

EATON CORPORATION plc
NOTES TO THE SECOND QUARTER 2020 EARNINGS RELEASE

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

Note 1. NON-GAAP FINANCIAL INFORMATION

This earnings release includes certain non-GAAP financial measures. These financial measures include adjusted earnings and adjusted earnings per ordinary share, each of which differs from the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). A reconciliation of each of these financial measures to the most directly comparable GAAP measure is included in this earnings release. Management believes that these financial measures are useful to investors because they exclude certain transactions, allowing investors to more easily compare Eaton Corporation plc's (Eaton or the Company) financial performance period to period. Management uses this information in monitoring and evaluating the on-going performance of Eaton and each business segment.

For full year 2020, we expect operating cash flow to be between \$2.7 billion and \$3.1 billion, and free cash flow, which excludes approximately \$0.4 billion of capital expenditures for property, plant and equipment, to be between \$2.3 billion and \$2.7 billion.

Note 2. DIVESTITURES OF BUSINESSES

Sale of Lighting business

On March 2, 2020, Eaton sold its Lighting business to Signify N.V. for a cash purchase price of \$1.4 billion. The Company recognized a pre-tax gain of \$221. The Lighting business, which had sales of \$1.6 billion in 2019 as part of the Electrical Americas business segment, serves customers in commercial, industrial, residential, and municipal markets. During the fourth quarter of 2019, the Company determined the Lighting business met the criteria to be classified as held for sale. Therefore, its assets and liabilities have been presented as held for sale in the Consolidated Balance Sheet as of December 31, 2019.

Pending sale of Hydraulics business

On January 21, 2020, Eaton entered into an agreement to sell its Hydraulics business to Danfoss A/S, a Danish industrial company, for \$3.3 billion in cash. Eaton's Hydraulics business is a global leader in hydraulics components, systems, and services for industrial and mobile equipment. The business had sales of \$2.2 billion in 2019. During the first quarter of 2020, the Company determined the Hydraulics business met the criteria to be classified as held for sale. Therefore, its assets and liabilities have been presented as held for sale in the Consolidated Balance Sheets as of June 30, 2020. The transaction is subject to customary closing conditions and regulatory approvals and is expected to close by the end of the first quarter of 2021.

Note 3. ACQUISITION AND DIVESTITURE CHARGES

Eaton incurs integration charges and transaction costs to acquire businesses, and transaction costs and other charges to divest and exit businesses. Eaton also recognizes gains and losses on the sale of businesses. A summary of these Corporate items follows:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Acquisition integration, divestiture charges and transaction costs	\$ 103	\$ 14	\$ 235	\$ 26
Gain on the sale of the Lighting business	—	—	(221)	—
Total before income taxes	103	14	14	26
Income tax expense (benefit)	(23)	—	75	(1)
Total after income taxes	\$ 80	\$ 14	\$ 89	\$ 25
Per ordinary share - diluted	\$ 0.20	\$ 0.03	\$ 0.22	\$ 0.06

Acquisition integration, divestiture charges and transaction costs in 2020 are primarily related to the planned divestiture of the Hydraulics business, the divestiture of the Lighting business, the acquisitions of Souriau-Sunbank and Ulusoy Elektrik, and other charges to exit businesses, and were included in Cost of products sold, Selling and administrative expense, Research and development expense, or Other expense (income) - net. Charges in 2019 related to the divestiture of the Lighting business and the acquisition of Ulusoy Elektrik, and were included in Selling and administrative expense. In Business Segment Information, these charges were included in Other expense - net.

Note 4. RESTRUCTURING CHARGES

Eaton has decided to undertake a multi-year restructuring program to reduce its cost structure and gain efficiencies in its business segments and at corporate in order to respond to declining market conditions. Restructuring charges incurred under this program were \$187 in the second quarter of 2020. These restructuring activities are expected to incur \$93 of expense through 2022, primarily comprised of plant closing costs, resulting in total estimated charges of \$280 for the entire program.

A summary of restructuring program charges follows:

	Three months ended June 30, 2020
Workforce reductions	\$ 166
Plant closing and other	21
Total before income taxes	187
Income tax benefit	39
Total after income taxes	\$ 148
Per ordinary share - diluted	\$ 0.37

Restructuring program charges related to the following segments:

	Three months ended June 30, 2020
Electrical Americas	\$ 13
Electrical Global	51
Aerospace	30
Vehicle	90
eMobility	1
Corporate	2
Total	\$ 187

These restructuring program charges were included in Cost of products sold, Selling and administrative expense, Research and development expense, or Other expense (income) - net. In Business Segment Information, these restructuring program charges are treated as Corporate items. The projected mature year savings from these restructuring actions are expected to be \$200 when fully implemented in 2023.

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