Eaton Corp plc
Form 10-Q
July 31, 2018

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

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018
Commission file number 000-54863
EATON CORPORATION plc
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

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 þ	Accelerated filer o	Non-accelerated filer o
Smaller reporting company o	Emerging growth company o	(Do not check if a smaller reporting company)

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

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

There were 433.3 million Ordinary Shares outstanding as of June 30, 2018.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

EATON CORPORATION plc
CONSOLIDATED STATEMENTS OF INCOME

	Three months ended June 30		Six months ended June 30	
(In millions except for per share data)	2018	2017	2018	2017
Net sales	$5,487	$5,132	$10,738	$9,980
Cost of products sold	3,671	3,448	7,244	6,755
Selling and administrative expense	901	891	1,790	1,767
Research and development expense	145	150	301	293
Interest expense - net	68	60	138	121
Other expense - net	8	11	6	5
Income before income taxes	694	572	1,259	1,039
Income tax expense	83	55	161	88
Net income	611	517	1,098	951
Less net income for noncontrolling interests	(1)	(1)	—	(1)
Net income attributable to Eaton ordinary shareholders	$610	$516	$1,098	$950
Net income per share attributable to Eaton ordinary shareholders				
Diluted	$1.39	$1.15	$2.50	$2.11
Basic	1.40	1.16	2.51	2.12
Weighted-average number of ordinary shares outstanding				
Diluted	437.3	448.6	439.5	449.8
Basic	435.2	446.3	437.0	447.5
Cash dividends declared per ordinary share	$0.66	$0.60	$1.32	$1.20

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

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EATON CORPORATION plc
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended June 30		Six months ended June 30	
(In millions)	2018	2017	2018	2017
Net income	$611	$517	$1,098	$951
Less net income for noncontrolling interests	(1)	(1)	—	(1)
Net income attributable to Eaton ordinary shareholders	610	516	1,098	950
Other comprehensive (loss) income, net of tax				
Currency translation and related hedging instruments	(671)	320	(414)	548
Pensions and other postretirement benefits	56	4	82	37
Cash flow hedges	(9)	(1)	4	1
Other comprehensive (loss) income attributable to Eaton ordinary shareholders	(624)	323	(328)	586
Total comprehensive (loss) income attributable to Eaton ordinary shareholders	$(14)	$839	$770	$1,536

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

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EATON CORPORATION plc
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash	$256	$ 561
Short-term investments	236	534
Accounts receivable - net	4,092	3,943
Inventory	2,753	2,620
Prepaid expenses and other current assets	576	679
Total current assets	7,913	8,337
Property, plant and equipment		
Land and buildings	2,458	2,491
Machinery and equipment	6,035	6,014
Gross property, plant and equipment	8,493	8,505
Accumulated depreciation	(5,031)	(5,003)
Net property, plant and equipment	3,462	3,502
Other noncurrent assets		
Goodwill	13,427	13,568
Other intangible assets	5,050	5,265
Deferred income taxes	296	253
Other assets	1,717	1,698
Total assets	$31,865	$ 32,623
Liabilities and shareholders’ equity		
Current liabilities		
Short-term debt	$504	$ 6
Current portion of long-term debt	428	578
Accounts payable	2,192	2,166
Accrued compensation	353	453
Other current liabilities	1,910	1,872
Total current liabilities	5,387	5,075
Noncurrent liabilities		
Long-term debt	6,753	7,167
Pension liabilities	1,174	1,226
Other postretirement benefits liabilities	354	362
Deferred income taxes	486	538
Other noncurrent liabilities	986	965
Total noncurrent liabilities	9,753	10,258
Shareholders’ equity		
Eaton shareholders’ equity	16,690	17,253
Noncontrolling interests	35	37
Total equity	16,725	17,290

Total liabilities and equity	$31,865	$ 32,623

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

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EATON CORPORATION plc
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30	
(In millions)	2018	2017
Operating activities		
Net income	$1,098	$951
Adjustments to reconcile to net cash provided by operating activities		
Depreciation and amortization	457	453
Deferred income taxes	(109)	(105)
Pension and other postretirement benefits expense	82	104
Contributions to pension plans	(72)	(160)
Contributions to other postretirement benefits plans	(12)	(11)
Changes in working capital	(482)	(381)
Other - net	(124)	186
Net cash provided by operating activities	838	1,037
Investing activities		
Capital expenditures for property, plant and equipment	(280)	(246)
Sales (purchases) of short-term investments - net	284	(309)
Other - net	(41)	(31)
Net cash used in investing activities	(37)	(586)
Financing activities		
Proceeds from borrowings	500	832
Payments on borrowings	(486)	(543)
Cash dividends paid	(578)	(537)
Exercise of employee stock options	21	49
Repurchase of shares	(600)	(465)
Employee taxes paid from shares withheld	(23)	(21)
Other - net	(2)	(4)
Net cash used in financing activities	(1,168)	(689)
Effect of currency on cash	62	7
Total decrease in cash	(305)	(231)
Cash at the beginning of the period	561	543
Cash at the end of the period	$256	$312

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

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EATON CORPORATION plc
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Amounts are in millions unless indicated otherwise (per share data assume dilution).

Note 1. BASIS OF PRESENTATION

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

This Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in Eaton's 2017 Form 10-K. The interim period results are not necessarily indicative of the results to be expected for the full year. Management has evaluated subsequent events through the date this Form 10-Q was filed with the Securities and Exchange Commission.

During the first quarter of 2018, Eaton re-segmented certain reportable operating segments due to a reorganization of the Company's businesses. The new reportable business segment is eMobility (which includes certain legacy Electrical Products and Vehicle product lines). See Note 13 for additional information related to these segments.

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

Revenue Recognition

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

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

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

Adoption of New Accounting Standards

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

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

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

Eaton adopted Accounting Standards Update 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07), at the start of the first quarter of 2018. The new standard requires companies to present service costs consistent with other employee compensation costs on the income statement and separate from all other elements of pension costs. The retrospective adoption of this standard resulted in an increase in selling and administrative expense with a corresponding decrease in Other expense - net of $1 for the six months ended June 30, 2018, and a reduction in selling and administrative expense with a corresponding increase in Other expense - net of $20 for the six months ended June 30, 2017.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842), (ASU 2016-02). This accounting standard requires that a lessee recognize a lease asset and a lease liability on its balance sheet for all leases, including operating leases, with a term greater than 12 months. ASU 2016-02 will require additional disclosures in the notes to the consolidated financial statements and is effective for annual and interim reporting periods beginning after December 15, 2018. A project team has been formed to evaluate and implement the new standard. The project team is working to gather the data required to account for leases under the new standard, and validating the functionality of third-party lease accounting software. In addition, the Company is in the process of identifying and implementing the appropriate changes to business processes and controls to support recognition and disclosure under the new standard. Eaton plans to adopt the standard as of the first quarter of 2019. Eaton is evaluating the impact of ASU 2016-02 and an estimate of the impact to the consolidated financial statements cannot be made at this time.

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Note 2. ACQUISITION INTEGRATION CHARGES

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Electrical Products	$ —	$ 1	$ —	$ 2
Total acquisition integration charges before income taxes	—	1	—	2
Income taxes	—	1	—	1
Total after income taxes	$ —	$ —	$ —	$ 1
Per ordinary share - diluted	$ —	$ —	$ —	$ —

Business segment acquisition integration charges in 2017 related to the integration of Ephesus Lighting, Inc. (Ephesus), which was acquired in 2015. The charges associated with Ephesus were included in Selling and administrative expense. In Business Segment Information, the charges reduced Operating profit of the related business segment. See Note 13 for additional information about business segments.

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 Condensed Consolidated Balance Sheet.

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

Sales of products and services varies by segment and are discussed in Note 15 of Eaton's 2017 Form 10-K and in Note 13.

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

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

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

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

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

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

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

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

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

	Three months ended June 30, 2018		
Net sales	United States	Rest of World	Total
Electrical Products	$1,033	$ 773	$1,806
Electrical Systems and Services	983	530	1,513
Hydraulics	309	414	723
	Original Equipment Manufacturers	Aftermarket, Distribution and End User	
Aerospace	$266	$ 197	463
	Commercial	Passenger and Light Duty	
Vehicle	$452	$ 447	899
eMobility			83
Total			$5,487

	Six months ended June 30, 2018		
Net sales	United States	Rest of World	Total
Electrical Products	$1,993	$ 1,545	$3,538
Electrical Systems and Services	1,877	1,017	2,894
Hydraulics	606	827	1,433
	Original Equipment Manufacturers	Aftermarket, Distribution and End User	
Aerospace	$530	$ 391	921
	Commercial	Passenger and Light Duty	
Vehicle	$882	$ 910	1,792
eMobility			160
Total			$10,738

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 $3,606 and $3,399 at June 30, 2018 and December 31, 2017, respectively. Amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. These assets and liabilities are reported on the Condensed Consolidated Balance Sheets on a contract-by-contract basis at the end of each reporting period. Unbilled receivables were $150 and $117 at June 30, 2018 and January 1, 2018, respectively, and are recorded in Prepaid expenses and other current assets. The increase in the unbilled receivables was primarily due to revenue recognized and not yet billed, partially offset by billings to customers during the quarter.

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Changes in the deferred revenue liabilities are as follows:

	Deferred Revenue
Balance at January 1, 2018	$ 227
Customer deposits and billings	463
Revenue recognized in the period	(443)
Translation	(3)
Balance at June 30, 2018	$ 244

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 June 30, 2018 was approximately $5.4 billion. Eaton expects to recognize approximately 89% of this backlog in the next twelve months and the rest thereafter.

Impact of new accounting standard

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

	Three months ended June 30, 2018		
Consolidated Statements of Income	As Reported	Adjustment	Balances without Adoption of ASC 606
Net sales	$5,487	$ (11)	$ 5,476
Cost of products sold	3,671	(6)	3,665
Income before income taxes	694	(5)	689
Income tax expense	83	(1)	82
Net income	611	(4)	607
Net income attributable to Eaton ordinary shareholders	$610	$ (4)	$ 606

	Six months ended June 30, 2018		
Consolidated Statements of Income	As Reported	Adjustment	Balances without Adoption of ASC 606
Net sales	$10,738	$ (18)	$ 10,720
Cost of products sold	7,244	(10)	7,234
Income before income taxes	1,259	(8)	1,251
Income tax expense	161	(2)	159
Net income	1,098	(6)	1,092
Net income attributable to Eaton ordinary shareholders	$1,098	$ (6)	$ 1,092

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	June 30, 2018		
Condensed Consolidated Balance Sheets	As Reported	Adjustment	Balances without Adoption of ASC 606
Assets			
Accounts receivable - net	$4,092	$ 121	$ 4,213
Inventory	2,753	9	2,762
Prepaid expenses and other current assets	576	(164)	412
Deferred income taxes	296	(1)	295
Liabilities and shareholders’ equity			
Other current liabilities	$1,910	$ (31)	$ 1,879
Eaton shareholders' equity	$16,725	$ (4)	$ 16,721

Note 4. RESTRUCTURING CHARGES

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

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

	Workforce reductions	Plant closings and other	Total
Balance at December 31, 2016	$ 113	$ 1	$114
Liability recognized	57	59	116
Payments	(102)	(39)	(141)
Other adjustments	(1)	(16)	(17)
Balance at December 31, 2017	67	5	72
Payments	(25)	(4)	(29)
Other adjustments	(10)	—	(10)
Balance at June 30, 2018	$ 32	$ 1	$33

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Note 5. GOODWILL

Change in the carrying amount of goodwill by segment follows:

	December 31, 2017	Translation	June 30, 2018
Electrical Products	$ 6,678	$ (71)	$6,607
Electrical Systems and Services	4,311	(36)	4,275
Hydraulics	1,257	(29)	1,228
Aerospace	947	(3)	944
Vehicle	294	(2)	292
eMobility	81	—	81
Total	$ 13,568	$ (141)	$13,427

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

Note 6. RETIREMENT BENEFITS PLANS

The components of retirement benefits expense follow:

	United States pension benefit expense		Non-United States pension benefit expense		Other postretirement benefits expense	
	Three months ended June 30					
	2018	2017	2018	2017	2018	2017
Service cost	$25	$24	$16	$18	$ —	$ —
Interest cost	31	31	13	14	4	4
Expected return on plan assets	(64)	(61)	(26)	(23)	(1)	(1)
Amortization	23	21	10	12	(3)	(3)
	15	15	13	21	—	—
Settlements	11	17	—	—	—	—
Total expense	$26	$32	$13	$21	$ —	$ —

	United States pension benefit expense		Non-United States pension benefit expense		Other postretirement benefits expense	
	Six months ended June 30					
	2018	2017	2018	2017	2018	2017
Service cost	$50	$48	$32	$35	$ 1	$ 1
Interest cost	61	62	27	27	7	7
Expected return on plan assets	(127)	(122)	(53)	(46)	(2)	(2)
Amortization	47	41	20	25	(6)	(6)
	31	29	26	41	—	—
Settlements	25	34	—	—	—	—
Total expense	$56	$63	$26	$41	$ —	$ —

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

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Note 7. LEGAL CONTINGENCIES

Eaton is subject to a broad range of claims, administrative and legal proceedings such as lawsuits that relate to contractual allegations, tax audits, patent infringement, personal injuries, antitrust matters, and employment-related matters. Eaton is also subject to asbestos claims from historic products which may have contained asbestos. 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 have 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 may result in plaintiffs suing Pepsi under various theories. Cooper submitted various expert reports and, among other things, Cooper’s experts have opined that Pepsi has 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 believes that no additional amount should be contributed. Pepsi argued that an additional $347 should be contributed. Cooper and its expert disagree with Pepsi’s argument and believe that Pepsi’s recalculation is flawed and fails to comply with the instructions of the panel. Based on its calculation, the Company continues to believe that the ultimate resolution of this matter will not have a material impact on the Company’s consolidated financial statements.

Note 8. INCOME TAXES

The effective income tax rate for the second quarter and the first six month of 2018 was expense of 12.0% and 12.8% compared to expense of 9.7% and 8.5% for the second quarter and first six months of 2017. The increase in the effective tax rate in the second quarter and first six months of 2018 was due to greater levels of income in higher tax jurisdictions and the impact of the U.S. Tax Cuts and Jobs Act (“TCJA"). During the second quarter of 2018, the Company increased tax contingencies for the current and prior years which was offset by a corresponding decrease of a related valuation allowance. The net impact of these adjustments did not have a material impact on tax expense or the balance sheet.

The TCJA was enacted on December 22, 2017 and the Company recorded provisional tax amounts in the fourth quarter of 2017 for the remeasurement of deferred tax balances, including valuation allowances related to the realization of deferred tax assets, and the one-time transition tax. The Company continues to analyze aspects of the TCJA, including potential impact to the provisional amounts recorded for the remeasurement of deferred tax balances and related valuation allowances, and the one-time transition tax. The Company did not record any adjustments to the

2017 provisional tax amounts in the second quarter of 2018.

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Note 9. EQUITY

During the three and six months ended June 30, 2018, 4.0 million and 7.7 million ordinary shares, respectively, were repurchased under the 2016 Program in the open market at a total cost of $300 and $600, respectively. During the three and six months ended June 30, 2017, 2.7 million and 6.3 million ordinary shares, respectively, were repurchased under the 2016 Program in the open market at a total cost of $210 and $465, respectively.

The changes in Shareholders' equity follow:

	Eaton shareholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2017	$ 17,253	$ 37	$ 17,290
Cumulative-effect adjustment upon adoption of ASU 2014-09	(2)	—	(2)
Cumulative-effect adjustment upon adoption of ASU 2016-16	(199)	—	(199)
Net income	1,098	—	1,098
Other comprehensive loss	(328)	—	(328)
Cash dividends paid	(578)	(1)	(579)
Issuance of shares under equity-based compensation plans - net	46	—	46
Repurchase of shares	(600)	—	(600)
Changes in noncontrolling interest - net	—	(1)	(1)
Balance at June 30, 2018	$ 16,690	$ 35	$ 16,725

The changes in Accumulated other comprehensive loss follow:

	Currency translation and related hedging instruments	Pensions and other postretirement benefits	Cash flow hedges	Total
Balance at December 31, 2017	$ (2,255)	$ (1,139)	$ (10)	$ (3,404)
Other comprehensive (loss) income before reclassifications	(414)	13	(2)	(403)
Amounts reclassified from Accumulated other comprehensive loss	—	69	6	75
Net current-period Other comprehensive (loss) income	(414)	82	4	(328)
Balance at June 30, 2018	$ (2,669)	$ (1,057)	$ (6)	$ (3,732)

The reclassifications out of Accumulated other comprehensive loss follow:

	Six months ended June 30, 2018	Consolidated statements of income classification
Amortization of defined benefit pensions and other postretirement benefits items		
Actuarial loss and prior service cost	$ (86) [1]	
Tax benefit	17	
Total, net of tax	(69)	
Gains and (losses) on cash flow hedges		
Currency exchange contracts	(8)	Cost of products sold
Tax benefit	2	
Total, net of tax	(6)	

Total reclassifications for the period	$ (75)

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

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Net Income Per Share Attributable to Eaton Ordinary Shareholders

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

	Three months ended June 30		Six months ended June 30	
(Shares in millions)	2018	2017	2018	2017
Net income attributable to Eaton ordinary shareholders	$610	$516	$1,098	$950
Weighted-average number of ordinary shares outstanding - diluted	437.3	448.6	439.5	449.8
Less dilutive effect of equity-based compensation	2.1	2.3	2.5	2.3
Weighted-average number of ordinary shares outstanding - basic	435.2	446.3	437.0	447.5
Net income per share attributable to Eaton ordinary shareholders				
Diluted	$1.39	$1.15	$2.50	$2.11
Basic	1.40	1.16	2.51	2.12

For the second quarter and first six months of 2018, 0.6 million and 0.3 million stock options, respectively, were excluded from the calculation of diluted net income per share attributable to Eaton ordinary shareholders because the exercise price of the options exceeded the average market price of the ordinary shares during the period and their effect, accordingly, would have been antidilutive. For the second quarter and first six months of 2017, 0.2 million and 0.7 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 10. FAIR VALUE MEASUREMENTS

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

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

	Total	Level 1	Level 2	Level 3
June 30, 2018				
Cash	$256	$256	$ —	$ —
Short-term investments	236	236	—	—
Net derivative contracts	(140)	—	(140)	—
December 31, 2017				
Cash	$561	$561	$ —	$ —
Short-term investments	534	534	—	—
Net derivative contracts	36	—	36	—

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

Other Fair Value Measurements

Long-term debt and the current portion of long-term debt had a carrying value of $7,181 and fair value of $7,218 at June 30, 2018 compared to $7,745 and $8,048, respectively, at December 31, 2017. The fair value of Eaton's debt instruments were estimated using prevailing market interest rates on debt with similar creditworthiness, terms and maturities, and are considered a Level 2 fair value measurement.

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Note 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

- Hedges of the change in the fair value of a recognized fixed-rate asset or liability, or the firm commitment to acquire such an asset or liability (a fair value hedge); for these hedges, the gain or loss from the derivative financial instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in income during the period of change in fair value.
- Hedges of the variable cash flows of a recognized variable-rate asset or liability, or the forecasted acquisition of such an asset or liability (a cash flow hedge); for these hedges, the effective portion of the gain or loss from the derivative financial instrument is recognized in Accumulated other comprehensive loss and reclassified to income in the same period when the gain or loss on the hedged item is included in income.
- Hedges of the currency exposure related to a net investment in a foreign operation (a net investment hedge); for these hedges, the effective portion of the gain or loss from the derivative financial instrument is recognized in Accumulated other comprehensive loss and reclassified to income in the same period when the gain or loss related to the net investment in the foreign operation is included in income.

The gain or loss from a derivative financial instrument designated as a hedge that is effective is classified in the same line of the Consolidated Statements of Income as the offsetting loss or gain on the hedged item. The change in fair value of a derivative financial instrument that is not effective as a hedge is immediately recognized in income. The cash flows resulting from these financial instruments are classified in operating activities on the Condensed Consolidated Statements of Cash Flows.

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

Eaton uses certain of its debt denominated in foreign currency to hedge portions of its net investments in foreign operations against foreign currency exposure (net investment hedges). Foreign currency denominated debt designated as non-derivative net investment hedging instruments on an after-tax basis was $90 at June 30, 2018 and $88 at December 31, 2017, and designated on a pre-tax basis was $634 at June 30, 2018 and $652 at December 31, 2017.

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Derivative Financial Statement Impacts

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

	Notional amount	Other current assets	Other noncurrent assets	Other current liabilities	Other noncurrent liabilities	Type of hedge	Term
June 30, 2018							
Derivatives designated as hedges							
Fixed-to-floating interest rate swaps	$ 2,550	$ —	$ 18	$ 1	$ 51	Fair value	9 months to 16 years
Currency exchange contracts	950	13	5	18	4	Cash flow	1 to 36 months
Total		$ 13	$ 23	$ 19	$ 55		
Derivatives not designated as hedges							
Currency exchange contracts	$ 6,033	$ 33		$ 135			1 to 12 months
Commodity contracts	11	—		—			1 to 12 months
Total		$ 33		$ 135			
December 31, 2017							
Derivatives designated as hedges							
Fixed-to-floating interest rate swaps	$ 2,965	$ 1	$ 41	$ —	$ 17	Fair value	6 months to 17 years
Currency exchange contracts	924	7	7	22	2	Cash flow	1 to 36 months
Total		$ 8	$ 48	$ 22	$ 19		
Derivatives not designated as hedges							
Currency exchange contracts	$ 3,719	$ 39		$ 19			1 to 12 months
Commodity contracts	13	1		—			1 to 12 months
Total		$ 40		$ 19			

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

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

	Gain (loss) recognized in other comprehensive (loss) income		Location of gain (loss) reclassified from Accumulated other comprehensive loss	Gain (loss) reclassified from Accumulated other comprehensive loss	
	Three months ended June 30			Three months ended June 30	
	2018	2017		2018	2017
Derivatives designated as cash flow hedges					
Forward starting floating-to-fixed interest rate swaps	$ —	$ (5)	Interest expense - net	$ —	$ —
Currency exchange contracts	(15)	2	Cost of products sold	(4)	(1)
Total	$ (15)	$ (3)		$ (4)	$ (1)

	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	
	Six months ended June 30			Six months ended June 30	
	2018	2017		2018	2017
Derivatives designated as cash flow hedges					
Forward starting floating-to-fixed interest rate swaps	$ —	$ (5)	Interest expense - net	$ —	$ —
Currency exchange contracts	(2)	1	Cost of products sold	(8)	(5)
Total	$ (2)	$ (4)		$ (8)	$ (5)

Amounts recognized in net income follow:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Derivatives designated as fair value hedges				

Fixed-to-floating interest rate swaps	$(16)	$ 8	$(59)	$(3)
Related long-term debt converted to floating interest rates by interest rate swaps	16	(8)	59	3
	$—	$ —	$—	$—

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

Note 12. INVENTORY

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

	June 30, 2018	December 31, 2017
Raw materials	$ 1,065	$ 953
Work-in-process	524	471
Finished goods	1,164	1,196
Total inventory	$ 2,753	$ 2,620

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Note 13. BUSINESS SEGMENT INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance.

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

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

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net sales				
Electrical Products	$1,806	$1,731	$3,538	$3,382
Electrical Systems and Services	1,513	1,414	2,894	2,747
Hydraulics	723	633	1,433	1,220
Aerospace	463	437	921	865
Vehicle	899	845	1,792	1,631
eMobility	83	72	160	135
Total net sales	$5,487	$5,132	$10,738	$9,980
Segment operating profit				
Electrical Products	$334	$299	$641	$585
Electrical Systems and Services	227	194	394	349
Hydraulics	101	74	191	134
Aerospace	90	81	179	160
Vehicle	166	141	298	249
eMobility	14	13	25	24
Total segment operating profit	932	802	1,728	1,501
Corporate				
Amortization of intangible assets	(96)	(96)	(194)	(190)
Interest expense - net	(68)	(60)	(138)	(121)
Pension and other postretirement benefits expense	1	(11)	(1)	(22)
Other corporate expense - net	(75)	(63)	(136)	(129)
Income before income taxes	694	572	1,259	1,039
Income tax expense	83	55	161	88
Net income	611	517	1,098	951
Less net income for noncontrolling interests	(1)	(1)	—	(1)
Net income attributable to Eaton ordinary shareholders	$610	$516	$1,098	$950

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Note 14. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The Registered Senior Notes issued by Eaton Corporation are registered under the Securities Act of 1933. Eaton and certain of Eaton's 100% owned direct and indirect subsidiaries (the Guarantors) fully and unconditionally guaranteed (subject, in the case of the Guarantors, other than Eaton, to customary release provisions as described below), on a joint and several basis, the Registered Senior Notes. The following condensed consolidating financial statements are included so that separate financial statements of Eaton, Eaton Corporation and each of the Guarantors are not required to be filed with the Securities and Exchange Commission. The consolidating adjustments primarily relate to eliminations of investments in subsidiaries and intercompany balances and transactions. The condensed consolidating financial statements present investments in subsidiaries using the equity method of accounting. See Note 6 of Eaton's 2017 Form 10-K for additional information related to the Registered Senior Notes.

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

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

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

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net sales	$ —	$ 1,809	$ 1,790	$ 3,242	$ (1,354)	$5,487
Cost of products sold	—	1,427	1,289	2,312	(1,357)	3,671
Selling and administrative expense	3	397	200	301	—	901
Research and development expense	—	37	35	73	—	145
Interest expense (income) - net	—	67	4	(6)	3	68
Other expense (income) - net	(37)	9	36	—	—	8
Equity in loss (earnings) of subsidiaries, net of tax	(587)	(209)	(921)	(658)	2,375	—
Intercompany expense (income) - net	11	24	557	(592)	—	—
Income (loss) before income taxes	610	57	590	1,812	(2,375)	694
Income tax expense (benefit)	—	(7)	(14)	104	—	83
Net income (loss)	610	64	604	1,708	(2,375)	611
Less net loss (income) for noncontrolling interests	—	—	—	(1)	—	(1)
Net income (loss) attributable to Eaton ordinary shareholders	$ 610	$ 64	$ 604	$ 1,707	$ (2,375)	$610
Other comprehensive income (loss)	$ (624)	$ (63)	$ (608)	$ (1,390)	$ 2,061	$(624)
Total comprehensive income (loss) attributable to Eaton ordinary shareholders	$ (14)	$ 1	$ (4)	$ 317	$ (314)	$(14)

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

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net sales	$ —	$ 1,696	$ 1,727	$ 3,109	$ (1,400)	$5,132
Cost of products sold	—	1,371	1,263	2,210	(1,396)	3,448
Selling and administrative expense	4	361	200	326	—	891
Research and development expense	—	47	46	57	—	150
Interest expense (income) - net	—	60	6	(7)	1	60
Other expense (income) - net	41	17	(38)	(9)	—	11
Equity in loss (earnings) of subsidiaries, net of tax	(705)	(167)	(861)	(747)	2,480	—
Intercompany expense (income) - net	144	(45)	352	(451)	—	—
Income (loss) before income taxes	516	52	759	1,730	(2,485)	572
Income tax expense (benefit)	—	3	3	52	(3)	55
Net income (loss)	516	49	756	1,678	(2,482)	517
Less net loss (income) for noncontrolling interests	—	—	—	(1)	—	(1)
Net income (loss) attributable to	$ 516	$ 49	$ 756	$ 1,677	$ (2,482)	$516

Eaton ordinary shareholders						
Other comprehensive income (loss)	$ 323	$ 17	$ 321	$ 714	$ (1,052)	$ 323
Total comprehensive income (loss) attributable to Eaton ordinary shareholders	$ 839	$ 66	$ 1,077	$ 2,391	$ (3,534)	$ 839

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2018

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net sales	$ —	$ 3,498	$ 3,490	$ 6,433	$ (2,683)	$ 10,738
Cost of products sold	—	2,779	2,525	4,622	(2,682)	7,244
Selling and administrative expense	6	738	378	668	—	1,790
Research and development expense	—	76	76	149	—	301
Interest expense (income) - net	—	135	8	(7)	2	138
Other expense (income) - net	(19)	14	27	(16)	—	6
Equity in loss (earnings) of subsidiaries, net of tax	(1,101)	(472)	(1,737)	(1,316)	4,626	—
Intercompany expense (income) - net	16	2	1,044	(1,062)	—	—
Income (loss) before income taxes	1,098	226	1,169	3,395	(4,629)	1,259
Income tax expense (benefit)	—	(13)	(28)	203	(1)	161
Net income (loss)	1,098	239	1,197	3,192	(4,628)	1,098
Less net loss (income) for noncontrolling interests	—	—	—	—	—	—
Net income (loss) attributable to Eaton ordinary shareholders	$ 1,098	$ 239	$ 1,197	$ 3,192	$ (4,628)	$ 1,098
Other comprehensive income (loss)	$ (328)	$ (29)	$ (312)	$ (777)	$ 1,118	$ (328)
Total comprehensive income (loss) attributable to Eaton ordinary shareholders	$ 770	$ 210	$ 885	$ 2,415	$ (3,510)	$ 770

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2017

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net sales	$ —	$ 3,268	$ 3,383	$ 6,039	$ (2,710)	$9,980
Cost of products sold	—	2,622	2,491	4,350	(2,708)	6,755
Selling and administrative expense	6	709	398	654	—	1,767
Research and development expense	—	94	88	111	—	293
Interest expense (income) - net	—	123	11	(13)	—	121
Other expense (income) - net	48	27	(37)	(33)	—	5
Equity in loss (earnings) of subsidiaries, net of tax	(1,288)	(314)	(1,643)	(1,400)	4,645	—
Intercompany expense (income) - net	284	(99)	697	(882)	—	—
Income (loss) before income taxes	950	106	1,378	3,252	(4,647)	1,039
Income tax expense (benefit)	—	—	19	70	(1)	88
Net income (loss)	950	106	1,359	3,182	(4,646)	951
Less net loss (income) for noncontrolling interests	—	—	—	(2)	1	(1)
Net income (loss) attributable to Eaton ordinary shareholders	$ 950	$ 106	$ 1,359	$ 3,180	$ (4,645)	$950
Other comprehensive income (loss)	$ 586	$ 80	$ 583	$ 1,229	$ (1,892)	$586
Total comprehensive income (loss) attributable to Eaton ordinary shareholders	$ 1,536	$ 186	$ 1,942	$ 4,409	$ (6,537)	$1,536

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CONDENSED CONSOLIDATING BALANCE SHEETS
JUNE 30, 2018

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Assets						
Current assets						
Cash	$ —	$ 5	$ 10	$ 241	$ —	$ 256
Short-term investments	—	—	—	236	—	236
Accounts receivable - net	—	505	1,451	2,136	—	4,092
Intercompany accounts receivable	1	1,643	1,838	3,168	(6,650)	—
Inventory	—	530	772	1,535	(84)	2,753
Prepaid expenses and other current assets	—	131	98	332	15	576
Total current assets	1	2,814	4,169	7,648	(6,719)	7,913
Property, plant and equipment - net	—	844	689	1,929	—	3,462
Other noncurrent assets						
Goodwill	—	1,317	6,705	5,405	—	13,427
Other intangible assets	—	133	3,129	1,788	—	5,050
Deferred income taxes	—	357	18	254	(333)	296
Investment in subsidiaries	15,641	9,546	55,296	24,151	(104,634)	—
Intercompany loans receivable	3,121	4,235	5,992	64,680	(78,028)	—
Other assets	—	729	167	821	—	1,717
Total assets	$ 18,763	$ 19,975	$ 76,165	$ 106,676	$ (189,714)	$ 31,865
Liabilities and shareholders’ equity						
Current liabilities						
Short-term debt	$ —	$ 481	$ —	$ 23	$ —	$ 504
Current portion of long-term debt	—	428	—	—	—	428
Accounts payable	—	474	437	1,281	—	2,192
Intercompany accounts payable	17	1,494	3,478	1,661	(6,650)	—
Accrued compensation	—	79	46	228	—	353
Other current liabilities	2	506	226	1,179	(3)	1,910
Total current liabilities	19	3,462	4,187	4,372	(6,653)	5,387
Noncurrent liabilities						
Long-term debt	—	5,784	957	8	4	6,753
Pension liabilities	—	329	88	757	—	1,174
Other postretirement benefits liabilities	—	189	93	72	—	354
Deferred income taxes	—	1	589	229	(333)	486
Intercompany loans payable	2,054	4,621	70,443	910	(78,028)	—
Other noncurrent liabilities	—	345	265	376	—	986
Total noncurrent liabilities	2,054	11,269	72,435	2,352	(78,357)	9,753

Shareholders’ equity						
Eaton shareholders' equity	16,690	5,244	(457)	99,917	(104,704)	16,690
Noncontrolling interests	—	—	—	35	—	35
Total equity	16,690	5,244	(457)	99,952	(104,704)	16,725
Total liabilities and equity	$ 18,763	$ 19,975	$ 76,165	$ 106,676	$ (189,714)	$ 31,865

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CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2017

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Assets						
Current assets						
Cash	$ —	$ 183	$ 18	$ 360	$ —	$ 561
Short-term investments	—	—	—	534	—	534
Accounts receivable - net	—	482	1,376	2,085	—	3,943
Intercompany accounts receivable	8	2,865	5,155	2,716	(10,744)	—
Inventory	—	473	737	1,493	(83)	2,620
Prepaid expenses and other current assets	—	229	145	277	28	679
Total current assets	8	4,232	7,431	7,465	(10,799)	8,337
Property, plant and equipment - net	—	859	702	1,941	—	3,502
Other noncurrent assets						
Goodwill	—	1,316	6,705	5,547	—	13,568
Other intangible assets	—	138	3,206	1,921	—	5,265
Deferred income taxes	—	356	6	215	(324)	253
Investment in subsidiaries	15,045	9,445	75,404	39,848	(139,742)	—
Intercompany loans receivable	3,122	7,105	2,909	61,427	(74,563)	—
Other assets	—	748	166	784	—	1,698
Total assets	$ 18,175	$ 24,199	$ 96,529	$ 119,148	$ (225,428)	$ 32,623
Liabilities and shareholders’ equity						
Current liabilities						
Short-term debt	$ —	$ —	$ —	$ 6	$ —	$ 6
Current portion of long-term debt	—	542	35	1	—	578
Accounts payable	—	549	330	1,287	—	2,166
Intercompany accounts payable	4	4,917	4,418	1,405	(10,744)	—
Accrued compensation	—	128	65	260	—	453
Other current liabilities	1	566	317	989	(1)	1,872
Total current liabilities	5	6,702	5,165	3,948	(10,745)	5,075
Noncurrent liabilities						
Long-term debt	—	6,180	976	9	2	7,167
Pension liabilities	—	341	89	796	—	1,226
Other postretirement benefits liabilities	—	192	96	74	—	362
Deferred income taxes	—	—	607	255	(324)	538
Intercompany loans payable	917	3,808	68,685	1,153	(74,563)	—
Other noncurrent liabilities	—	314	273	378	—	965
Total noncurrent liabilities	917	10,835	70,726	2,665	(74,885)	10,258

Shareholders’ equity						
Eaton shareholders' equity	17,253	6,662	20,638	112,498	(139,798)	17,253
Noncontrolling interests	—	—	—	37	—	37
Total equity	17,253	6,662	20,638	112,535	(139,798)	17,290
Total liabilities and equity	$ 18,175	$ 24,199	$ 96,529	$ 119,148	$ (225,428)	$ 32,623

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net cash provided by (used in) operating activities	$ —	$ (125)	$ 103	$ 944	$ (84)	$ 838
Investing activities						
Capital expenditures for property, plant and equipment	—	(48)	(51)	(181)	—	(280)
Sales (purchases) of short-term investments - net	—	—	—	284	—	284
Investments in affiliates	—	(36)	—	—	36	—
Loans to affiliates	—	(100)	(85)	(3,563)	3,748	—
Repayments of loans from affiliates	—	507	886	3,110	(4,503)	—
Other - net	—	(23)	1	(19)	—	(41)
Net cash provided by (used in) investing activities	—	300	751	(369)	(719)	(37)
Financing activities						
Proceeds from borrowings	—	481	—	19	—	500
Payments on borrowings	—	(450)	(35)	(1)	—	(486)
Proceeds from borrowings from affiliates	2,383	1,215	50	100	(3,748)	—
Payments on borrowings from affiliates	(1,226)	(1,994)	(524)	(759)	4,503	—
Capital contributions from affiliates	—	—	—	36	(36)	—
Other intercompany financing activities	—	411	(348)	(63)	—	—
Cash dividends paid	(578)	—	—	—	—	(578)
Cash dividends paid to affiliates	—	—	—	(84)	84	—
Exercise of employee stock options	21	—	—	—	—	21
Repurchase of shares	(600)	—	—	—	—	(600)
Employee taxes paid from shares withheld	—	(15)	(5)	(3)	—	(23)
Other - net	—	(1)	—	(1)	—	(2)
Net cash provided by (used in) financing activities	—	(353)	(862)	(756)	803	(1,168)
Effect of currency on cash	—	—	—	62	—	62
Total increase (decrease) in cash	—	(178)	(8)	(119)	—	(305)
Cash at the beginning of the period	—	183	18	360	—	561
Cash at the end of the period	$ —	$ 5	$ 10	$ 241	$ —	$ 256

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2017

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net cash provided by (used in) operating activities	$ 573	$ (12)	$ 969	$ 1,014	$ (1,507)	$ 1,037
Investing activities						
Capital expenditures for property, plant and equipment	—	(45)	(56)	(145)	—	(246)
Sales (purchases) of short-term investments - net	—	—	—	(309)	—	(309)
Investments in affiliates	(90)	(29)	—	(90)	209	—
Return of investments in affiliates	—	—	20	—	(20)	—
Loans to affiliates	—	(17)	(283)	(3,570)	3,870	—
Repayments of loans from affiliates	—	291	287	3,035	(3,613)	—
Other - net	—	(26)	(84)	79	—	(31)
Net cash provided by (used in) investing activities	(90)	174	(116)	(1,000)	446	(586)
Financing activities						
Proceeds from borrowings	—	811	—	21	—	832
Payments on borrowings	—	(250)	(289)	(4)	—	(543)
Proceeds from borrowings from affiliates	1,288	1,873	694	15	(3,870)	—
Payments on borrowings from affiliates	(819)	(2,366)	(353)	(75)	3,613	—
Capital contributions from affiliates	—	—	90	119	(209)	—
Return of capital to affiliates	—	—	—	(20)	20	—
Other intercompany financing activities	—	(288)	(196)	484	—	—
Cash dividends paid	(537)	—	—	—	—	(537)
Cash dividends paid to affiliates	—	—	(800)	(707)	1,507	—
Exercise of employee stock options	49	—	—	—	—	49
Repurchase of shares	(465)	—	—	—	—	(465)
Employee taxes paid from shares withheld	—	(14)	(4)	(3)	—	(21)
Other - net	—	—	(1)	(3)	—	(4)
Net cash provided by (used in) financing activities	(484)	(234)	(859)	(173)	1,061	(689)
Effect of currency on cash	—	—	—	7	—	7
Total increase (decrease) in cash	(1)	(72)	(6)	(152)	—	(231)
Cash at the beginning of the period	1	92	12	438	—	543
Cash at the end of the period	$ —	$ 20	$ 6	$ 286	$ —	$ 312

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ITEM 2. 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 2017 net sales of $20.4 billion. The Company provides energy-efficient solutions that help its customers effectively manage electrical, hydraulic, and mechanical power more efficiently, safely, and sustainably. Eaton has approximately 96,000 employees in 60 countries and sells products to customers in more than 175 countries.

Summary of Results of Operations

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net sales	$5,487	$5,132	$10,738	$9,980
Net income attributable to Eaton ordinary shareholders	610	516	1,098	950
Net income per share attributable to Eaton ordinary shareholders - diluted	$1.39	$1.15	$2.50	$2.11

During the first quarter of 2018, Eaton re-segmented certain reportable operating segments due to a reorganization of the Company's businesses. The new reportable business segment is eMobility (which includes certain legacy Electrical Products and Vehicle product lines). For those reportable segments that were re-segmented, previously reported segment financial information has been updated for 2017. For additional information regarding the re-segmentation, see Note 13 to the Condensed Consolidated Financial Statements. The re-segmentation did not impact previously reported consolidated results of operations. For additional information regarding Eaton's business segments, see Note 15 to the Consolidated Financial Statements contained in the 2017 Form 10-K.

RESULTS OF OPERATIONS

Non-GAAP Financial Measures

The following discussion of Consolidated Financial Results and Business Segment Results of Operations includes certain non-GAAP financial measures. These financial measures include adjusted earnings, adjusted earnings per ordinary share, and operating profit before acquisition integration charges for each business segment as well as corporate, each of which differs from the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). A reconciliation of adjusted earnings and adjusted earnings per ordinary share to the most directly comparable GAAP measure is included in the table below. Operating profit before acquisition integration charges is reconciled in the discussion of the operating results of each business segment, and excludes acquisition integration expense related to integration of Ephesus Lighting, Inc. in 2017. Management believes that these financial measures are useful to investors because they exclude certain transactions, allowing investors to more easily compare Eaton's financial performance period to period. Management uses this information in monitoring and evaluating the on-going performance of Eaton and each business segment. For additional information on acquisition integration charges, see Note 2 to the Condensed Consolidated Financial Statements.

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Consolidated Financial Results

	Three months ended June 30		Increase (decrease)	Six months ended June 30		Increase (decrease)
	2018	2017		2018	2017	
Net sales	$5,487	$5,132	7 %	$10,738	$9,980	8 %
Gross profit	1,816	1,684	8 %	3,494	3,225	8 %
Percent of net sales	33.1 %	32.8 %		32.5 %	32.3 %	
Income before income taxes	694	572	21 %	1,259	1,039	21 %
Net income	611	517	18 %	1,098	951	15 %
Less net income for noncontrolling interests	(1)	(1)		—	(1)	
Net income attributable to Eaton ordinary shareholders	610	516	18 %	1,098	950	16 %
Excluding acquisition integration charges, after-tax (Note 2)	—	—		—	1	
Adjusted earnings	$610	$516	18 %	$1,098	$951	15 %
Net income per share attributable to Eaton ordinary shareholders - diluted	$1.39	$1.15	21 %	$2.50	$2.11	18 %
Excluding per share impact of acquisition integration charges, after-tax (Note 2)	—	—		—	—	
Adjusted earnings per ordinary share	$1.39	$1.15	21 %	$2.50	$2.11	18 %

Net Sales

Net sales increased 7% in the second quarter of 2018 compared to the second quarter of 2017 due to an increase of 7% in organic sales and an increase of 1% from the impact of positive currency translation, partially offset by a decrease of 1% from the sale of a business and a stake in a joint venture in the second half of 2017. Net sales increased 8% in the first six months of 2018 compared to the first six months of 2017 due to an increase of 7% in organic sales and an increase of 2% from the impact of positive currency translation, partially offset by a decrease of 1% from the sale of a business and a stake in a joint venture in the second half of 2017. The increase in organic sales in the second quarter and first six months of 2018 was primarily due to higher sales volumes in all business segments.

Gross Profit

Gross profit margin increased from 32.8% in the second quarter of 2017 to 33.1% in the second quarter of 2018, and from 32.3% in the first six months of 2017 to 32.5% in the first six months of 2018. The increase in gross profit margin was primarily due to higher sales volumes and savings from restructuring actions.

Income Taxes

The effective income tax rate for the second quarter and first six months of 2018 was expense of 12.0% and 12.8% compared to expense of 9.7% and 8.5% for the second quarter and first six months of 2017. The increase in the effective tax rate in the second quarter and first six months of 2018 was due to greater levels of income in higher tax jurisdictions and the impact of the U.S. Tax Cuts and Jobs Act (“TCJA").

Net Income

Net income attributable to Eaton ordinary shareholders of $610 in the second quarter of 2018 increased 18% compared to Net income attributable to Eaton ordinary shareholders of $516 in the second quarter of 2017. Net income attributable to Eaton ordinary shareholders of $1,098 in the first six months of 2018 increased 16% compared to Net income attributable to Eaton ordinary shareholders of $950 in the first six months of 2017. The increase in the second quarter and first six months of 2018 was primarily due to higher sales volumes and savings from restructuring actions, partially offset by a higher tax rate.

Net income per ordinary share increased to $1.39 in the second quarter of 2018 compared to $1.15 in the second quarter of 2017. Net income per ordinary share increased to $2.50 in the first six months of 2018 compared to $2.11 in the first six months of 2017. The increase in the Net income per ordinary share in the second quarter and first six months of 2018 was due to higher Net income attributable to Eaton ordinary shareholders and the Company's share repurchases over the past year.

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Adjusted Earnings
There were no acquisition integration charges in the first six months of 2018 compared to $1 in the first six months of 2017, which resulted in a 15% increase in Adjusted earnings compared to the 16% increase Net income attributable to Eaton ordinary shareholders.
There was no impact of excluding the per share impact of acquisition integration charges from Net income attributable to Eaton ordinary shareholders to arrive at Adjusted earnings per ordinary share for the first six months of 2018 and 2017.
Business Segment Results of Operations
The following is a discussion of Net sales, operating profit and operating margin by business segment, which includes a discussion of operating profit and operating profit margin before acquisition integration charges. For additional information related to acquisition integration charges, see Note 2 to the Condensed Consolidated Financial Statements.
Electrical Products

	Three months ended June 30		Increase (decrease)	Six months ended June 30		Increase (decrease)
	2018	2017		2018	2017	
Net sales	$1,806	$1,731	4 %	$3,538	$3,382	5 %
Operating profit	$334	$299	12 %	$641	$585	10 %
Operating margin	18.5 %	17.3 %		18.1 %	17.3 %	
Acquisition integration charges	$—	$1		$—	$2	
Before acquisition integration charges						
Operating profit	$334	$300	11 %	$641	$587	9 %
Operating margin	18.5 %	17.3 %		18.1 %	17.4 %	

Net sales increased 4% in the second quarter of 2018 compared to the second quarter of 2017 due to an increase of 3% in organic sales and an increase of 1% from the impact of positive currency translation. Net sales increased 5% in the first six months of 2018 compared to the first six months of 2017 due to an increase of 3% from the impact of positive currency translation and an increase of 2% in organic sales. Organic sales grew in the second quarter and first six months of 2018 in all regions, primarily driven by growth in products going into industrial applications, partially offset by weakness in North American lighting sales.
The operating margin increased from 17.3% in the second quarter of 2017 to 18.5% in the second quarter of 2018 and from 17.3% in the first six months of 2017 to 18.1% in the first six months of 2018 primarily due to higher sales volumes, savings from restructuring actions, and lower restructuring costs, partially offset by commodity inflation and increased freight costs.
The operating margin before acquisition integration charges increased from 17.3% in the second quarter of 2017 to 18.5% in the second quarter of 2018 and from 17.4% in the first six months of 2017 to 18.1% in the first six months of 2018 primarily due to an increase in the operating margin.

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Electrical Systems and Services

	Three months ended June 30		Increase (decrease)	Six months ended June 30		Increase (decrease)
	2018	2017		2018	2017	
Net sales	$1,513	$1,414	7 %	$2,894	$2,747	5 %
Operating profit	$227	$194	17 %	$394	$349	13 %
Operating margin	15.0 %	13.7 %		13.6 %	12.7 %	

Net sales increased 7% in the second quarter of 2018 compared to the second quarter of 2017 due to an increase of 7% in organic sales and an increase of 1% from the impact of positive currency translation, partially offset by a decrease of 1% from a sale of a stake in a joint venture in the fourth quarter of 2017. Net sales increased 5% in the first six months of 2018 compared to the first six months of 2017 due to an increase of 5% in organic sales and an increase of 1% from the impact of positive currency translation, partially offset by a decrease of 1% from a sale of a stake in a joint venture in the fourth quarter of 2017. The increase in organic sales in the second quarter and first six months 2018 was primarily due to strength in large industrial projects in the United States, data centers, oil and gas markets, and services in North America.

The operating margin increased from 13.7% in the second quarter of 2017 to 15.0% in the second quarter of 2018 and from 12.7% in the first six months of 2017 to 13.6% in the first six months of 2018 primarily due to higher sales volumes, savings from restructuring actions, and lower restructuring costs, partially offset by commodity inflation and increased freight costs.

Hydraulics

	Three months ended June 30		Increase (decrease)	Six months ended June 30		Increase (decrease)
	2018	2017		2018	2017	
Net sales	$723	$633	14 %	$1,433	$1,220	17 %
Operating profit	$101	$74	36 %	$191	$134	43 %
Operating margin	14.0 %	11.7 %		13.3 %	11.0 %	

Net sales increased 14% in the second quarter of 2018 compared to the second quarter of 2017 due to an increase of 13% in organic sales and an increase of 1% from the impact of positive currency translation. Net sales increased 17% in the first six months of 2018 compared to the first six months of 2017 due to an increase of 14% in organic sales and an increase of 3% from the impact of positive currency translation. The increase in organic sales in the second quarter and first six months of 2018 was due to strength in global mobile OEM markets and distribution channels.

The operating margin increased from 11.7% in the second quarter of 2017 to 14.0% in the second quarter of 2018 and from 11.0% in the first six months of 2017 to 13.3% in the first six months of 2018 primarily due to higher sales volumes and savings from restructuring actions, partially offset by unfavorable product mix and increased freight costs.

Aerospace

	Three months ended June 30		Increase (decrease)	Six months ended June 30		Increase (decrease)
	2018	2017		2018	2017	
Net sales	$463	$437	6 %	$921	$865	6 %
Operating profit	$90	$81	11 %	$179	$160	12 %
Operating margin	19.4 %	18.5 %		19.4 %	18.5 %	

Net sales increased 6% in the second quarter and first six months of 2018 compared to the second quarter and first six months of 2017 due to an increase of 6% in organic sales. The increase in organic sales in the second quarter and first six months of 2018 was primarily due to higher sales to the military OEM market, and the commercial and military aftermarkets.

The operating margin increased from 18.5% in the second quarter of 2017 to 19.4% in second quarter of 2018 and from 18.5% in the first six months of 2017 to 19.4% in the first six months of 2018 primarily due to higher sales volumes.

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Vehicle

	Three months ended June 30		Increase (decrease)	Six months ended June 30		Increase (decrease)
	2018	2017		2018	2017	
Net sales	$899	$845	6 %	$1,792	$1,631	10 %
Operating profit	$166	$141	18 %	$298	$249	20 %
Operating margin	18.5 %	16.7 %		16.6 %	15.3 %	

Net sales increased 6% in the second quarter of 2018 compared to the second quarter of 2017 due to an increase of 11% in organic sales, partially offset by a decrease of 5% from the sale of a business in the third quarter of 2017. Net sales increased 10% in the first six months of 2018 compared to the first six months of 2017 due to an increase of 12% in organic sales and an increase of 2% from the impact of positive currency translation, partially offset by a decrease of 4% from the sale of a business in the third quarter of 2017. The increase in organic sales in the second quarter and first six months of 2018 was driven by growth in the Americas and Asia Pacific regions, with particular strength in the North American Class 8 truck market.

The operating margin increased from 16.7% in the second quarter of 2017 to 18.5% in the second quarter of 2018 and from 15.3% in the first six months of 2017 to 16.6% in the first six months of 2018 primarily due to higher sales volumes, partially offset by commodity inflation and increased freight costs.

eMobility

	Three months ended June 30		Increase (decrease)	Six months ended June 30		Increase (decrease)
	2018	2017		2018	2017	
Net sales	$83	$72	15 %	$160	$135	19 %
Operating profit	$14	$13	8 %	$25	$24	4 %
Operating margin	16.9%	18.1%		15.6 %	17.8 %	

Net sales increased 15% in the second quarter of 2018 compared to the second quarter of 2017 due to an increase of 14% in organic sales and an increase of 1% from the impact of positive currency translation. Net sales increased 19% in the first six months of 2018 compared to the first six months of 2017 due to an increase of 17% in organic sales and an increase of 2% from the impact of positive currency translation. The increase in organic sales in the second quarter and first six months of 2018 was due to strength in North America and Europe.

The operating margin decreased from 18.1% in the second quarter of 2017 to 16.9% in the second quarter of 2018 and from 17.8% in the first six months of 2017 to 15.6% in the first six months of 2018 primarily due to increased research and development costs.

Corporate Expense

	Three months ended June 30		Increase (decrease)	Six months ended June 30		Increase (decrease)
	2018	2017		2018	2017	
Amortization of intangible assets	$96	$96	— %	$194	$190	2 %
Interest expense - net	68	60	13 %	138	121	14 %
Pension and other postretirement benefits expense	(1)	11	(109)%	1	22	(95)%
Other corporate expense - net	75	63	19 %	136	129	5 %
Total corporate expense	$238	$230	3 %	$469	$462	2 %

Total corporate expense was $238 in the second quarter of 2018 compared to corporate expense of $230 in the second quarter of 2017. Total corporate expense was $469 in the first six months of 2018 compared to $462 in the first six months of 2017. The increase in Total corporate expense for the second quarter and first six months of 2018 was primarily due to higher interest expense and other corporate expenses, partially offset by a decrease in Pension and other postretirement benefits expense as a result of favorable returns on plan assets during 2017 and the Company's contributions to the pension plans.

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LIQUIDITY, CAPITAL RESOURCES AND CHANGES IN FINANCIAL CONDITION

Financial Condition and Liquidity

Eaton’s objective is to finance its business through operating cash flow and an appropriate mix of equity and long-term and short-term debt. By diversifying its debt maturity structure, Eaton reduces liquidity risk. The Company maintains access to the commercial paper markets through a $2,000 commercial paper program, which is supported by credit facilities in the aggregate principal amount of $2,000. There were no borrowings outstanding under these revolving credit facilities at June 30, 2018. Over the course of a year, cash, short-term investments and short-term debt may fluctuate in order to manage global liquidity. Eaton believes it has the operating flexibility, cash flow, cash and short-term investment balances, and access to capital markets in excess of the liquidity necessary to meet future operating needs of the business as well as scheduled payments of long-term debt.

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

Sources and Uses of Cash

Operating Cash Flow

Net cash provided by operating activities was $838 in the first six months of 2018, a decrease of $199 in the source of cash compared to $1,037 in the first six months of 2017. The decrease in net cash provided by operating activities in the first six months of 2018 was driven by higher working capital balances compared to 2017 due to higher sales and pre-buying inventory to mitigate the impact of trade tariffs, partially offset by lower pension contributions. 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 $37 in the first six months of 2018, a decrease in the use of cash of $549 compared to $586 in the first six months of 2017. The decrease in the use of cash was primarily driven by net sales of short-term investments of $284 in 2018 compared to net purchases of $309 in 2017.

Financing Cash Flow

Net cash used in financing activities was $1,168 in the first six months of 2018, an increase of $479 in the use of cash compared to $689 in the first six months of 2017. The increase in the use of cash was primarily due to a decrease of $332 in proceeds from borrowings, which totaled $500 in 2018 and $832 in 2017, and by an increase of $135 in share repurchases during the first six months of 2018 compared to the first six months of 2017.

FORWARD-LOOKING STATEMENTS

This Form 10-Q Report contains forward-looking statements concerning legal contingencies, among other matters. These statements may discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to Eaton, based on current beliefs of management as well as assumptions made by, and information currently available to, management. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “guidance,” “intend,” “ma “possible,” “potential,” “predict,” “project” or other similar words, phrases or expressions. These statements should be used with caution and are subject to various risks and uncertainties, many of which are outside Eaton’s control. The following factors could cause actual results to differ materially from those in the forward-looking statements: unanticipated changes in the markets for the Company’s business segments; unanticipated downturns in business relationships with customers or their purchases from us; the potential effects on our businesses from natural disasters; the availability of credit to customers and suppliers; competitive pressures on sales and pricing; unanticipated changes in the cost of material and other production costs, or unexpected costs that cannot be recouped in product pricing; the introduction of competing technologies; unexpected technical or marketing difficulties; unexpected claims, charges, litigation or dispute resolutions; strikes or other labor unrest; the impact of acquisitions and divestitures; unanticipated difficulties integrating acquisitions; new laws and governmental regulations; interest rate changes; tax rate changes or exposure to additional income tax liability; stock market and currency fluctuations; war, civil or political unrest or terrorism; and unanticipated deterioration of economic and financial conditions in the United States and around the world. Eaton does not assume any obligation to update these forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.
There have been no material changes in exposures to market risk since December 31, 2017.

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ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures - Pursuant to SEC Rule 13a-15, an evaluation was performed under the supervision and with the participation of Eaton’s management, including Craig Arnold - Principal Executive Officer; and Richard H. Fearon - Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, management concluded that Eaton’s disclosure controls and procedures were effective as of June 30, 2018.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in Eaton’s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Eaton’s reports filed under the Exchange Act is accumulated and communicated to management, including Eaton’s Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

During the second quarter of 2018, there was no change in Eaton’s internal control over financial reporting that materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.
Information regarding the Company's current legal proceedings is presented in Note 7 of the Notes to the Condensed Consolidated Financial Statements.

ITEM 1A. RISK FACTORS.
“Item 1A. Risk Factors” in Eaton's 2017 Form 10-K includes a discussion of the Company's risk factors. There have been no material changes from the risk factors described in the 2017 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.
(c) Issuer's Purchases of Equity Securities
During the second quarter of 2018, 4.0 million ordinary shares were repurchased in the open market at a total cost of $300 million. These shares were repurchased under the program approved by the Board on February 24, 2016. A summary of the shares repurchased in the second quarter of 2018 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)
April	—	$ —	—	$ 702
May	4,030,195	$ 74.44	4,030,195	$ 402
June	—	$ —	—	$ 402
Total	4,030,195	$ 74.44	4,030,195	

ITEM 5. OTHER INFORMATION.

Disclosure Pursuant to Section 13r of the Exchange Act

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

During the second quarter, certain of our wholly-owned non-U.S. subsidiaries sold various electrical and hydraulic products to customers in Iran. We received total revenue of approximately 531,083 Euros and realized net profits of approximately 121,236 Euros from the sales (approximately $626,639 and $143,050 in whole U.S. dollars, respectively). Eaton has determined not to take any future orders for sales to Iran. Any shipments pursuant to outstanding contracts will be made in accordance with applicable U.S. law.

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ITEM 6. EXHIBITS.
Eaton Corporation plc
Second Quarter 2018 Report on Form 10-Q

3 (i)	Certificate of Incorporation — Incorporated by reference to the Form S-8 filed November 30, 2012
3 (ii)	Amended and Restated Memorandum and Articles of Incorporation — Incorporated by reference to the Form 8-K filed on May 1, 2017
4.1	Indenture dated as of November 20, 2012, among Turlock Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 of Eaton Corporation plc's Form 8-K Current Report filed on November 26, 2012 (Commission File No. 333-182303))
4.2	Supplemental Indenture No. 1,

	dated as of November 30, 2012, among Eaton Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 of the registrant's Form S-4 filed on September 6, 2013)
4.3	Supplemental Indenture No. 2, dated as of January 8, 2013, among Eaton Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference Exhibit 4.3 of the registrant's Form S-4 filed on September 6, 2013)
4.4	Supplemental Indenture No. 3, dated as of December 20, 2013, among Eaton Corporation, the guarantors named therein and The Bank of

	New York Mellon Trust Company, N.A., as trustee (incorporated by reference Exhibit 4.4 of the registrant's Form 10-K filed on February 28, 2018)
4.5	Supplemental Indenture No. 4, dated as of December 20, 2017 and effective as of January 1, 2018, among Eaton Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference Exhibit 4.5 of the registrant's Form 10-K filed on February 28, 2018)
4.6	Supplemental Indenture No. 5, dated as of February 16, 2018, among Eaton Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by

	reference Exhibit 4.6 of the registrant's Form 10-K filed on February 28, 2018)
4.7	Pursuant to Regulation S-K Item 601(b)(4), Eaton agrees to furnish to the SEC, upon request, a copy of the instruments defining the rights of holders of its long-term debt other than those set forth in Exhibits (4.1 - 4.6) hereto
12	Ratio of Earnings to Fixed Charges — Filed in conjunction with this Form 10-Q Report *
31.1	Certification of Principal Executive Officer (Pursuant to Rule 13a-14(a)) — Filed in conjunction with this Form 10-Q Report *
31.2	Certification of Principal Financial Officer (Pursuant to Rule 13a-14(a)) —

	Filed in conjunction with this Form 10-Q Report *
32.1	Certification of Principal Executive Officer (Pursuant to Rule 13a-14(b) as adopted pursuant to Section 906 of the Sarbanes-Oxley Act) — Filed in conjunction with this Form 10-Q Report *
32.2	Certification of Principal Financial Officer (Pursuant to Rule 13a-14(b) as adopted pursuant to Section 906 of the Sarbanes-Oxley Act) — Filed in conjunction with this Form 10-Q Report *
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy

	Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Label Definition Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Income for the three months ended June 30, 2018 and 2017, (ii) Consolidated Statements of Comprehensive Income for the three months ended June 30, 2018 and 2017, (iii) Condensed Consolidated Balance Sheets at June 30, 2018 and December 31, 2017, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017 and (v) Notes to Condensed Consolidated Financial Statements for the six months ended June 30, 2018.

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SIGNATURES

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

			EATON CORPORATION plc Registrant
Date:	July 31, 2018	By:	/s/ Richard H. Fearon Richard H. Fearon Principal Financial Officer (On behalf of the registrant and as Principal Financial Officer)