Ohio

Gerald B. Smith ^{1*,3,5}

Chairman and Chief Executive Officer, Smith, Graham & Company, Houston, Texas, an investment advisory firm

Dorothy C. Thompson ^{1,4*,5}

Retired Chief Executive, Drax Group plc, London, England, a power generation company

1 Audit Committee

2 Compensation and Organization Committee

3 Finance Committee

4 Governance Committee

5 Executive Committee

* Denotes Committee Chair

Eaton Global Leadership Team

Craig Arnold

Chairman and Chief Executive Officer

Richard H. Fearon

Vice Chairman and Chief Financial and Planning Officer

Heath B. Monesmith

President and Chief Operating Officer, Industrial Sector

Uday Yadav

President and Chief Operating Officer, Electrical Sector

Brian S. Brickhouse

President, Americas Region, Electrical Sector

Nandakumar Cheruvatath

President, Aerospace Group

Timothy N. Darkes

President, Europe, Middle East and Africa Region, Corporate and Electrical Sector

João V. Faria

President, Vehicle Group

Scott Hearn

President, Crouse-Hinds and B-Line Businesses

Howard Liu

President, Asia-Pacific Region, Electrical

Paulo Ruiz Sternadt

President, Hydraulics Group

Nancy L.

Berardinelli-Krantz
Senior Vice President, Global Ethics and Compliance

William W. Blausey Jr.

Senior Vice President and Chief Information Officer

April Miller Boise

Executive Vice President and General Counsel

Rogério Branco

Executive Vice President, Supply Chain Management

Mary Kim Elkins

Senior Vice President, Taxes

Yan Jin

Senior Vice President, Investor Relations

Harold V. Jones

Executive Vice President, Eaton Business System and Sustainability

Ernest W. Marshall Jr.

Executive Vice President and Chief Human Resources Officer

John J. Matejka

Senior Vice President, Internal Audit

Kirsten M. Park

Senior Vice President, Treasury

Ramanath I. Ramakrishnan

Executive Vice President and Chief Technology Officer

Harpreet Saluja

Senior Vice President, Corporate Development and Planning

Ken D. Semelsberger

Senior Vice President and Controller

Taras G. Szmagala Jr.

Senior Vice President, Public and Community Affairs and Corporate Communications

Aravind Yarlagadda

Executive Vice President and Chief Digital Officer

We make big buildings work.



We make cruising at 30,000' work.



We make a smarter grid work.



Eaton Corporation plc
Eaton House
30 Pembroke Road
Dublin 4, Ireland
Eaton.com

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