2015 Annual Report

POWER FORWARD

Powering Business Worldwide

Our power management solutions
help solve the world's toughest challenges.

Smarter use of energy.
More strength and greater control.
Reduced fuel use and emissions.

We help customers do more with less.

Power Forward

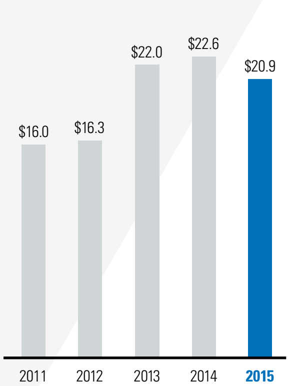
Eaton is a power management company with 2015 sales of $20.9 billion. Eaton provides energy-efficient solutions that help our customers effectively manage electrical, hydraulic and mechanical power more efficiently, safely and sustainably.

Eaton has approximately 97,000 employees and sells products to customers in more than 175 countries. For more information, visit www.eaton.com.

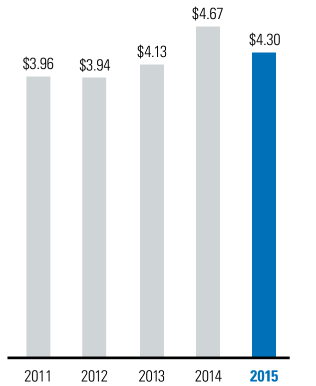
Power Forward Online: www.**eaton.com/AR15**

2015 Financial Highlights

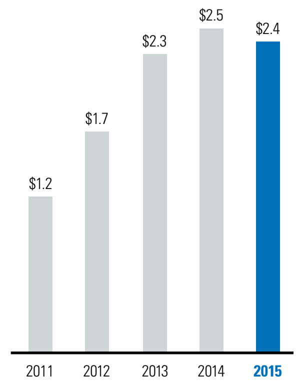
NET SALES
(Billions of dollars)



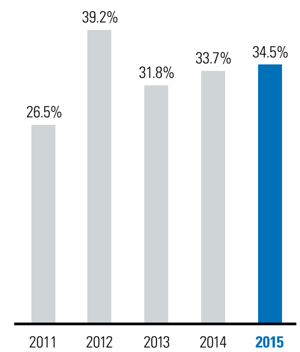
OPERATING EARNINGS PER ORDINARY SHARE (Dollars per share)*



CASH FLOW FROM OPERATIONS
(Billions of dollars)*



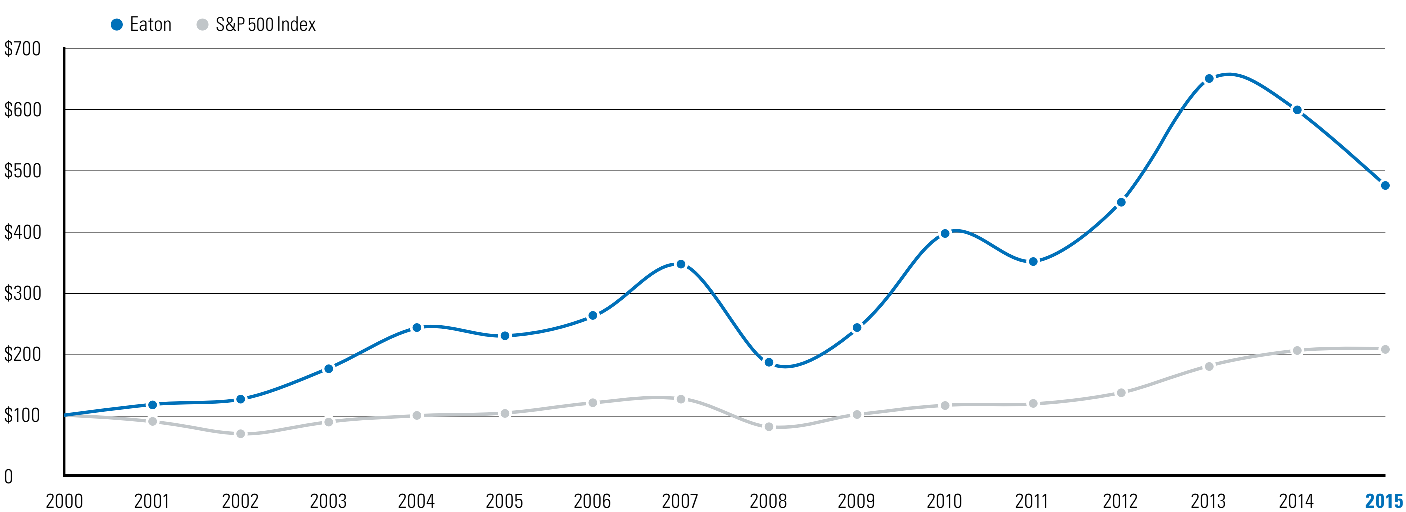
NET-DEBT-TO-TOTAL-CAPITAL RATIO



(In millions except for per share data)	**2015**	2014
Net sales	$20,855	$22,552
Net income attributable to Eaton ordinary shareholders	1,979	1,793
Excluding acquisition integration charges and transaction costs (after-tax)	31	102
Operating earnings	$ 2,010	$ 1,895
Operating earnings excluding litigation settlements and divestiture gain*	$ 2,010	$ 2,230
Net income per share attributable to Eaton ordinary shareholders–diluted	$ 4.23	$ 3.76
Excluding per share impact of acquisition integration charges and transaction costs (after-tax)	0.07	0.21
Operating earnings per ordinary share	$ 4.30	$ 3.97
Operating earnings per ordinary share excluding litigation settlements and divestiture gain*	$ 4.30	$ 4.67
Weighted-average number of ordinary shares outstanding–diluted	467.1	476.8
Cash dividends declared per ordinary share	$ 2.20	$ 1.96
Total assets	$31,031	$33,529
Total debt	8,449	9,034
Eaton shareholders' equity	15,186	15,786

*Operating earnings were $2,230 for 2014, excluding the pre-tax cost for two extraordinary litigation settlements of $644, and a pre-tax gain from two Aerospace divestitures of $154. Operating earnings per ordinary share were $4.67 for 2014, excluding a $0.70 per share impact of the extraordinary litigation settlements and the gain from the Aerospace divestitures. Operating cash flows were $2,532 for 2014, excluding $654 of payments made for the extraordinary litigation settlements.

COMPANY STOCK PERFORMANCE



The above graph compares the cumulative total return to shareholders for Eaton and the S&P 500 Index on an initial $100 investment over the time period 2000 through 2015. The shareholder returns reflected on the graph assume dividends were reinvested as of the ex-dividend date.

Forward Momentum

TO OUR SHAREHOLDERS:

2015 was a year of challenges, and of change. We took—and continue to take—decisive steps to counteract ongoing headwinds and build on our accomplishments. We also announced our very talented new leadership team, who will now power Eaton forward.

Delivering credible performance in challenging times

We entered 2015 planning for modest growth in our end markets. By the end of the first quarter, early signs were apparent that 2015 would unfold very differently. Global industrial malaise, driven by the unwinding of the commodity boom in oil and gas, agriculture and mining, was compounded by the impact of greater-than-expected negative currency translation, creating a very challenging operating environment for U.S. dollar denominated multinational companies. Our markets declined and currency translation further decreased revenues by approximately $1.2 billion.

We moved decisively in early 2015 to counteract these strong headwinds and undertook a broad set of restructuring and cost containment actions, which helped offset the accelerating weakness in our markets during the final three quarters of 2015. Our global teams once again rose to the occasion and allowed us to set a number of performance records in spite of all these challenges.

Among the year's financial and operating highlights:

- We posted sales of $20.9 billion, down 7½ percent from 2014.
- Operating earnings, which exclude acquisition integration charges, were $2.0 billion, a decrease of 10 percent from 2014, adjusting for the 2014 litigation settlements and the gain on the small aerospace divestitures.
- Operating earnings per share were $4.30, down 8 percent from 2014.
- We generated $2.4 billion in cash from operations.
- We raised our dividend by 12 percent in February 2015 and another 4 percent in February 2016, positioning our dividend yield among the highest within our peer group.
- We repaid $1 billion of the debt we borrowed to finance the Cooper Industries acquisition.
- We contributed $330 million to our pension plans, strengthening our balance sheet.
- We repurchased $682 million, or 11.3 million, of our shares—approximately 2.4 percent of our outstanding shares.
- We strengthened our commitment to sustainability by reducing emissions and our environmental footprint in waste to landfill and water consumption, while expanding efforts to build safer and healthier workplaces and communities. Additionally, we're expanding our online sustainability reporting and transparency in alignment with Global Reporting Initiative G4 standards.
- We improved the safety of our facilities and our work practices—reducing our recordable incident rate by 6 percent from the previous year.

In spite of all these accomplishments, our total return to you, our shareholders, was a disappointing negative 21 percent over 2015. Some may take comfort in the fact that global equity returns were broadly disappointing. We do not. We expect more of ourselves.

Sharpening our focus

We recognize that global growth has slowed and the causes for this are not likely to change soon. Dealing with persistent slow growth demands an even more heightened focus on enterprise-wide competitiveness as well as a different use of our balance sheet.

We are undertaking a three-year (2015 through 2017) $400 million restructuring plan, which reduces enterprise-wide structural costs and ensures that our company will be able to compete effectively and provide the returns that our investors expect. Having fulfilled our commitment to retire the $2.1 billion debt related to the Cooper acquisition (a final payment of $240 million was made in early January 2016), we have embarked on a different, more balanced use of our free cash flow. Since sharing our initial thoughts on capital allocation at mid-year last year, we have announced a plan to buy back a total of $3 billion of our shares from 2015 through 2018. Coupled with our strong dividend yield, we believe this will provide a substantial base annual return to our shareholders.

This restructuring plan will both lower our structural enterprise costs and provide year-to-year savings, strengthening our earnings profile.

Among our operating highlights for 2015:

Electrical. Despite a greater contraction in our global end markets, our revenues declined by only 1 percent, excluding the effect of currency translation. We have largely completed the integration of our Cooper acquisition, and the launch of our new energy-saving offerings—variable speed drives and starters—highlighted an enormous year of new product innovation.

Hydraulics. Our revenues declined by 10 percent, excluding the effect of currency translation, as the global commodity cycles in oil and gas, agriculture, and mining were compounded by continued weakness in construction equipment markets. New technology, such as our new lines of modular control load sense and distributed control meter advanced mobile valves, highlighted a robust year of new product introductions.

Aerospace. Our aerospace business performed strongly, growing revenues by 1 percent, excluding the effect of currency translation and the 2014 divestitures. New technology developments, such as our fuel pump for the GE9X engine that is designed to meet the demanding fuel efficiency requirements of the new Boeing 777X platform, continue to meet our customers' heightened expectations for performance.

Vehicle. Overall revenues were flat, excluding the effect of currency translation, as strength in the U.S. offset weakness in South America. Our focus on fuel economy, safety and emissions is paying off, and we were pleased to launch our new engine brake for commercial trucks, which will go into production in early 2017.

"We have changed a great deal over the past 16 years. And our evolution must continue. What has not changed is our commitment to Doing Business Right."

Powering forward

At the end of May 2016, I will conclude 41 years of service to Eaton. I have had the honor to lead this organization since 2000. I began my first year as Chairman and CEO during a recession and, once again, we find ourselves in a period of economic weakness. The difference is that our company is now a far better balanced and performing enterprise—one more capable of successfully dealing with adversity and opportunities. We have changed a great deal over the past 16 years. And our evolution must continue. What has not changed is our commitment to Doing Business Right. I continue to believe that this foundational commitment powers all that we do at Eaton and gives us the courage as an organization to continue to evolve our strategy and businesses.

In 2000, our board and leadership team made a strategic commitment to executive development, and that investment has paid solid dividends in terms of the depth and breadth of our leadership team. Our executive succession plan, announced in June 2015, was headlined with the appointment of Craig Arnold as my successor as Chairman and CEO as of June 1, 2016. We are fortunate to have a leader of Craig's caliber. Craig and his senior leadership team, comprised of Rick Fearon, Revathi Advaithi and Uday Yadav, have fresh ideas, 63 years of combined leadership at Eaton and a collective commitment to take our company to the next level.

As I conclude my last annual letter to you, our shareholders, I thank you for your support and share with you my personal confidence in our thoughtful transition plan, the experience and enormous capabilities of our new leadership team, our plan for 2016 and, most importantly, for Eaton's future.

Alexander M. Cutler
Chairman

CRAIG ARNOLD President and Chief Operating Officer, **REVATHI ADVAITHI** Chief Operating Officer, Electrical Sector, **UDAY YADAV** Chief Operating Officer, Industrial Sector, and **RICHARD H. FEARON** Vice Chairman and Chief Financial and Planning Officer

Forward Thinking

Our world is changing at a pace never seen before, and many say we're in the midst of a new industrial revolution. McKinsey Global Institute estimates that technology changes are occurring ten times faster and with 3,000 times the impact of the original Industrial Revolution. Global forces are disrupting the way organizations go to market, demanding both speed and innovation. Eaton is positioned to help businesses navigate this new landscape with digitally-driven, intelligent solutions that connect, communicate, predict and diagnose. It's a forward-thinking stance refined over more than 100 years of power management.

"A company has to be willing and able to change. We understand and embrace this necessity — it's why we thrive."

— **CRAIG ARNOLD,** President and Chief Operating Officer

Energy on or off the grid

Over 3 billion people rely on inefficient, pollution-causing methods of cooking, lighting and heating and 1.2 billion live with no electricity at all. An innovative partnership between Eaton and Nissan may provide a solution. The landmark collaboration aims to develop and commercialize clean, renewable energy storage using recycled batteries from Nissan Leaf electrical vehicles paired with our uninterruptible power system (UPS). Giving second life to EV batteries, the system may reduce the cost of energy by storing power during off-peak periods, managing consumption both on and off the grid, and increasing grid stability and efficiency.

A disruptive way to innovate

Additive manufacturing, also known as 3D printing, is considered one of the most influential "disruptive" new technologies. Raw materials such as titanium, aluminum and polycarbonate are used to create solid, three-dimensional objects layer by layer. More Eaton facilities are using 3D printing to create precise prototypes, increase speed to market and reduce waste by "growing" rather than machining parts.

Integrated diagnostics, infinite control

Two new Eaton mobile valves bring next-generation electro-hydraulic technology to mobile equipment manufacturers of excavators, wheel loaders, refuse trucks, forklifts, truck-mounted cranes, forestry harvesters, agricultural tractors and marine equipment. Our new control load sense (CLS) sectional mobile valve allows end users to prioritize work functions to improve productivity, machine efficiency and safety. Its modular, highly versatile design has one of the smallest envelopes in the industry.

And, our new control metered advanced (CMA) family of electro-hydraulic mobile sectional valves offers electronic, independent metering of port flow, providing infinite control flexibility when implementing programmable flow and pressure control strategies. Onboard sensors permit a high level of integrated diagnostics and accurate tuning capability, improving reliability and productivity.

A most efficient mode of travel

Europe is the birthplace of railway travel and the historic leader in high-speed rail. With steady growth in passenger volume, the rail industry in Europe could see major transformations by 2020. For Switzerland's national railway, SBB CFF FFS, we designed a total hydraulic system for the Alstom-manufactured trains, using PVM piston pumps, slip-in cartridge valves, servo valves and filtration products, all meeting stringent regulatory and performance parameters. Our hydraulic solutions allow the high-speed trains, which reach speeds of up to 155 mph (250 kph), to safely run on existing conventional track, eliminating the expense of installing high-speed rail infrastructure.

Healthcare is always on

As populations age and medical treatments advance, global demand for healthcare is on the rise. At the same time, the industry is under pressure to reduce costs while improving

1—Our hydraulic power units improve safety and comfort on high-speed trains.

2—Our new load-sensing mobile valves help prioritize work functions.

quality, value and safety. North Estonia Medical Centre is one of the top healthcare providers in the Baltic region, with seven clinics and 31 specialist centers. Embarking on a massive expansion to become the most modern hospital in the region, it needed reliable electrical distribution for a 100 percent digital environment containing sensitive medical equipment and specialized laboratories. We helped the Centre create a technology-rich emergency room complex and renovate an entire section of clinical units. Our end-to-end solutions included environmentally-friendly distribution technology, UPS back-up power systems, emergency lighting, xEffect digital miniature circuit breakers, Arcon arc fault protection and SmartWire-DT intelligent wiring.

Supporting New Jersey's largest hospital solar installation, we helped CentraState Medical Center generate more than 8 million kilowatt-hours of sustainable energy and offset 25 percent of its total electrical usage. Our solar solutions helped increase electrical resiliency in large commercial and utility-scale, grid-connect applications, with our Power Xpert 1500 kilowatt inverters and our Cooper Power series Envirotran direct-coupled transformers. We also provided the medical center with extensive engineering services, including arc flash analysis and coordination studies, to enhance the project's safety and reliability.

3—Healthcare environments around the world rely on Eaton for critical power.

4—Eaton/Nissan partnership explores new life for old electric vehicle batteries.

5—Expanding 3D printing to increase speed-to-market, reduce waste and transform manufacturing.
(Source: EOS)

1—Extreme weather at Mt. Washington Observatory is no match for Eaton UPSs.

2—Protecting valuable industrial equipment with intelligent VS5 electronic filter indicator.

3—Innovative single-valve engine brake adds power while consuming less fuel and oil.

4—Helping cloud computing centers meet global demand for reliability.

5—Airports get energy efficiency and aesthetics make-over with LED lighting technology.

Forward By Design

From the first mechanical weaving loom to today's integrated digital technology, innovation has solved real-world needs. That's why Eaton engages with customers to understand *their* needs before development even begins. The days of "give me a spec and I'll give you a solution" are over. Not afraid to "fail fast," we seek meaningful solutions that protect our planet while improving quality, reliability and product lifespan.

Industry dilemmas meet ingenuity

Even at record-low prices, fuel is typically the second-highest expense for operators of Class 8 truck fleets. To boost fuel economy and reduce emissions, diesel truck engines are being designed to run at lower revolutions per minute—but that presents a new problem. Traditional engine compression brakes become less efficient at reducing speed on a downhill grade. We proactively tackled the problem, leveraging our expertise with variable valve lifters and the heavy duty truck market. Working with a leading commercial vehicle manufacturer to rapid prototype a unique single-valve engine brake solution, we were able to achieve 35 percent more efficient braking power at lower rpm—while using less engine oil and meeting 2017 U.S. carbon dioxide emission regulations.

In today's competitive environment, our customers look for near-zero downtime as well as lower cost of ownership. Our new hydraulic hybrid solutions for lift trucks help provide up to 35 percent fuel savings (when compared to a baseline vehicle) by capturing and storing hydraulic energy from braking. A sophisticated controller reduces wear on the brake and starter, lowering maintenance costs. For big machinery at steel plants, paper mills and other industrial sites, our engineers developed the new VS5 electronic filter indicator, combining intelligent electronics with mechanical filtration. Helping protect valuable equipment, the colored LED "traffic lights" enable early identification of filter clogs in hydraulic and lubrication oil, minimizing unplanned downtime.

Protecting critical data in the cloud

In a recent survey, 84 percent of global IT executives agreed that cloud computing was essential for their businesses. As the adoption rates of software as a service (SaaS) and infrastructure as a service (IaaS) accelerate, multi-tenant data facilities will need to increase reliability and efficiency. H5 Data Centers already has a stellar 15-year track record of 100 percent continuous uptime for customers. For a major upgrade of its Denver colocation campus, H5 chose Eaton as its infrastructure partner for best-of-breed solutions, including our Power Xpert 9395 UPS, busway and switchgear solutions. In South Africa, where the electrical grid often can't handle demand and "load shedding" is a fact of life, many of the largest companies rely on Teraco data centers for critical data storage and interconnection. When Teraco needed to ensure consistent power quality, it also selected our Power Xpert 9395 UPS.

High atop a 6,288-foot mountain—home to some of the most dangerous and unpredictable weather in the world—the Mount Washington Observatory in New Hampshire conducts research and collects real-time data for the U.S. National Weather Service. Demanding uninterrupted power for critical 24/7 observations, this nonprofit educational institution chose our 9355 UPS to support its entire IT infrastructure. And when Australia's Datapod entered the competitive international market for modular data centers, it made Eaton a single-source supplier for power quality management equipment.

"Eaton is very well known for solving mission critical customer issues using our strong application engineering expertise. We don't sell the same product over and over again. We specially engineer the product to solve the customer's exact problem."

— **REVATHI ADVAITHI,** Chief Operating Officer, Electrical Sector

The aesthetics of energy—and safety

It's estimated that the electrical and thermal energy consumed daily by a large airport could power a city of 100,000 people. As demand for air travel rises worldwide, airport facilities are exploring ways to reduce energy. Eaton's LightBAR LED optical technology played a key role in the massive Los Angeles International Airport modernization project, with revamped curbside lighting to improve safety and aesthetics while reducing energy use by 48 percent. Our LED technology in parking garage retrofits at the Denver International and Detroit Metro airports increased safety and is expected to save a combined $1.5 million a year. In 2015, both airports won the U.S. Department of Energy's Better Buildings Alliance's Lighting Energy Efficiency in Parking (LEEP) Campaign award.

Intelligent from the inside out

Our intelligent machine solutions include the new SmartWire-DT IP67 machine mount sensor, expanding our groundbreaking one-cable wiring both inside and outside the control cabinet. The new mount connects a programmable logic controller with up to 99 devices anywhere on a machine. Renegade Parts Washers installed our SmartWire-DT system on its sophisticated machinery, reducing wiring time from four hours to 40 minutes while adding diagnostics and failure alerts. Vehicle makers benefit from our new electronic intelligence on Fuller Advantage and UltraShift PLUS automated truck transmissions. The design drops engine speeds to idle on downhill grades, improving fuel consumption by up to 1 percent on engines made by Cummins, Navistar and PACCAR.

1—Solar farms rely on Eaton inverters to power communities and reduce emissions.

2—Sports stadiums reduce energy use, enhance lighting with programmable LED systems.

3—Digital and hydraulic technologies help business jets save on fuel, increase safety.

4—Oil refineries boost production while reducing emissions with ReactoGard V filtration.

5—Cylinder de-activation system for cars and trucks helps reduce CO_2 emissions.

Forward Dynamic

Around the world, businesses grapple with challenging dynamics—from slow growth economies and declining commodity prices to increasingly stringent global regulations. In fact, nearly 70 percent of U.S. CEOs rank the regulatory environment as having the greatest impact on business. Many countries have committed to ambitious targets for improving air quality, with some aiming to reduce greenhouse gas emissions by up to 80 percent by 2050. In this dynamic landscape, Eaton helps customers power forward.

Clearing the air

With the world's population growing ever more mobile, clearing the air has become a top priority. At refineries in India and Kuwait, our ReactoGard V filtration system will help reduce sulfur content in crude oil while expanding overall production capacity. Removing sulfur is key to significantly reducing nitrogen oxide and particulate matter emissions. For a major oil refinery in the Arabian Peninsula, Eaton's filtration systems have a critical role in its massive upgrade and expansion, helping it meet stringent environmental requirements and the growing demand for ultra-low sulfur gasoline and diesel fuel.

For car and truck manufacturers, our new cylinder de-activation system helps improve fuel economy and reduce CO_2 emissions. When full engine power isn't needed, part of the engine shuts down, with the remaining active cylinders using less fuel and creating lower emissions. In the aerospace industry, the growing trend toward electrical equipment is expected to reduce unscheduled maintenance by up to 40 percent. Our digital fuel quantity measurement technology is increasing efficiency on the all-new Gulfstream G500 and G600 business jets. With more precise fuel readings, the need to carry large volumes of extra fuel is eliminated, reducing weight, fuel cost and carbon emissions. For Dassault Aviation's new Falcon 5X business jet, we designed an advanced hydraulic power-generation system, simplifying the hydraulic system architecture and reducing weight while increasing safety. And, remote-monitoring technology keeps flight and maintenance crews aware of system conditions during aircraft operation.

Shedding light on efficiency and security

Because buildings consume 30 to 40 percent of the world's energy, converting to highly efficient LED lighting makes sense. Our new Night Falcon LED exterior floodlights help commercial and industrial buildings meet new standards for energy efficiency while reducing operating costs. When compared to traditional lamps, Night Falcon LEDs can reduce energy and maintenance costs by up to 75 percent. Optional intelligent sensors dim light by 50 percent when no activity is detected, providing security while meeting stringent state codes for energy efficiency. Sports stadium lighting enters the digital age with our programmable LED system, reducing energy use while increasing illumination.

> "Our customers are constantly striving to innovate. They want our best thinking—delivered with the full force of Eaton's talents."
>
> — **UDAY YADAV,** Chief Operating Officer, Industrial Sector

Keeping people and equipment safe

Safety requirements are becoming more exacting as countries adopt standards defined by international organizations such as the International Standards Organization (ISO) and the International Electrotechnical Commission (IEC). Personnel and equipment safety is critical for all industries, of course, but especially so in harsh environments such as oil and gas, mining and other industrial applications. Our new IEC-compliant Power Xpert CXH motor control center offers advanced safety and arc mitigation technologies that exceed IEC/TR 61641. When equipped with our Power Xpert C445 motor management relay, advanced diagnostics—such as performance trending, fault analysis and high-accuracy data monitoring—help keep processes running smoothly, minimizing downtime.

Arcelor Mittal needed to retrofit a cooling system powered by antiquated electrical starters. The steel industry giant chose our award-winning new SC9000 EP adjustable frequency drive to provide intelligent load management. The SC9000, the industry's first fully integrated arc-resistant medium voltage drive, can reduce energy usage by up to 50 percent and is the industry's only drive designed to prevent deadly arc faults, protecting worker's lives.

Powering communities with reliable solar

The number of large-scale ground-mounted solar farms continues to increase around the world. How do you manage weeds and grass around such installations? Ally with the sheep farm down the road. That's the business-ecology model devised by North Carolina's O2 emc, a developer of utility-scale solar farms that partnered with Eaton to provide reliable, affordable energy that meets state and federal sustainability goals and local utility specifications. In Colorado, our electrical distribution equipment and engineering services help power more than 1,600 homes with five community solar installations. And California's Redwood Solar Farm relies on our solar inverters, distribution equipment and services to power 9,200 homes, helping local utilities meet the California Renewables Portfolio standard of generating 33 percent of energy from renewable sources by 2020.

Every day, facility managers around the world need to keep the lights on and power distribution equipment running efficiently, whether in a building, a data center, hospital or airport. For the more than 37 million passenger flights each year, fuel economy and aircraft safety is crucial. On the road, fleet drivers spend up to 300 days a year hauling big rigs, and it's essential they minimize fuel use and emissions. And today's intelligent electro-hydraulics permit the precise choreography needed between operator and machine to get the job done safely.

Sustainability represents an opportunity. From energy-efficient solutions to environmental programs to employees who strengthen our communities, we're moving forward—with purpose.

Our new, expanded website opens a window into Eaton's sustainability journey. Learn more about our commitment to protect our world and the communities where we live, work and do business.

www.eaton.com/sustainabilityreporting

Forward Purpose

A WINDOW INTO THE WAY WE DO BUSINESS

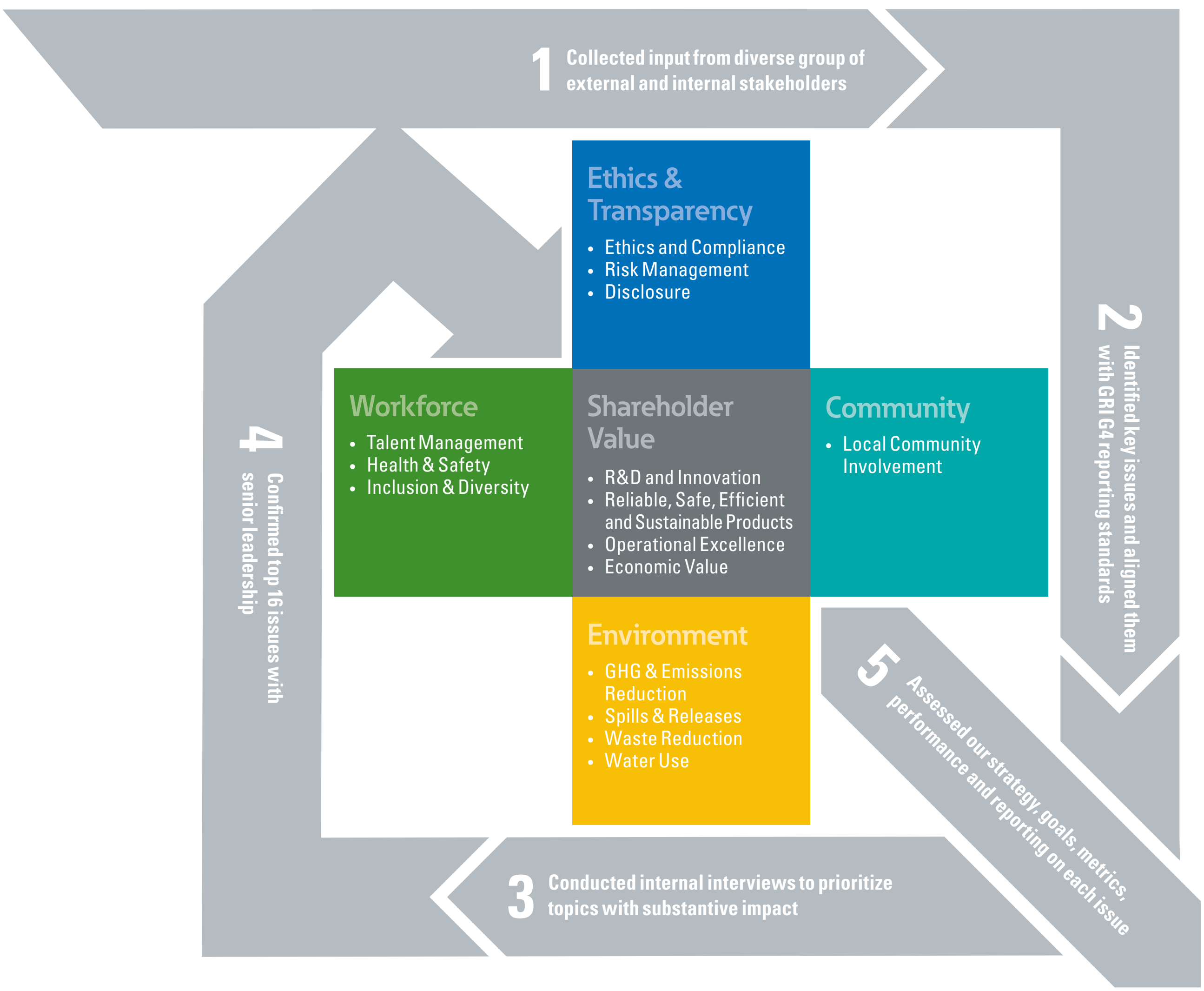
Results matter—but how we get those results matter just as much. We believe the environment is one of our key stakeholders, and we're committed to protecting the planet we call home.

Almost a decade ago, Eaton was among those to pioneer the combination of financial and sustainability reporting, recognizing that sustainability was a business driver not only for us but also our customers. In 2015, we further refined our sustainability reporting process, identifying the priorities that mattered the most to our stakeholders. We're aligned even more closely with reporting standards, the G4 Guidelines, set by the Global Reporting Initiative, an international independent organization. The next step in our journey is toward more transparency with the launch of our new sustainability reporting website.

We continue to be acknowledged for our social responsibility leadership. In 2015, the independent environmental nonprofit CDP once again recognized us as a leader among S&P 500 companies, naming Eaton to its Climate Disclosure Leadership Index. We earned a perfect score of 100, reflecting the depth and quality of our sustainability disclosures. This is our seventh year to be so honored by CDP. For the eighth consecutive year, *Corporate Responsibility* magazine named us among its 100 Best Corporate Citizens for transparency in sustainability reporting. Once again, we are ranked among the world's top sustainability performers in the NASDAQ Global Sustainability 100 Index, which is made up of companies that have taken a leadership role in sustainability disclosures. We were also among the top 25 companies on the 2015 list of Top 500 Enterprises for China Corporate Social Responsibility. For the third consecutive year, our sustainability reporting in China earned the Golden Bee CSR Report Evergreen Award. Eaton is among the first multinationals to publish a sustainability report in China.

SUSTAINABLE PRIORITIES

A year ago, we resolved to do "more of what matters" by prioritizing the sustainability issues most important to our stakeholders and us.



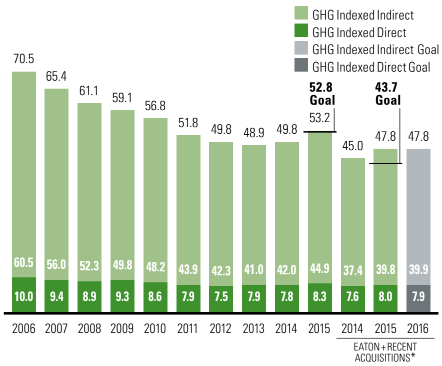
Materiality Metrics

→ **SEE THE COMPLETE METRICS ONLINE:**
www.eaton.com/sustainability15

Greenhouse Gas Generation

Indexed to sales, our greenhouse gas (GHG) generation increased by 6.2% in 2015 compared to 2014. On an absolute basis, we decreased our GHG generation by 10,000 metric tons (from 1,029,000 to 1,019,000), or 1.0% compared to the prior year. Since 2006, our legacy Eaton sites have reduced the total amount of GHG generated by our operations from 1,082,000 metric tons to 807,000, which equals a 25.5% reduction. Indexed to sales, we lowered our GHG emissions by 24.5% over the period, allowing us to virtually meet our 2015 target of 25% reduction versus the 2006 baseline.

INDEXED GHG GENERATED Metric tons of GHG per million dollars of sales

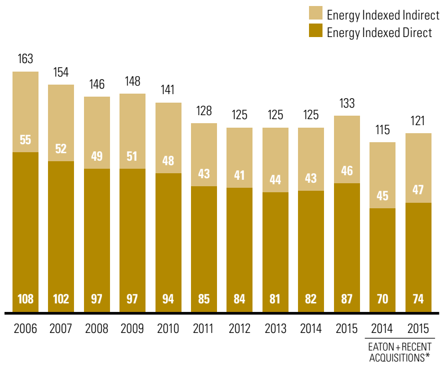


Emission rates are generated using World Resources Institute-recommended CO_2 conversion factors, which account for variations by region. These conversion factors are based on typical energy generation methods, such as those using fossil fuels or other energy sources. When we compare 2015 to 2014, sales from the manufacturing plants that make up Eaton's GHG profile decreased by 6.7%.

Energy Consumption

Indexed to sales, our energy use increased by 5.7% in 2015 when compared to 2014. On an absolute basis, our energy consumption decreased by 38.2 million kilowatt-hours, or 1.5% compared to the prior year. Since 2006, our legacy Eaton sites have reduced the total energy used by our operations from 2,502 million to 2,015 million kilowatt-hours, which equals a 19.5% reduction. Indexed to sales, we reduced usage by 18.5% over the period.

INDEXED ENERGY USED Kilowatt-hours per $1,000 of sales

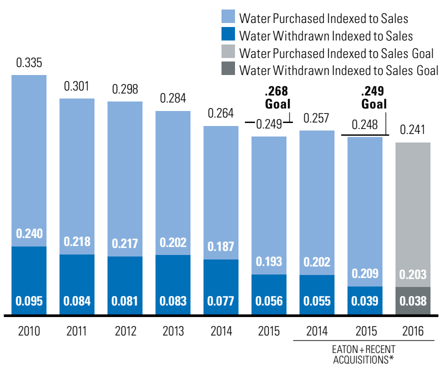


Energy Consumption data were compiled from a majority of Eaton's manufacturing plants worldwide. Of the sites reporting, 15% were located in Asia Pacific; 32% in Europe, the Middle East and Africa; 4% in South America; and 49% in North America. When we compare 2015 to 2014, sales from the manufacturing plants that make up Eaton's energy profile decreased by 6.7%.

Water Consumption

Indexed to sales, our water consumption decreased by 3.3% in 2015 compared to 2014. On an absolute basis, we decreased our water consumption by 10.2% compared to the prior year. Eaton does not consume large volumes of water, therefore the majority of the decrease relates to reduction efforts of a few targeted plants. Since 2010, our legacy Eaton sites have reduced water consumption from 4,762,000 to 3,692,000 cubic meters, which equals a 22.5% reduction. Indexed to sales, we reduced water usage by 25.6% over the period, exceeding our 2015 target of 20% reduction versus the 2010 baseline.

INDEXED WATER CONSUMED Cubic meters of water per $1,000 of sales

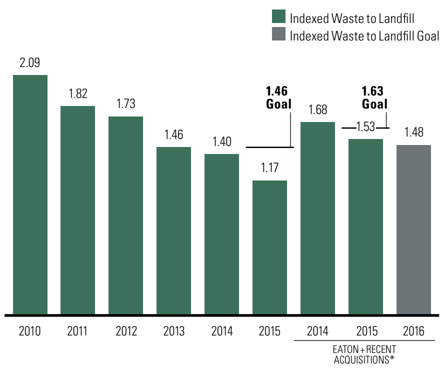


Water Consumption data reported represent a majority of Eaton's water consumption at manufacturing plants worldwide. Of the sites reporting, 16% were in Asia Pacific; 30% in Europe, the Middle East and Africa; 4% in South America; and 50% in North America. When we compare 2015 to 2014, sales from the manufacturing plants used to create Eaton's water profile decreased by 7.1%.

Waste to Landfill

Indexed to sales, our waste to landfill, which includes waste incinerated without heat recovery, decreased by 9.0% in 2015 compared to 2014. On an absolute basis, we decreased our generation by 15.8% (from 38,437 metric tons in 2014 to 32,374 in 2015), a total decrease of 6,063 metric tons. Since 2010, our legacy Eaton sites have reduced the waste sent to landfill by our operations from 29,924 to 17,352 metric tons, which equals a 42.0% reduction. Indexed to sales, we lowered landfilled waste by 44.0% over the period, allowing us to significantly exceed our 2015 target of 30% reduction versus the 2010 baseline.

INDEXED WASTE TO LANDFILL Metric tons of waste per million dollars of sales

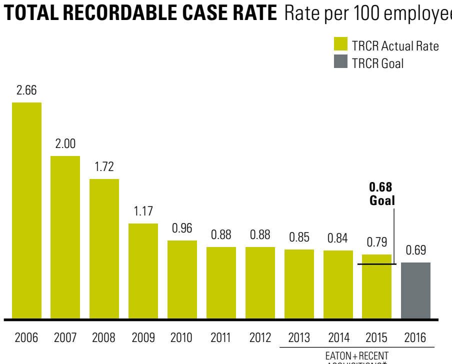


Waste to Landfill data were compiled from a majority of Eaton's manufacturing plants worldwide. Of the sites reporting, 17% were in Asia Pacific; 30% in Europe, the Middle East and Africa; 4% in South America; and 49% in North America. When we compare 2015 to 2014, sales from the manufacturing plants used to create Eaton's waste profile decreased by 7.4%.

Health and Safety

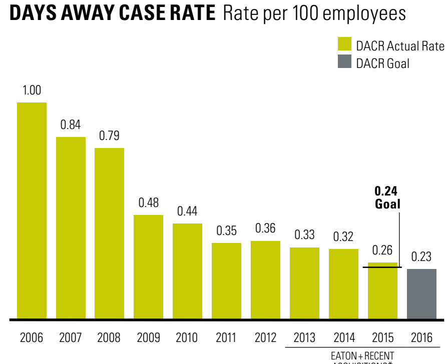
In 2015, we reduced the Total Recordable Case Rate by 6% (0.79) and Days Away Case Rate by 13% (0.26) compared to 2014.

TOTAL RECORDABLE CASE RATE Rate per 100 employees



Health and Safety Recordable Cases are work-related injuries or illnesses as defined by the U.S. Occupational Safety and Health Administration (OSHA).

DAYS AWAY CASE RATE Rate per 100 employees



Days Away Cases are injuries or illnesses involving one or more days away from work as defined by OSHA.

For environmental metrics, Eaton's internal management guidelines require that data from acquisition sites be excluded for three years.

Energy, waste, water and safety data are collected and reported through use of company processes that are designed to produce reliable information. EarthCon Consultants Inc. reviews our waste and water data processes and provides a third-party verification of our energy and GHG data (verification statements are available at www.eaton.com/sustainability).

Materiality Metrics percent changes are based on actual values; rounded values are shown in the charts.

*Results for these years combine data from legacy Eaton facilities with data from recent acquisitions, which include the former Cooper Industries.

> "Our sustainability report is just as significant as our financial report. It tells the world this is who we are, not just what we do."
>
> — **HAROLD V. JONES,** Senior Vice President – Environment, Health and Safety

Meeting the challenge to protect the environment

Most think about sustainability as an exercise in subtraction—reducing GHG emissions, conserving water or eliminating waste to landfill. But there's addition, too. When we develop a manufacturing process that uses fewer resources. Or when an Eaton solution helps our customers use energy more efficiently. Or when our employees volunteer to improve their communities.

When we examine the full equation—how our actions and our products affect the environment—we learn that it's a matter of taking away *and* giving back, and reaching for a "net positive."

During 2015, Eaton became a partner in the Sustainability & Health Initiative for NetPositive Enterprise (SHINE). Developed by Harvard's T.H. Chan School of Public Health, SHINE is creating a framework and metrics to help companies quantify their positive impact. Eaton is taking steps to better measure our own net positive activities, from considering the environmental impact of our products over their lifecycle, to sustainability efforts in our facilities, and to our commitment to community outreach.

For example, Eaton is leading a consortium of manufacturers, users and academics to research ways to build smarter, more energy-efficient data centers, the GreenDataNet project. The ultimate goal is to develop new technologies that will allow urban data centers—which consume a tremendous amount of energy—to use renewable power sources for most of their power needs.

Since 2010, we have reduced waste sent to landfill by 12,572 metric tons, or 44.0 percent (indexed to sales). We reduced our water consumption by 1,070 thousand cubic meters, or 25.6 percent (indexed to sales). Since 2006, we have reduced the total amount of GHG generated by our operations by nearly 276 thousand metric tons, a reduction of 24.5 percent (indexed to sales).

In 2015, 69 of our facilities sent no waste to the landfill, up from 44 the prior year. An Eaton facility is designated as a zero waste-to-landfill site when it consistently achieves a diversion rate of 98 percent through recycling, reuse, composting or incineration (when the heat generated is collected and used to create more energy than required for incineration). By reducing the volume of waste sent to landfills, our global zero waste-to-landfill program also helps reduce the release of GHG associated with landfills.

Eaton Global Employment

Table 1

	Total Global	Number of Women	Percentage of Women	Total U.S.	Number of Minorities (U.S. only)	Percentage of Minorities (U.S. only)
(As of December 31, 2015)						
Board of directors	14	3	21.4%	14	4	28.6%
Global leadership team	27	6	22.2%	26	8	30.8%
Executives	626	113	18.1%	447	63	14.1%
Managers	7,557	1,397	18.5%	4,307	639	14.8%
All other employees	88,959	27,988	31.5%	26,326	7,958	30.2%
All employees	97,169	29,504	30.4%	31,106	8,668	27.9%

Diverse Supplier Spending*

Table 2

	2015	Percentage of 2015 U.S. Spend	2014	Percentage of 2014 U.S. Spend	2013	Percentage of 2013 U.S. Spend
(In millions)						
Minority-owned business	$ 310	5.5%	$ 281	4.7%	$ 250	3.9%
Women-owned business	206	3.7%	214	3.6%	234	3.6%
Veteran-owned business	120	2.1%	113	1.9%	115	1.8%
Small business (other than classified above)	928	16.6%	797	13.3%	850	13.3%

*Figures above include diverse supplier spending data for the former Cooper Industries.

Driving customer and shareholder value

Eaton has long focused on developing innovative technologies, products and solutions that help our customers meet challenging sustainability regulations and guidelines. During 2015, we invested $625 million in research and development, helping answer the needs of our global customers now and in the future.

Our new three-phase submersible fault interrupter provides a versatile solution for underground and subsurface power and distribution switching applications, without using oil or sulfur hexafluoride (SF6), a potent GHG. Our cylinder deactivation system is the most direct way to reduce emissions and improve fuel economy through the driving cycle. Eaton was an early leader in the research and development of onboard refueling vapor recovery (ORVR) systems, which reduce hydrocarbon emissions by about 95 percent during refueling. China—the world's largest market for passenger and commercial vehicles—is implementing ORVR in early 2017.

Fostering an inclusive, diverse and thriving workplace

Around the world, we provide ongoing training, mentoring and career growth planning to cultivate a diverse and inclusive workplace in which employees can fully contribute their unique skills and capabilities. By helping our employees achieve their highest potential, we help Eaton succeed.

Bringing diversity to our leadership positions is a global priority, and in 2015 we increased the number of women and minorities as managers, company officers and on our board of directors.

Our inclusion and diversity efforts—and results—are gaining recognition. The Human Rights Campaign Foundation's 14th Annual Scorecard on LGBT Workplace Equality gave Eaton a perfect score on its Corporate Equality Index, ranking us as one of the Best Places to Work.

In its annual ranking, the 2020 Women on Boards organization awarded Eaton with its highest rating, Winning, which recognizes companies where women make up at least 20 percent of the board of directors. And we are honored to once again be named to the Military Times Best for Vets: Employers 2015 list in recognition of our efforts to connect with veterans and provide an environment for them to succeed.

Three of our facilities in Mexico received the 2015 Distintivo Empresa Incluyente (Distinctive Inclusive Company) award. We were also ranked among the top 20 Best Companies to Work (Las Mejores Empresas para Trabajar) for gender equality by the Great Place to Work Institute in Mexico.

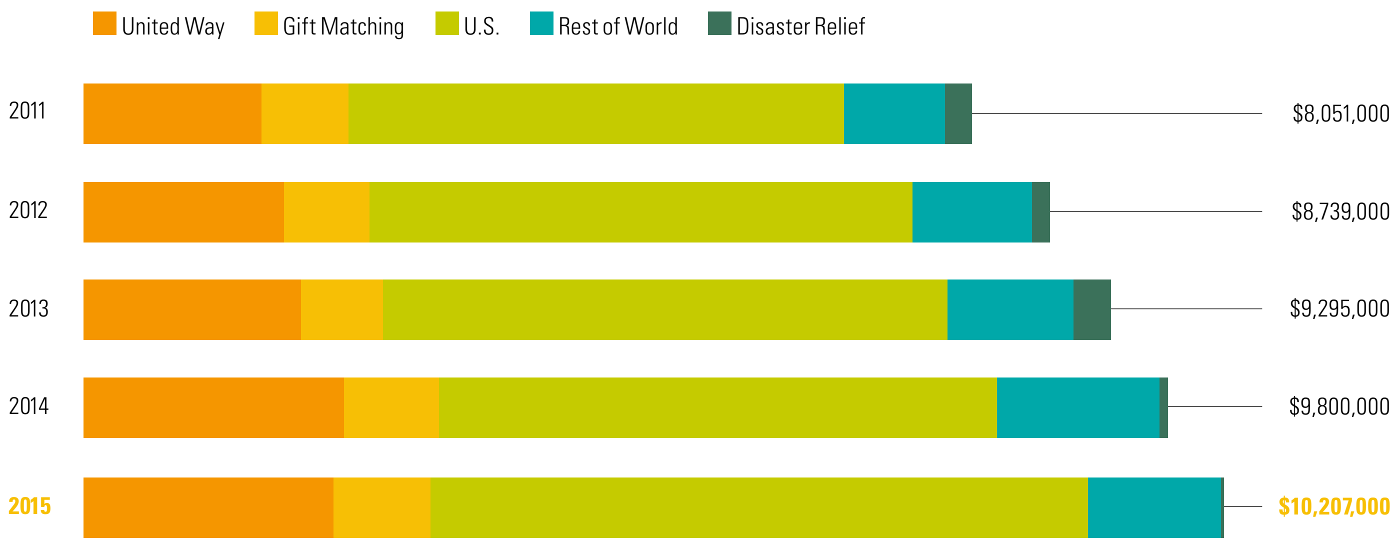
Our Valinhos facility in Brazil was recognized by the Down Syndrome Foundation and also named among the 15 Best Employers for People with Disabilities, recognizing best practices by employers that have promoted changes in the workplace to meet the needs of employees with disabilities. For the second consecutive year, Brazil's top business magazine, *Exame*, recognized Eaton for our inclusion and diversity programs.

In India, the Zinnov Award 2015 for Gender Diversity at the Workplace recognized Eaton's contribution to the growth of gender diversity in India's technology industry. And, the Society of Women Engineers presented Eaton with a Certificate of Appreciation at the Women Engineers Conference in Amsterdam.

Our employees' professional growth and development begins the first day on the job—and never really stops. Over the year we expanded support for global employee education and career development. Our new online Leadership Center helps employees better identify and achieve career aspirations. We added four more Functional Colleges—manufacturing; supply chain management; environment, health and safety; and information technology—to our suite of online training. And new Career Power for Managers and Employees training was completed by more than 600 managers and 1,000 employees worldwide.

In 2015, Eaton's combined spending with minority, women and veteran-owned diverse businesses was 11.3 percent of supplier spending. Collectively, we purchased nearly $1.5 billion in goods and services from small and diverse suppliers in 2015, an increase of more than $150 million over the previous year. Although our spending with diverse businesses grew overall, the impact of lowered prices for certain commodities reduced our total spend with women-owned businesses. Over the last several years we have worked diligently to integrate our acquisitions into Eaton's supplier diversity program.

Eaton Charitable Contributions



Our acquired businesses increased diverse supplier purchases significantly over the prior year: purchases with minority-owned businesses grew over 115 percent; purchases with women-owned businesses grew 22 percent; and purchases with veteran-owned businesses grew over 200 percent.

All Eaton employees share personal responsibility to create and maintain a safe work environment, whether in a plant, warehouse, office, customer site or vehicle. In 2015, we reduced our Total Recordable Case Rate by 6 percent (0.79) and Days Away Case Rate by 13 percent (0.26) compared to 2014. These achievements were accomplished through a focused approach to risk reduction and a maturing culture of learning.

Listening. A critical component of an inclusive workplace is providing the means to hear employee questions or concerns. We created our Ombuds office to provide employees a place where they can speak with an independent, neutral, confidential and informal resource. Today, our Ombuds office is considered a benchmark program by our peer companies. In 2015, we expanded Ombuds to include new Eaton sites in the Philippines and we completed the introduction of Ombuds to the employees of our recently acquired companies.

Promoting an open and ethical workplace

Ethical decision-making is key to sustaining our high integrity culture. Our Global Ethics and Compliance initiatives in 2015 focused on managing risk, promoting ethical behavior and building regional capability. To help employees at all levels make the right ethical decision every time, we continued to provide essential knowledge and tools. We expanded our Values in Action training curriculum, leveraging lessons learned to underscore our commitment to integrity and foster a learning culture. Using scenario-based learning—moving beyond "awareness" to "application"—we enable employees to successfully navigate complex situations and avoid ethics, compliance and reputational risks to the company.

Supporting strong and sustainable communities

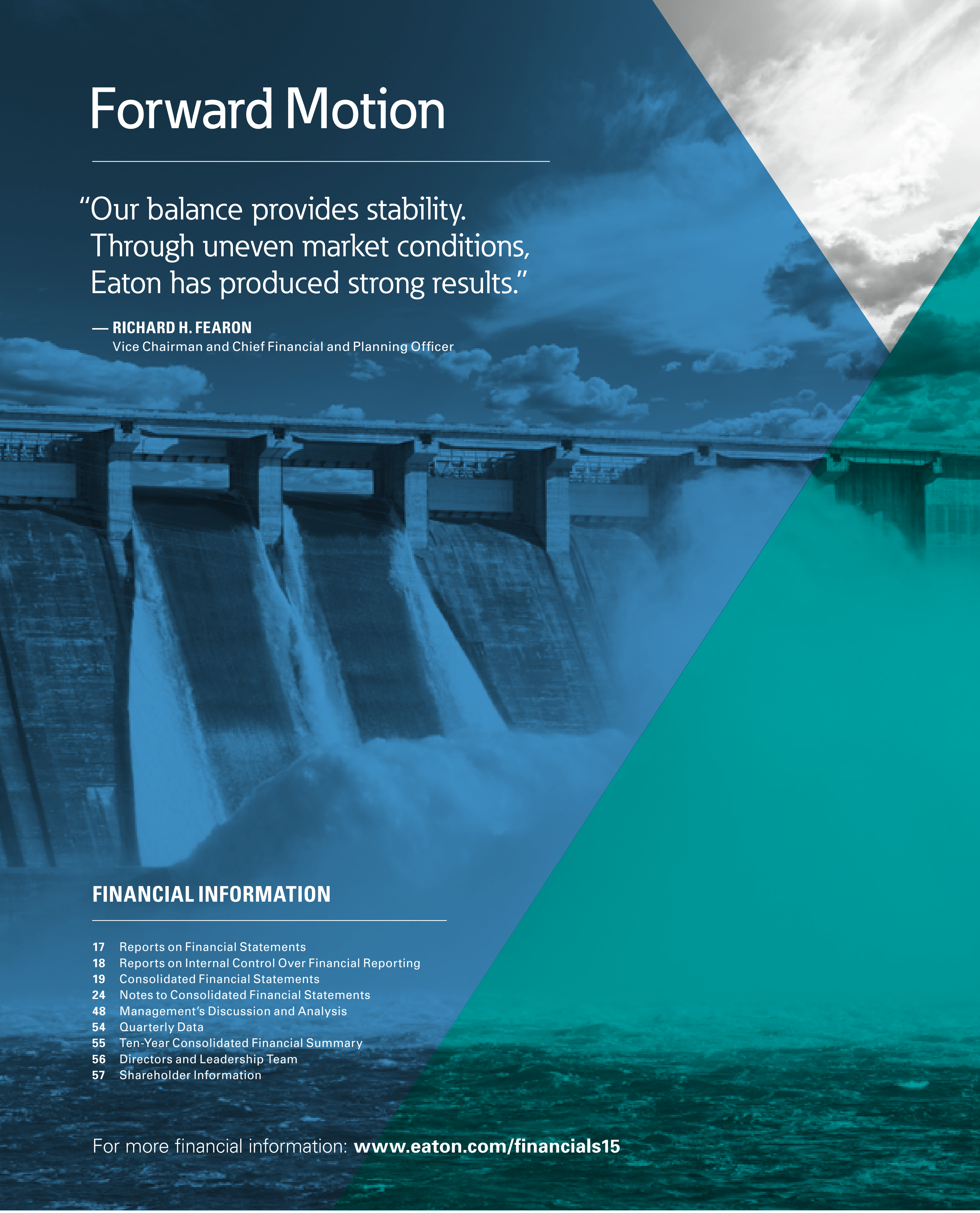
Our employees roll up their sleeves and paint, build, repair, clean, plant, teach and more. They give generously of their time and funds, helping to meet needs next door or on the other side of the world.

When it comes to the social needs of the communities where we live and work, who knows better than our people at local Eaton facilities where a large share of our contributions should go? Notable examples of our local 2015 community support include:

- In Georgia, we granted $100,000 (over three years) to One Sumter Economic Development Corporation to support economic and community development collaboration between the business and public sector.
- In Minnesota, we granted $25,000 to Gillette Children's Specialty Hospital, where our Eden Prairie employees have long been active supporters. The funds will help purchase and install low-dose, 3D imaging technology to diagnose and treat patients with spine, hip and leg disorders.
- In Arkansas, we donated $20,000 to Mountain Home Food Basket, a nonprofit food bank where Eaton employees volunteer and coordinate food drives. Our donation will help the organization acquire a new trailer and renovate storage space.
- In India, we provided $12,000 to the Sharon Society in Pondicherry, which helps nearly 10,000 families with basic needs, to provide hygienic, re-usable containers for drinking water.
- In Mexico, our $118,240 donation to Voluntad Contra el Cancer Rio Bravo in Reynosa will help open a local cancer treatment facility. Families with ill children will no longer have to travel to Ciudad Victoria, the state capital, for treatment.

Each year, our corporate charitable contributions are based on a rolling average of our annual profits. When we grow, so do our contributions to the communities in which we live and work. In 2015, that was $10.2 million, including $881,000 in corporate matches through our retiree and employee matching gift program. Eaton employees and retirees donated nearly $4.5 million to over 100 local United Way campaigns during the year. We added $2.26 million in corporate matches for a total United Way contribution of close to $7 million.

Learn more about Eaton's sustainability reporting at our new website: www.eaton.com/sustainabilityreporting



Forward Motion

"Our balance provides stability. Through uneven market conditions, Eaton has produced strong results."

— **RICHARD H. FEARON**
Vice Chairman and Chief Financial and Planning Officer

FINANCIAL INFORMATION

For more financial information: **www.eaton.com/financials15**

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Eaton Corporation plc

We have audited the accompanying consolidated balance sheets of Eaton Corporation plc ("the Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 24, 2016 expressed an unqualified opinion thereon.

As discussed in Note 1 to the consolidated financial statements, the Company changed its presentation of deferred income taxes effective December 31, 2015.

Ernst + Young LLP

Ernst & Young LLP

Cleveland, Ohio
February 24, 2016

Management's Report on Financial Statements

We have prepared the accompanying consolidated financial statements and related information of Eaton Corporation plc ("Eaton") included herein for the three years ended December 31, 2015. The primary responsibility for the integrity of the financial information included in this annual report rests with management. The financial information included in this annual report has been prepared in accordance with accounting principles generally accepted in the United States based on our best estimates and judgments and giving due consideration to materiality. The opinion of Ernst & Young LLP, Eaton's independent registered public accounting firm, on those financial statements is included herein.

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

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

Alexander M. Cutler

Alexander M. Cutler
Principal Executive Officer

Richard H. Fearon
Principal Financial Officer

Ken D. Semelsberger
Principal Accounting Officer

February 24, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Eaton Corporation plc

We have audited Eaton Corporation plc's ("the Company") internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 24, 2016 expressed an unqualified opinion thereon.

Ernst + Young LLP

Ernst & Young LLP

Cleveland, Ohio
February 24, 2016

Management's Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of Eaton's management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In conducting this evaluation, we used the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013 Framework). Based on this evaluation under the framework referred to above, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2015.

The independent registered public accounting firm Ernst & Young LLP has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. This report is included herein.

Alexander M. Cutler

Alexander M. Cutler
Principal Executive Officer

Richard H. Fearon
Principal Financial Officer

Ken D. Semelsberger
Principal Accounting Officer

February 24, 2016

Consolidated Statements of Income

YEAR ENDED DECEMBER 31	2015	2014	2013
(In millions except for per share data)			
Net sales	$ 20,855	$ 22,552	$ 22,046
Cost of products sold	14,292	15,646	15,369
Selling and administrative expense	3,596	3,810	3,886
Litigation settlements	-	644	-
Research and development expense	625	647	644
Interest expense - net	232	227	271
Other income - net	(35)	(183)	(8)
Income before income taxes	2,145	1,761	1,884
Income tax expense (benefit)	164	(42)	11
Net income	1,981	1,803	1,873
Less net income for noncontrolling interests	(2)	(10)	(12)
Net income attributable to Eaton ordinary shareholders	$ 1,979	$ 1,793	$ 1,861
Net income per share attributable to Eaton ordinary shareholders			
Diluted	$ 4.23	$ 3.76	$ 3.90
Basic	4.25	3.78	3.93
Weighted-average number of ordinary shares outstanding			
Diluted	467.1	476.8	476.7
Basic	465.5	474.1	473.5
Cash dividends declared per ordinary share	$ 2.20	$ 1.96	$ 1.68

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

Consolidated Statements of Comprehensive Income

YEAR ENDED DECEMBER 31	**2015**	2014	2013
(In millions)			
Net income	$ 1,981	$ 1,803	$ 1,873
Less net income for noncontrolling interests	(2)	(10)	(12)
Net income attributable to Eaton ordinary shareholders	1,979	1,793	1,861
Other comprehensive (loss) income, net of tax			
Currency translation and related hedging instruments	(1,078)	(1,019)	(28)
Pensions and other postretirement benefits	111	(315)	429
Cash flow hedges	3	(5)	3
Other comprehensive (loss) income attributable to Eaton ordinary shareholders	(964)	(1,339)	404
Total comprehensive income attributable to Eaton ordinary shareholders	$ 1,015	$ 454	$ 2,265

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

Consolidated Balance Sheets

DECEMBER 31	2015	2014
(In millions)		
Assets		
Current assets		
Cash	$ 268	$ 781
Short-term investments	177	245
Accounts receivable - net	3,479	3,667
Inventory	2,323	2,428
Deferred income taxes	-	593
Prepaid expenses and other current assets	369	386
Total current assets	6,616	8,100
Property, plant and equipment		
Land and buildings	2,383	2,343
Machinery and equipment	5,501	5,621
Gross property, plant and equipment	7,884	7,964
Accumulated depreciation	(4,319)	(4,214)
Net property, plant and equipment	3,565	3,750
Other noncurrent assets		
Goodwill	13,479	13,893
Other intangible assets	6,014	6,556
Deferred income taxes	362	228
Other assets	995	1,002
Total assets	$31,031	$33,529
Liabilities and shareholders' equity		
Current liabilities		
Short-term debt	$ 426	$ 2
Current portion of long-term debt	242	1,008
Accounts payable	1,758	1,940
Accrued compensation	366	420
Other current liabilities	1,833	1,985
Total current liabilities	4,625	5,355
Noncurrent liabilities		
Long-term debt	7,781	8,024
Pension liabilities	1,586	1,812
Other postretirement benefits liabilities	440	513
Deferred income taxes	390	901
Other noncurrent liabilities	978	1,085
Total noncurrent liabilities	11,175	12,335
Shareholders' equity		
Ordinary shares (458.8 million outstanding in 2015 and 467.9 million in 2014)	5	5
Capital in excess of par value	11,701	11,605
Retained earnings	7,346	7,078
Accumulated other comprehensive loss	(3,863)	(2,899)
Shares held in trust	(3)	(3)
Total Eaton shareholders' equity	15,186	15,786
Noncontrolling interests	45	53
Total equity	15,231	15,839
Total liabilities and equity	$31,031	$33,529

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

Consolidated Statements of Cash Flows

YEAR ENDED DECEMBER 31	2015	2014	2013
(In millions)			
Operating activities			
Net income	$ 1,981	$ 1,803	$ 1,873
Adjustments to reconcile to net cash provided by operating activities			
Depreciation and amortization	925	983	997
Deferred income taxes	(100)	(382)	(311)
Pension and other postretirement benefits expense	323	293	384
Contributions to pension plans	(330)	(362)	(341)
Contributions to other postretirement benefits plans	(31)	(40)	(59)
Excess tax benefit from equity-based compensation	(1)	(20)	(32)
Gain on sale of businesses	-	(68)	(2)
Changes in working capital			
Accounts receivable - net	5	(205)	(231)
Inventory	(20)	(152)	(92)
Accounts payable	(120)	49	86
Accrued compensation	(28)	(32)	-
Accrued income and other taxes	(9)	(73)	1
Other current assets	7	73	(42)
Other current liabilities	(76)	8	(46)
Other - net	(155)	3	100
Net cash provided by operating activities	2,371	1,878	2,285
Investing activities			
Capital expenditures for property, plant and equipment	(506)	(632)	(614)
Cash (paid for) received from acquisitions of businesses, net of cash acquired	(72)	2	(9)
Sales (purchases) of short-term investments - net	37	522	(288)
Proceeds from sales of businesses	1	282	777
Other - net	(35)	(31)	(68)
Net cash (used in) provided by investing activities	(575)	143	(202)
Financing activities			
Proceeds from borrowings	425	-	9
Payments on borrowings	(1,027)	(582)	(1,096)
Cash dividends paid	(1,026)	(929)	(796)
Exercise of employee stock options	52	54	121
Repurchase of shares	(682)	(650)	-
Excess tax benefit from equity-based compensation	1	20	32
Other - net	(10)	(43)	(6)
Net cash used in financing activities	(2,267)	(2,130)	(1,736)
Effect of currency on cash	(42)	(25)	(9)
Total (decrease) increase in cash	(513)	(134)	338
Cash at the beginning of the period	781	915	577
Cash at the end of the period	$ 268	$ 781	$ 915

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

Consolidated Statements of Shareholders' Equity

(In millions)	Ordinary shares Shares	Ordinary shares Dollars	Capital in excess of par value	Retained earnings	Accumulated other comprehensive loss	Shares held in trust	Total Eaton shareholders' equity	Noncontrolling interests	Total equity
Balance at January 1, 2013	470.7	$ 5	$11,271	$ 5,805	$ (1,964)	$ (4)	$15,113	$ 65	$15,178
Net income	-	-	-	1,861	-	-	1,861	12	1,873
Other comprehensive income, net of tax					404		404	-	404
Cash dividends paid	-	-	-	(796)	-	-	(796)	(5)	(801)
Issuance of shares under equity-based compensation plans - net (net of income tax benefit of $32)	4.4	-	212	(4)	-	1	209	-	209
Balance at December 31, 2013	475.1	5	11,483	6,866	(1,560)	(3)	16,791	72	16,863
Net income	-	-	-	1,793	-	-	1,793	10	1,803
Other comprehensive loss, net of tax					(1,339)		(1,339)	-	(1,339)
Cash dividends paid	-	-	-	(929)	-	-	(929)	(5)	(934)
Issuance of shares under equity-based compensation plans - net (net of income tax benefit of $20)	2.4	-	136	(2)	-	-	134	-	134
Purchase of additional noncontrolling interest of consolidated subsidiaries	-	-	(14)	-	-	-	(14)	(24)	(38)
Repurchase of shares	(9.6)	-	-	(650)	-	-	(650)	-	(650)
Balance at December 31, 2014	467.9	5	11,605	7,078	(2,899)	(3)	15,786	53	15,839
Net income	-	-	-	1,979	-	-	1,979	2	1,981
Other comprehensive loss, net of tax					(964)	-	(964)	-	(964)
Cash dividends paid	-	-	-	(1,026)	-	-	(1,026)	(9)	(1,035)
Issuance of shares under equity-based compensation plans - net (net of income tax benefit of $1)	2.2	-	99	(3)	-	-	96	-	96
Changes in noncontrolling interest of consolidated subsidiaries - net	-	-	(3)	-	-	-	(3)	(1)	(4)
Repurchase of shares	(11.3)	-	-	(682)	-	-	(682)	-	(682)
Balance at December 31, 2015	458.8	$ 5	$ 11,701	$ 7,346	$ (3,863)	$ (3)	$ 15,186	$ 45	$ 15,231

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

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

Note 1. Summary of Significant Accounting Policies

General Information and Basis of Presentation

Eaton Corporation plc (Eaton or the Company) is a power management company with 2015 net sales of $20.9 billion. The Company provides energy-efficient solutions that help its customers effectively manage electrical, hydraulic and mechanical power more efficiently, safely and sustainably. Eaton has approximately 97,000 employees in over 60 countries and sells products to customers in more than 175 countries.

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

The consolidated financial statements include the accounts of Eaton and all subsidiaries and other entities it controls. Intercompany transactions and balances have been eliminated. The equity method of accounting is used for investments in associate companies where the Company has significant influence and generally a 20% to 50% ownership interest. Equity investments are evaluated for impairment whenever events or circumstances indicate the book value of the investment exceeds fair value. An impairment would exist if there is an other-than-temporary decline in value. These associate companies are not material either individually, or in the aggregate, to Eaton's consolidated financial statements. Eaton does not have off-balance sheet arrangements or financings with unconsolidated entities. In the ordinary course of business, the Company leases certain real properties and equipment, as described in Note 8.

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

During the fourth quarter of 2015, the Company early adopted Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17). ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the Company's consolidated balance sheet starting in 2017. The Company elected to apply this standard prospectively for 2015 financial statements. As a result, prior periods were not retrospectively adjusted.

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

Revenue Recognition

Sales of products are recognized when a sales agreement is in place, products have been shipped to unaffiliated customers and title has transferred in accordance with shipping terms, the selling price is fixed and determinable and collectability is reasonably assured, all significant related acts of performance have been completed, and no other significant uncertainties exist. Shipping and handling costs billed to customers are included in Net sales and the related costs in Cost of products sold. Although the majority of the sales agreements contain standard terms and conditions, there are agreements that contain multiple elements or non-standard terms and conditions. As a result, judgment is required to determine the appropriate accounting, including whether the deliverables specified in these agreements should be treated as separate units of accounting for recognition purposes, and, if so, how the sales price should be allocated among the elements and when to recognize sales for each element. For delivered elements, sales generally are recognized only when the delivered elements have standalone value and there are no uncertainties regarding customer acceptance. Sales for service contracts generally are recognized as the services are provided.

Eaton records reductions to revenue for 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.

Goodwill and Indefinite Life Intangible Assets

Goodwill is evaluated annually for impairment as of July 1 using either a quantitative or qualitative analysis. Goodwill is tested for impairment at the reporting unit level, which is equivalent to Eaton's operating segments and based on the net assets for each segment, including goodwill and intangible assets. Goodwill is assigned to each operating segment, as this represents the lowest level that constitutes a business and is the level at which management regularly reviews the operating results. The Company performs a quantitative analysis using a discounted cash flow model and other valuation techniques, but may elect to perform a qualitative analysis. The discounted cash flow model considers forecasted cash flows discounted at an estimated weighted-average cost of capital. The forecasted cash flows are based on the Company's long-term operating plan and a terminal value is used to estimate the operating segment's cash flows beyond the period covered by the operating plan. The weighted-average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt market holders of a business enterprise. These analyses require the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the timing of expected future cash flows of the respective reporting unit. Sensitivity analyses are performed in order to assess the reasonableness of the assumptions and the resulting estimated fair values. Additionally, goodwill is evaluated for impairment whenever an event occurs or circumstances change that would indicate that it is more likely than not that the fair value of an operating segment is less than its carrying amount.

Goodwill impairment testing for 2015 and 2014 was performed using a qualitative analysis, which is performed by assessing certain trends and factors, including projected market outlook and growth rates, forecasted and actual sales and operating profit margins, discount rates, industry data, and other relevant qualitative factors. These trends and factors are compared to, and based on, the assumptions used in the most recent quantitative assessment, performed in 2013. The results of these qualitative analyses did not indicate a need to perform a quantitative analysis.

Based on qualitative analyses performed in 2015 and 2014 and a quantitative analysis performed in 2013, the fair values of Eaton's reporting units continue to substantially exceed the respective carrying amounts.

Indefinite life intangible assets consist of trademarks. They are evaluated annually for impairment as of July 1 using either a quantitative or qualitative analysis to determine whether their fair values exceed their respective carrying amounts. Indefinite life intangible asset impairment testing for 2015 and 2014 was performed using a quantitative analysis. The Company determines the fair value of these assets using a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability. Additionally, indefinite life intangible assets are evaluated for impairment whenever an event occurs or circumstances change that would indicate that it is more likely than not that the asset is impaired. For 2015 and 2014, the fair value of indefinite lived intangible assets substantially exceeded the respective carrying value.

For additional information about goodwill and other intangible assets, see Note 5.

Other Long-Lived Assets

Depreciation and amortization for property, plant and equipment, and intangible assets subject to amortization, are generally computed by the straight-line method and included in Cost of products sold, Selling and administrative expense, and Research and development expense, as appropriate. Cost of buildings are depreciated generally over 40 years and machinery and equipment over 3 to 10 years. At December 31, 2015, the weighted-average amortization period for intangible assets subject to amortization was 17 years for patents and technology, primarily as a result of the long life of aircraft platforms; 17 years for customer relationships; and 16 years for trademarks. Software is generally amortized up to a life of 10 years.

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

Retirement Benefits Plans

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

Net actuarial gains or losses are amortized to expense on a plan-by-plan basis when they exceed the accounting corridor. The Company’s corridors are set at either 8% or

10%, depending on the plan, of the greater of the plan assets or benefit obligations. Gains or losses outside of the corridor are subject to amortization over an average employee future service period that differs by plan, but is approximately 11 years on a weighted average basis. If most or all of the plan's participants are no longer actively accruing benefits, the average life expectancy is used.

Warranty Accruals

Product warranty accruals are established at the time the related sale is recognized through a charge to Cost of products sold. Warranty accrual estimates are based primarily on historical warranty claim experience and specific customer contracts. Provisions for warranty accruals are comprised of basic warranties for products sold, as well as accruals for product recalls and other events when they are known and estimable. See Note 8 for additional information about warranty accruals.

Asset Retirement Obligations

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

Income Taxes

Deferred income tax assets and liabilities are determined based on the difference between the financial statement and tax basis of the respective assets and liabilities, using enacted tax rates in effect for the year when the differences are expected to reverse. Deferred income tax assets are recognized for income tax loss carryforwards and income tax credit carryforwards. Judgment is required in determining and evaluating income tax provisions and valuation allowances for deferred income tax assets. Eaton recognizes the income tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Eaton evaluates and adjusts these accruals based on changing facts and circumstances. Eaton recognizes interest and penalties related to unrecognized income tax benefits in the provision for income tax expense. Penalties on unrecognized income tax benefits have been accrued for jurisdictions where penalties are automatically applied to any deficiency, regardless of the merit of the position. For additional information about income taxes, see Note 9.

Equity-Based Compensation

Eaton recognizes equity-based compensation expense based on the grant date fair value of the award. Awards with service conditions are expensed over the period during which an employee is required to provide service in exchange for the award. Awards with both service and performance conditions are expensed over the period an employee is required to provide service based on the number of units for which achievement of the performance objective is probable. Participants awarded restricted stock units (RSUs) do not receive dividends; therefore, their fair value is determined by reducing the closing market price of the Company's ordinary shares on the date of grant by the present value of the estimated dividends had they been paid. The RSUs entitle the holder to receive one ordinary share for each RSU upon vesting, generally over three or four years. The fair value of restricted stock awards (RSAs) and performance share units (PSUs) are determined based on the closing market price of the Company's ordinary shares at the date of grant. RSAs are issued and outstanding at the time of grant, but remain subject to forfeiture until vested, generally over three or four years. PSUs are entitled to receive one ordinary share for each PSU that vests based on satisfaction of a three-year service period and the achievement of certain performance metrics. Stock options are granted with an exercise price equal to the closing market price of Eaton ordinary shares on the date of grant. The fair value of stock options is determined using a Black-Scholes option-pricing model, which incorporates assumptions regarding the expected volatility, the expected option life, the risk-free interest rate, and the expected dividend yield. See Note 11 for additional information about equity-based compensation.

Derivative Financial Instruments and Hedging Activities

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

Recently Issued Accounting Pronouncement

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

Note 2. Acquisitions and Sales of Businesses

Acquisition of Ephesus Lighting, Inc.

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

Acquisition of UK Safety Technology Manufacturer Oxalis Group Ltd.

On January 12, 2015, Eaton acquired Oxalis Group Ltd. (Oxalis). Oxalis is a manufacturer of closed-circuit television camera stations, public address and general alarm systems and other electrical products for the hazardous area, marine and industrial communications markets. Its sales over the last twelve months were $9. Oxalis is reported within the Electrical Systems and Services business segment.

Sale of Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions

On May 9, 2014, Eaton sold the Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses to Safran for $270, which resulted in a pre-tax gain of $154.

Sale of Apex Tool Group, LLC

In July 2010, Cooper Industries plc (Cooper) formed a joint venture, named Apex Tool Group, LLC (Apex), with Danaher Corporation (Danaher). On February 1, 2013, Cooper and Danaher sold Apex to Bain Capital for approximately $1.6 billion.

Note 3. Acquisition Integration Charges

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

	2015	2014	2013
Acquisition integration charges			
Electrical Products	$ 25	$ 66	$ 44
Electrical Systems and Services	15	51	37
Hydraulics	2	12	36
Total business segments	42	129	117
Corporate	5	25	37
Total acquisition integration charges	47	154	154
Transaction costs			
Corporate	-	-	8
Financing fees	-	-	1
Total transaction costs	-	-	9
Total acquisition integration charges and transaction costs before income taxes	$ 47	$ 154	$ 163
Total after income taxes	$ 31	$ 102	$ 110
Per ordinary share - diluted	$ 0.07	$ 0.21	$ 0.23

Business segment integration charges in 2015 and 2014 related primarily to the integration of Cooper Industries plc, which was acquired in 2012. Business segment integration charges in 2013 related primarily to the integrations of Cooper and Polimer Kaucuk Sanayi ve Pazarlama A.S., which was acquired in 2012. These charges were included in Cost of products sold or Selling and administrative expense, as appropriate. In Business Segment Information, the charges reduced Operating profit of the related business segment.

The integration of Cooper included costs related to restructuring activities Eaton undertook in an effort to gain efficiencies in selling, marketing, traditional back-office functions and manufacturing and distribution. These actions resulted in charges of $20 during 2015, comprised of severance costs and other expense totaling $1 and $19, respectively, of which $14 were incurred in the Electrical Products segment, and $6 were incurred in the Electrical Systems and Services segment. In 2014, we incurred $95 of charges related to Cooper restructuring activities, comprised of severance costs totaling $69 and other expenses totaling $26, of which $53 and $42 were recognized in the Electrical Products and Electrical Systems and Services business segments, respectively. During 2013, these actions, comprised primarily of severance costs, resulted in charges of $36, of which $19 and $17 were recognized in the Electrical Products and Electrical Systems and Services business segments, respectively.

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

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

See Note 15 for additional information about business segments.

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 restructuring charges incurred under this plan were $129 in 2015. These restructuring activities are anticipated to be $140 in 2016 and $130 in 2017.

A summary of restructuring charges by segment follows:

	2015
Electrical Products	$ 12
Electrical Systems & Services	29
Hydraulics	31
Aerospace	5
Vehicle	34
Corporate	18
Total	$ 129

A summary of liabilities related to workforce reductions, plant closings and other associated costs announced in 2015 follows:

	Workforce reductions	Plant closing and other	Total
Balance at December 31, 2014	$ -	$ -	-
Liability recognized	112	17	129
Payments	(59)	(3)	(62)
Other adjustments	1	(14)	(13)
Balance at December 31, 2015	$ 54	$ -	$ 54

During 2014, Eaton undertook additional restructuring activities in an effort to gain efficiencies in operations. These actions resulted in charges of $54 during 2014, comprised of severance costs totaling $48 and other expenses totaling $6, of which $32, $16, $2 and $4 were recognized in the Vehicle, Hydraulics and Aerospace business segments, and Corporate, respectively.

These charges were included in Cost of products sold, Selling and administrative expenses or Other income-net, as appropriate. In Business Segment Information, the charges reduced Operating profit of the related business segment. See Note 15 for additional information about business segments.

Note 5. Goodwill And Other Intangible Assets

Changes in the carrying amount of goodwill by segment follow:

	Electrical Products	Electrical Systems and Services	Hydraulics	Aerospace	Vehicle	Total
December 31, 2013	$ 7,189	$ 4,517	$ 1,385	$ 1,048	$ 356	$ 14,495
Goodwill written off from sale of businesses	-	-	-	(78)	-	(78)
Translation	(249)	(203)	(58)	(8)	(6)	(524)
December 31, 2014	6,940	4,314	1,327	962	350	13,893
Additions	31	20	-	-	-	51
Reclassifications	(106)	106	-	-	-	-
Translation	(223)	(161)	(68)	(6)	(7)	(465)
December 31, 2015	$ 6,642	$ 4,279	$ 1,259	$ 956	$ 343	$ 13,479

A summary of other intangible assets follows:

	2015		2014	
	Historical cost	Accumulated amortization	Historical cost	Accumulated amortization
Intangible assets not subject to amortization				
Trademarks	$ 1,661		$ 1,844	
Intangible assets subject to amortization				
Customer relationships	$ 3,544	$ 1,010	$ 3,674	$ 834
Patents and technology	1,447	511	1,494	440
Trademarks	1,113	311	980	250
Other	103	22	103	15
Total intangible assets subject to amortization	$ 6,207	$ 1,854	$ 6,251	$ 1,539

Amortization expense related to intangible assets subject to amortization in 2015, and estimated amortization expense for each of the next five years, follows:

2015	$ 401
2016	394
2017	384
2018	364
2019	357
2020	352

Note 6. Debt

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

	2015	2014
5.45% debentures due 2015	$ -	$ 300
4.65% notes due 2015	-	100
0.95% senior notes due 2015	-	600
2.375% debentures due 2016	240	240
5.30% notes due 2017		
($150 converted to floating rate by interest rate swap)	250	250
6.10% debentures due 2017	289	289
1.50% senior notes due 2017		
($750 converted to floating rate by interest rate swap)	1,000	1,000
5.60% notes due 2018		
($415 converted to floating rate by interest rate swap	450	450
4.215% Japanese Yen notes due 2018	83	84
6.95% notes due 2019		
($300 converted to floating rate by interest rate swap)	300	300
3.875% debentures due 2020		
($150 converted to floating rate by interest rate swap)	239	239
3.47% notes due 2021		
($275 converted to floating rate by interest rate swap)	300	300
8.10% debentures due 2022	100	100
2.75% senior notes due 2022		
($1,350 converted to floating rate by interest rate swap)	1,600	1,600
3.68% notes due 2023		
($200 converted to floating rate by interest rate swap)	300	300
6.50% debentures due 2025	145	145
7.65% debentures due 2029		
($50 converted to floating rate by interest rate swap)	200	200
4.00% senior notes due 2032	700	700
5.45% debentures due 2034		
($25 converted to floating rate by interest rate swap)	136	136
5.80% notes due 2037	240	240
4.15% senior notes due 2042	1,000	1,000
5.25% to 8.875% notes (maturities ranging from 2018 to 2035,		
including $50 converted to floating rate by interest rate swap)	239	239
Other	212	220
Total long-term debt	8,023	9,032
Less current portion of long-term debt	(242)	(1,008)
Long-term debt less current portion	$ 7,781	$ 8,024

On October 3, 2014, Eaton refinanced a $500, five-year revolving credit facility and a $750, three-year revolving credit facility with a $500, four-year revolving credit facility that will expire October 3, 2018 and a $750, five-year revolving credit facility that will expire October 3, 2019, respectively. Eaton also maintains a $750, five-year revolving credit facility that will expire June 14, 2017. These refinancings maintain long-term revolving credit facilities at a total of $2,000. The revolving credit facilities are used to support commercial paper borrowings and are fully and unconditionally guaranteed by Eaton and certain of its direct and indirect subsidiaries on an unsubordinated, unsecured basis. There were no borrowings outstanding under Eaton's revolving credit facilities at December 31, 2015 or 2014. The Company had available lines of credit of $850 from various banks for the issuance of letters of credit, of which there was $351 issued at December 31, 2015. Borrowings outside the United States are generally denominated in local currencies.

The Company repaid the 5.45% debentures on April 1, 2015 for $300, the 4.65% notes on June 15, 2015 for $100 and the 0.95% senior notes for $600 on November 2, 2015. On March 20, 2014 and June 16, 2014, the Company repaid the $250, 5.95% notes due 2014 and the $300, floating rate notes due 2014, respectively.

Short-term debt of $426 at December 31, 2015 included $400 short-term commercial paper in the United States, which had a weighted average interest rate of 0.78%, $8 of other short-term debt in the United States, and $18 of short-term debt outside the United States.

The senior notes registered by Eaton Corporation under the Securities Act of 1933 (the Senior Notes) are fully and unconditionally guaranteed on an unsubordinated, unsecured basis by Eaton and certain of its direct and indirect subsidiaries. Substantially all of the other debt instruments issued by the Company or any of its subsidiaries is similarly guaranteed on an unsubordinated, unsecured basis by the identical group of guaranteeing entities. See Note 16 for additional information about the Senior Notes.

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

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

2016	$ 242
2017	1,544
2018	576
2019	340
2020	241

Interest paid on debt follows:

2015	$ 271
2014	296
2013	294

Note 7. Retirement Benefits Plans

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

Obligations and Funded Status

	United States pension liabilities		Non-United States pension liabilities		Other postretirement liabilities	
	2015	2014	2015	2014	2015	2014
Funded status						
Fair value of plan assets	$ 2,934	$ 3,086	$ 1,472	$ 1,535	$ 93	$ 116
Benefit obligations	(3,829)	(4,047)	(2,175)	(2,337)	(575)	(676)
Funded status	$ (895)	$ (961)	$ (703)	$ (802)	$ (482)	$ (560)
Amounts recognized in the Consolidated Balance Sheets						
Non-current assets	$ 11	$ 14	$ 57	$ 77	$ -	$ -
Current liabilities	(57)	(16)	(23)	(26)	(42)	(47)
Non-current liabilities	(849)	(959)	(737)	(853)	(440)	(513)
Total	$ (895)	$ (961)	$ (703)	$ (802)	$ (482)	$ (560)
Amounts recognized in Accumulated other comprehensive loss (pretax)						
Net actuarial loss	$ 1,322	$ 1,377	$ 644	$ 695	$ 95	$ 176
Prior service cost (credit)	5	5	9	11	(74)	(86)
Total	$ 1,327	$ 1,382	$ 653	$ 706	$ 21	$ 90

Change in Benefit Obligations

	United States pension liabilities		Non-United States pension liabilities		Other postretirement liabilities	
	2015	2014	2015	2014	2015	2014
Balance at January 1	$ 4,047	$ 3,625	$ 2,337	$ 2,127	$ 676	$ 867
Service cost	123	117	71	66	6	13
Interest cost	156	162	72	85	24	32
Actuarial (gain) loss	(179)	470	(23)	355	(66)	(36)
Gross benefits paid	(318)	(329)	(100)	(106)	(86)	(91)
Currency translation	-	-	(182)	(190)	(8)	(4)
Plan amendments	-	2	-	-	(1)	(84)
Other	-	-	-	-	30	(21)
Balance at December 31	$ 3,829	$ 4,047	$ 2,175	$ 2,337	$ 575	$ 676
Accumulated benefit obligation	$ 3,672	$ 3,894	$ 2,049	$ 2,181		

Change in Plan Assets

	United States pension liabilities		Non-United States pension liabilities		Other postretirement liabilities	
	2015	2014	**2015**	2014	**2015**	2014
Balance at January 1	$ 3,086	$ 2,940	$ 1,535	$ 1,432	$ 116	$ 138
Actual return on plan assets	(55)	226	29	191	1	4
Employer contributions	221	248	109	114	31	40
Gross benefits paid	(318)	(329)	(100)	(106)	(86)	(91)
Currency translation	-	-	(101)	(96)	-	-
Other	-	1	-	-	31	25
Balance at December 31	$ 2,934	$ 3,086	$ 1,472	$ 1,535	$ 93	$ 116

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

	United States pension liabilities		Non-United States pension liabilities	
	2015	2014	**2015**	2014
Projected benefit obligation	$ 3,376	$ 3,557	$ 1,387	$ 1,524
Accumulated benefit obligation	3,219	3,403	1,328	1,446
Fair value of plan assets	2,470	2,581	650	673

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

	United States pension liabilities		Non-United States pension liabilities		Other postretirement liabilities	
	2015	2014	**2015**	2014	**2015**	2014
Balance at January 1	$ 1,382	$ 1,054	$ 706	$ 528	$ 90	$ 184
Prior service cost arising during the year	-	2	-	-	(1)	(84)
Net loss (gain) arising during the year	138	490	47	262	(62)	(34)
Currency translation	-	-	(58)	(55)	(4)	(1)
Less amounts included in expense during the year	(193)	(164)	(42)	(29)	(2)	25
Net change for the year	(55)	328	(53)	178	(69)	(94)
Balance at December 31	$ 1,327	$ 1,382	$ 653	$ 706	$ 21	$ 90

The estimated pretax net amounts that will be recognized from Accumulated other comprehensive loss into net periodic benefit cost in 2016 follow:

	United States pension liabilities	Non-United States pension liabilities	Other postretirement liabilities
Actuarial loss	$ 165	$ 34	$ 5
Prior service cost (credit)	1	1	(14)
Total	$ 166	$ 35	$ (9)

Retirement Benefits Plans Assumptions

For purposes of determining liabilities related to pension plans and other postretirement benefits plans in the United States, the Company updated its mortality assumption in 2014 to use the RP-2014 tables with a generational improvement scale based on MP-2014. In 2015, the Company updated its mortality assumption to use 2014 tables and a generational improvement scale that are based on MP-2015.

Beginning in 2016, the Company will adopt a change in the method it will use to estimate the service and interest cost components of net periodic benefit cost for its defined benefit pension and other postretirement benefit plans. Historically, for the vast majority of its plans, the service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. Beginning in 2016, the Company will use a spot rate approach by applying the specific spot rates along the yield curve to the relevant projected cash flows in the estimation of the service and interest components of benefit cost, resulting in a more precise measurement. This change does not affect the measurement of total benefit obligations. The change will be accounted for as a change in estimate and, accordingly, will be accounted for prospectively starting in 2016. The discount rates that will be used to measure service and interest cost during 2016 are 4.3% and 3.3%, respectively. The discount rate that was measured at December 31, 2015 and would have been used for service and interest cost under the prior estimation method was 4.0%. The reductions in service cost and interest cost for 2016 associated with this change in estimate are expected to be $3 and $42, respectively.

Benefits Expense

	United States pension benefit expense			Non-United States pension benefit expense			Other postretirement benefits expense		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Service cost	$ 123	$ 117	$ 128	$ 71	$ 66	$ 62	$ 6	$ 13	$ 20
Interest cost	156	162	147	72	85	80	24	32	35
Expected return on plan assets	(262)	(246)	(226)	(99)	(98)	(85)	(5)	(6)	(6)
Amortization	119	93	133	40	27	27	2	6	14
	136	126	182	84	80	84	27	45	63
Settlements, curtailments and other	74	71	53	2	2	2	-	(31)	-
Total expense	$ 210	$ 197	$ 235	$ 86	$ 82	$ 86	$ 27	$ 14	$ 63

Pension Plans

	United States pension plans			Non-United States pension plans		
	2015	2014	2013	**2015**	2014	2013
Assumptions used to determine benefit obligation at year-end						
Discount rate	4.22%	3.97%	4.67%	3.46%	3.33%	4.20%
Rate of compensation increase	3.18%	3.16%	3.16%	3.12%	3.13%	3.12%
Assumptions used to determine expense						
Discount rate	3.97%	4.67%	3.97%	3.33%	4.20%	4.17%
Expected long-term return on plan assets	8.50%	8.40%	8.45%	6.92%	7.00%	6.92%
Rate of compensation increase	3.16%	3.16%	3.16%	3.13%	3.12%	3.09%

The expected long-term rate of return on pension assets was determined for each country and reflects long-term historical data taking into account each plan's target asset allocation. The discount rate was determined using appropriate bond data for each country.

Other Postretirement Benefits Plans

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

	Other postretirement benefits plans		
	2015	2014	2013
Assumptions used to determine benefit obligation at year-end			
Discount rate	4.04%	3.79%	4.48%
Health care cost trend rate assumed for next year	7.10%	6.31%	6.64%
Ultimate health care cost trend rate	4.75%	4.77%	4.77%
Year ultimate health care cost trend rate is achieved	2025	2024	2023
Assumptions used to determine expense			
Discount rate	3.79%	4.48%	3.79%
Initial health care cost trend rate	6.31%	6.64%	6.96%
Ultimate health care cost trend rate	4.77%	4.77%	4.53%
Year ultimate health care cost trend rate is achieved	2024	2023	2022

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

	1% increase	1% decrease
Effect on total service and interest cost	$ 1	$ (1)
Effect on other postretirement liabilities	17	(16)

Employer Contributions to Retirement Benefits Plans

Contributions to pension plans that Eaton expects to make in 2016, and made in 2015, 2014 and 2013, follow:

	2016	**2015**	2014	2013
United States plans	$ 59	$ 221	$ 248	$ 196
Non-United States plans	103	109	114	145
Total contributions	$ 162	$ 330	$ 362	$ 341

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

	Estimated United States pension payments	Estimated non-United States pension payments	Estimated other postretirement benefit payments	
			Gross	Medicare prescription drug subsidy
2016	$ 334	$ 81	$ 65	$ (5)
2017	270	82	61	(4)
2018	280	85	57	(4)
2019	287	86	52	(3)
2020	292	89	48	(2)
2021-2025	1,515	491	199	(10)

Pension Plan Assets

Investment policies and strategies are developed on a country specific basis. The United States plans, representing 67% of worldwide pension assets, and the United Kingdom plans representing 27% of worldwide pension assets, are invested primarily for growth, as the majority of the assets are in plans with active participants and ongoing accruals. In general, the plans have their primary allocation to diversified global equities, primarily through index funds in the form of common collective trusts. The United States plans' target allocation is 33% United States equities, 32% non-United States equities, 8% real estate (primarily equity of real estate investment trusts), 22% debt securities and 5% other, including hedge funds, private equity and cash equivalents. The United Kingdom plans' target asset allocations are 65% equities and the remainder in debt securities, cash equivalents and real estate investments. The equity risk for the plans is managed through broad geographic diversification and diversification across industries and levels of market capitalization. The majority of debt allocations for these plans are longer duration government and corporate debt. The United States, United Kingdom and Canada pension plans are authorized to use derivatives to achieve more economically desired market exposures and to use futures, swaps and options to gain or hedge exposures.

Other Postretirement Benefits Plan Assets

The Voluntary Employee Benefit Association trust which holds U.S. other postretirement benefits plan assets has investment guidelines that include allocations to global equities and fixed income investments. The trust's 2015 target investment allocation is 50% diversified global equities and 50% fixed income securities. The fixed income securities are primarily comprised of intermediate term, high quality, dollar denominated, fixed income instruments. The equity allocation is invested in a diversified global equity index fund in the form of a collective trust.

Fair Value Measurements

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

Level 1 – Quoted prices (unadjusted) for identical assets in active markets

Level 2 – Quoted prices for similar assets in active markets, and inputs that are observable for the asset, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Unobservable prices or inputs.

Pension Plans

A summary of the fair value of pension plan assets at December 31, 2015 and 2014, follows:

	Total	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
2015				
Common collective trusts				
Non-United States equity and global equities	$1,347	$ -	$1,347	$ -
United States equity	953	-	953	-
Fixed income	514	-	514	-
Exchange traded funds	158	-	158	-
Fixed income securities	357	-	357	-
United States treasuries	105	105	-	-
Bank loans	136	-	136	-
Real estate securities	251	244	-	7
Equity securities	98	98	-	-
Cash equivalents	246	17	229	-
Hedge funds	92	-	-	92
Exchange traded funds	49	49	-	-
Other	100	-	14	86
Total pension plan assets	$4,406	$ 513	$3,708	$ 185
2014				
Common collective trusts				
Non-United States equity and global equities	$1,458	$ -	$1,458	$ -
United States equity	1,005	-	1,005	-
Fixed income	646	-	646	-
Exchange traded funds	138	-	138	-
Fixed income securities	398	-	398	-
United States treasuries	106	106	-	-
Bank loans	128	-	128	-
Real estate securities	263	257	-	6
Equity securities	92	92	-	-
Cash equivalents	218	8	210	-
Hedge funds	54	-	-	54
Exchange traded funds	50	50	-	-
Other	65	-	5	60
Total pension plan assets	$4,621	$ 513	$3,988	$ 120

The fair value measurement of plan assets using significant unobservable inputs (Level 3) changed during 2014 and 2015 due to the following:

	Real Estate	Hedge Funds	Other	Total
Balance at December 31, 2013	$ 6	$ -	$ 94	$ 100
Actual return on plan assets:				
Gains (losses) relating to assets still held at year-end	-	1	(3)	(2)
Purchases, sales, settlements - net	-	53	-	53
Transfers into or out of Level 3	-	-	(31)	(31)
Balance at December 31, 2014	6	54	60	120
Actual return on plan assets:				
Gains (losses) relating to assets still held at year-end	1	(5)	(2)	(6)
Purchases, sales, settlements - net	-	43	37	80
Transfers into or out of Level 3	-	-	(9)	(9)
Balance at December 31, 2015	$ 7	$ 92	$ 86	$ 185

Other Postretirement Benefits Plans

A summary of the fair value of other postretirement benefits plan assets at December 31, 2015 and 2014, follows:

	Total	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
2015				
Common collective trusts				
Global equities	$ 44	$ -	$ 44	$ -
Fixed income securities	18	-	18	-
United States treasuries	20	20	-	-
Cash equivalents	11	11	-	-
Total other postretirement benefits plan assets	$ 93	$ 31	$ 62	$ -
2014				
Common collective trusts				
Global equities	$ 54	$ -	$ 54	$ -
Fixed income securities	24	-	24	-
United States treasuries	37	37	-	-
Cash equivalents	1	1	-	-
Total other postretirement benefits plan assets	$ 116	$ 38	$ 78	$ -

Valuation Methodologies

Following is a description of the valuation methodologies used for pension and other postretirement benefits plan assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

- *Common collective trusts* – Valued at the net unit value of units held by the trust at year end. The unit value is determined by the total value of fund assets divided by the total number of units of the fund owned. The equity investments in collective trusts are predominantly in index funds for which the underlying securities are actively traded in public markets based upon readily measurable prices.
- *Fixed income securities* – These securities consist of publicly traded United States and non-United States fixed interest obligations (principally corporate and government bonds and debentures). The fair value of corporate and government debt securities is determined through third-party pricing models that consider various assumptions, including time value, yield curves, credit ratings, and current market prices. The Company verifies the results of trustees or custodians and evaluates the pricing classification of these securities by performing analyses using other third-party sources.
- *United States treasuries* – Valued at the closing price of each security.
- *Bank loans* – These securities consist of senior secured term loans of publicly traded and privately held United States and non-United States floating rate obligations (principally corporations of non-investment grade rating). The fair value is determined through third-party pricing models that primarily utilize dealer quoted current market prices. The Company verifies the results of trustees or custodians and evaluates the pricing classification of these securities by performing analyses using other third-party sources.
- *Real estate and equity securities* – These securities consist of direct investments in the stock of publicly traded companies. Such investments are valued based on the closing price reported in an active market on which the individual securities are traded. As such, the direct investments are classified as Level 1.
- *Cash equivalents* – Primarily certificates of deposit, commercial paper, money market funds and repurchase agreements.
- *Hedge funds* – Consists of direct investments in hedge funds through limited partnership interests. Values are based on the estimated fair value of the ownership interest in the investment as determined by the General Partner. The majority of the holdings of the hedge funds are in equity securities traded on public exchanges. The investment terms of the hedge funds allow capital to be redeemed quarterly given prior notice with certain limitations.
- *Exchange traded funds* – Valued at the closing price of the exchange traded fund's shares.

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

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

Defined Contribution Plans

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

2015	$ 137
2014	141
2013	121

Note 8. Commitments and Contingencies

Legal Contingencies

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

In December 2010, a Brazilian court held that a judgment obtained by a Brazilian company, Raysul, against another Brazilian company, Saturnia, which was sold by Eaton in 2006, could be enforced against Eaton Ltda. This judgment is based on an alleged violation of an agency agreement between Raysul and Saturnia. At December 31, 2015, the Company has a total accrual of 96 Brazilian Reais related to this matter ($24 based on current exchange rates), comprised of 60 Brazilian Reais recognized in the fourth quarter of 2010 ($15 based on current exchange rates) with an additional 36 Brazilian Reais recognized through December 31, 2015 ($9 based on current exchange rates). In 2010, Eaton filed motions for clarification with the Brazilian court of appeals which were denied on April 6, 2011. Eaton Holding and Eaton Ltda. filed appeals on various issues to the Superior Court of Justice in Brasilia. In April 2013, the Superior Court of Justice ruled in favor of Raysul. Additional motions for clarification were filed with the Superior Court of Justice in Brasilia and were denied. On February 2, 2015, a final appeal was filed with the Superior Court of Justice in Brasilia. The Company expects that any sum it may be required to pay in connection with this matter will not exceed the amount of the recorded liability.

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

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

Environmental Contingencies

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

Eaton is involved in remedial response and voluntary environmental remediation at a number of sites, including certain of its currently-owned or formerly-owned plants. The Company has also been named a potentially responsible party under the United States federal Superfund law, or the state equivalents thereof, at a number of disposal sites. The Company became involved in these sites as a result of government action or in connection with business acquisitions. At the end of 2015, the Company was involved with a total of 137 sites worldwide, including the Superfund sites mentioned above, with none of these sites being individually significant to the Company.

Remediation activities, generally involving soil and/or groundwater contamination, include pre-cleanup activities such as fact finding and investigation, risk assessment, feasibility study, design and action planning, performance (where actions may range from monitoring, to removal of contaminants, to installation of longer-term remediation systems), and operation and maintenance of a remediation system. The extent of expected remediation activities and costs varies by site. A number of factors affect the cost of environmental remediation, including the number of parties involved at a particular site, the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations, and the continuing advancement of remediation technology. Taking these factors into account, Eaton has estimated the costs of remediation, which will be paid over a period of years. The Company accrues an amount on an undiscounted basis, consistent with the estimates of these costs when it is probable that a liability has been incurred. Actual results may differ from these estimates. At December 31, 2015 and 2014, the Company had an accrual totaling $131 and $140, respectively, for these costs.

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

Warranty Accruals

A summary of the current and long-term warranty accruals follows:

	2015	2014	2013
Balance at January 1	$213	$189	$185
Provision	104	125	107
Settled	(114)	(120)	(99)
Other	(8)	19	(4)
Balance at December 31	$195	$213	$189

Lease Commitments

Eaton leases certain real properties and equipment. A summary of minimum rental commitments at December 31, 2015 under noncancelable operating leases, which expire at various dates and in most cases contain renewal options, for each of the next five years and thereafter in the aggregate, follow:

2016	$ 151
2017	116
2018	87
2019	49
2020	32
Thereafter	55
Total noncancelable lease commitments	$ 490

A summary of rental expense follows:

2015	$ 225
2014	244
2013	241

Note 9. Income Taxes

Eaton Corporation plc is domiciled in Ireland. Income (loss) before income taxes and income tax (benefit) expense are summarized below based on the geographic location of the operation to which such earnings and income taxes are attributable. Certain Eaton operations which are located outside the United States are subject to income tax in both the United States as well as the country in which the operations are located. As a result, income before tax by location and the components of income tax expense by taxing jurisdiction are not directly related. For purposes of this note, Puerto Rico is classified in Foreign - other since Puerto Rico is not part of the United States corporate tax system.

	Income (loss) before income taxes		
	2015	2014	2013
Ireland	$ (608)	$ (332)	$ 184
Foreign	2,753	2,093	1,700
Total income before income taxes	$2,145	$1,761	$ 1,884

	Income tax expense (benefit)		
	2015	2014	2013
Current			
Ireland	$ 8	$ (13)	$ 17
United States			
Federal	88	87	89
State and local	22	41	7
Foreign - other	240	239	244
Total current income tax expense	358	354	357
Deferred			
Ireland	1	2	-
United States			
Federal	(65)	(224)	(295)
State and local	(6)	(49)	(23)
Foreign - other	(124)	(125)	(28)
Total deferred income tax benefit	(194)	(396)	(346)
Total income tax expense (benefit)	$164	$ (42)	$ 11

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

	2015	2014	2013
Income taxes at the applicable statutory rate	25.0%	25.0%	25.0%
Ireland operations			
Ireland tax on trading income	(0.4)%	(0.1)%	(1.4)%
Nondeductible interest expense	7.9%	4.8%	-%
United States operations			
United States (loss) income	(0.4)%	(2.8)%	(2.8)%
Nondeductible goodwill - Aerospace divestitures	-%	1.4%	-%
Credit for research activities	(0.8)%	(1.0)%	(2.0)%
Other - net	5.4%	1.5%	1.3%
Other foreign operations			
United States foreign tax credit	(0.8)%	(1.1)%	(1.8)%
Other foreign operations (earnings taxed at other than the applicable statutory tax rate)	(25.1)%	(24.8)%	(17.6)%
Other foreign operations - other items	(0.5)%	(1.0)%	0.2%
Worldwide operations			
Adjustments to tax liabilities	(1.4)%	(1.7)%	(1.1)%
Adjustments to valuation allowances	(1.2)%	(2.6)%	0.8%
Effective income tax expense (benefit) rate	7.7%	(2.4)%	0.6%

During 2015, income tax expense of $164 was recognized (an effective tax expense rate of 7.7%) compared to income tax benefit of $42 for 2014 (an effective tax benefit rate of 2.4%) and income tax expense of $11 for 2013 (an effective tax expense rate of 0.6%). Excluding the net tax benefit of 7.6% for the Meritor and Triumph litigation settlements and related legal costs and the gain on the sale of the Aerospace businesses, all of which occurred in the second quarter of 2014, the income tax rate was 5.2% for 2014. The 2015 income tax rate increased from 2014 primarily due to greater levels of income earned in higher tax jurisdictions and net increases in worldwide tax liabilities. Excluding the previously mentioned litigation settlements and gain on the sale of businesses, the 2014 income tax rate increased from 2013 due to greater levels of income earned in higher tax jurisdictions and net increases in worldwide tax liabilities, partially offset by additional foreign tax credit recognition in the United States and recognition of deferred tax assets in foreign jurisdictions.

See Note 8 and Note 2 for additional information about litigation settlements and sales of businesses, respectively.

No provision has been made for income taxes on undistributed earnings of foreign subsidiaries of approximately $15.1 billion at December 31, 2015, since it is the Company's intention to indefinitely reinvest undistributed earnings of its foreign subsidiaries. It is not practicable to estimate the additional income taxes and applicable withholding taxes that would be payable on the remittance of such undistributed earnings.

The Company expects to deploy capital to those markets which offer particularly attractive growth opportunities. Given expected population growth and economic growth rates, most of the particularly attractive markets are outside of the United States. The cash that is permanently reinvested is typically used to expand these operations either organically or through acquisitions. Beginning in December 2012, Eaton Corporation became owned by an Irish parent company which has provided enhanced cash flow flexibility without incurring significant incremental tax. In addition, the Company expects that minimal to no Irish tax would apply to dividends paid to the Irish parent due to the impact of the Irish foreign tax credit system. The Company's public dividends and share repurchases are funded primarily from Non-U.S. operations.

Worldwide income tax payments follow:

2015	$ 302
2014	258
2013	272

Deferred Income Tax Assets and Liabilities

Components of current and noncurrent deferred income taxes follow:

	2015	2014	
	Noncurrent assets and liabilities	Current assets and liabilities	Noncurrent assets and liabilities
Accruals and other adjustments			
Employee benefits	$ 808	$ 148	$ 773
Depreciation and amortization	(1,824)	-	(2,010)
Other accruals and adjustments	717	476	282
United States federal income tax loss carryforwards	20	-	58
United States federal income tax credit carryforwards	183	-	150
United States state and local tax loss carryforwards and tax credit carryforwards	63	-	76
Other foreign tax loss carryforwards	2,265	-	2,112
Other foreign income tax credit carryforwards	70	-	49
Valuation allowance for income tax loss and income tax credit carryforwards	(2,315)	(24)	(2,134)
Other valuation allowances	(15)	(7)	(29)
Total deferred income taxes	$ (28)	$ 593	$ (673)

During the fourth quarter of 2015, the Company early adopted Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17). ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the Company's consolidated balance sheet starting in 2017. The Company elected to apply this standard prospectively for 2015 financial statements. As a result, prior periods were not retrospectively adjusted.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). ASU 2013-11 requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions except where the deferred tax asset or other carryforward are not available for use. The adoption of this standard resulted in a reduction of the Company's consolidated long term deferred tax assets by $262 in 2015 and $146 in 2014.

At the end of 2015, United States federal income tax loss carryforwards and income tax credit carryforwards are available to reduce future United States federal income tax liabilities. These carryforwards and their respective expiration dates are summarized below:

	2016 through 2020	2021 through 2025	2026 through 2030	2031 through 2035	2036 through 2040	Not subject to expiration	Valuation allowance
United States federal income tax loss carryforwards	$ -	$ -	$ 35	$ 415	$ -	$ -	$ -
United States federal deferred income tax assets for income tax loss carryforwards	-	-	12	107	-	-	(12)
United States federal deferred income tax assets for income tax loss carryforwards after ASU 2013-11	-	-	12	8	-	-	(12)
United States federal income tax credit carryforwards	28	69	27	108	21	30	(66)
United States federal income tax credit carryforwards after ASU 2013-11	28	69	25	40	21	-	(66)

United States state and local tax loss carryforwards and tax credit carryforwards with a future tax benefit are also available at the end of 2015. The deferred tax assets for these carryforwards and their respective expiration dates are summarized below:

	2016 through 2020	2021 through 2025	2026 through 2030	2031 through 2035	2036 through 2040	Not subject to expiration	Valuation allowance
United States state and local deferred income tax assets for income tax loss carryforwards - net of federal tax effect	$ 7	$ 17	$ 12	$ 9	$ -	$ -	$ (18)
United States state and local deferred income tax assets for income tax loss carryforwards - net of federal tax effect after ASU 2013-11	-	12	12	9	-	-	(18)
United States state and local income tax credit carryforwards - net of federal tax effect	10	10	6	3	5	-	(16)
United States state and local income tax credit carryforwards- net of federal tax effect after ASU 2013-11	8	9	6	2	5	-	(16)

At December 31, 2015, certain non-United States subsidiaries had tax loss carryforwards and income tax credit carryforwards that are available to offset future taxable income. These carryforwards and their respective expiration dates are summarized below:

	2016 through 2020	2021 through 2025	2026 through 2030	2031 through 2035	Not subject to expiration	Valuation allowance
Non-United States income tax loss carryforwards	$ 125	$ 146	$ 3	$ -	$10,092	$ -
Non-United States deferred income tax assets for income tax loss carryforwards	33	35	1	-	2,196	(2,171)
Non-United States income tax credit carryforwards	7	15	16	-	32	(32)

Recoverability of Deferred Income Tax Assets

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

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

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

Unrecognized Income Tax Benefits

A summary of gross unrecognized income tax benefits follows:

	2015	2014	2013
Balance at January 1	$ 493	$ 479	$ 444
Increases and decreases as a result of positions taken during prior years			
Transfers from valuation allowances	-	(3)	13
Other increases, including currency translation	34	37	7
Other decreases, including currency translation	(34)	(3)	(7)
Balances related to acquired businesses	(1)	(3)	2
Increases as a result of positions taken during the current year	109	65	35
Decreases relating to settlements with tax authorities	-	(51)	(6)
Decreases as a result of a lapse of the applicable statute of limitations	(17)	(28)	(9)
Balance at December 31	$ 584	$ 493	$ 479

Eaton's long-term policy has been to enter into tax planning strategies only if it is more likely than not that the benefit would be sustained upon audit. For example, the Company does not enter into any of the United States Internal Revenue Service (IRS) Listed Transactions as set forth in Treasury Regulation 1.6011-4.

If all unrecognized tax benefits were recognized, the net impact on the provision for income tax expense would be $475.

As of December 31, 2015 and 2014, Eaton had accrued approximately $108 and $120, respectively, for the payment of worldwide interest and penalties, which are not included in the table of unrecognized income tax benefits above. Eaton recognizes interest and penalties related to unrecognized income tax benefits in the provision for income tax expense. The Company has accrued penalties in jurisdictions primarily where they are automatically applied to any deficiency, regardless of the merit of the position.

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

Eaton or its subsidiaries file income tax returns in Ireland and many countries around the world. The IRS has completed its examination of Eaton Corporation and Includible Subsidiaries United States income tax returns for 2007 through 2010 and has issued a Statutory Notice of Deficiency (Notice) as discussed below. The statute of limitations on these tax years remains open until the matter is resolved. In 2015, the

IRS began its examination of tax years 2011 through 2013. During 2015, the Company extended the statute of limitations to September 2018 for tax years 2011 through 2013. Tax years 2014 and 2015 are still subject to examination by the IRS.

With respect to the pre-acquisition years of BZ Holdings Inc. and Subsidiaries (the former U.S. holding company for Cooper Industries), the IRS examination of the United States income tax returns for 2010, 2011, and the period ended December 21, 2012 was completed and settled without significant effect on the consolidated financial statements. The statute of limitations closed for tax years 2010 and 2011 on September 15, 2015. The statute of limitations on the final return period ended December 21, 2012 remains open until September 15, 2016. On December 22, 2012, BZ Holdings Inc. and Subsidiaries joined the Eaton US Holdings Inc. and Includible Subsidiaries consolidated United States income tax return for 2012.

Eaton is also under examination for the income tax filings in various states of the United States and in many other foreign jurisdictions. With only a few exceptions, Eaton Corporation and Includible Subsidiaries are no longer subject to income tax examinations from states and localities within the United States for years before 2011. Income tax returns of states and localities within the United States will be reopened to the extent of United States federal income tax adjustments, if any, going back to 2005 when those audit years are finalized. Some states and localities may not limit their assessment to the United States federal adjustments, and may require the opening of the entire tax year. In addition, with only a few exceptions, BZ Holdings Inc. and Includible Subsidiaries are no longer subject to United States state and local income tax examinations for years before 2011. With only a few exceptions, the other foreign subsidiaries of both Eaton and Cooper are no longer subject to examinations for years before 2007.

At the end of the fourth quarter of 2011, the IRS issued a Notice for Eaton Corporation and Includible Subsidiaries 2005 and 2006 tax years (the 2011 Notice). The 2011 Notice proposed assessments of $75 in additional taxes plus $52 in penalties related primarily to transfer pricing adjustments for products manufactured in the Company's facilities in Puerto Rico and the Dominican Republic and sold to affiliated companies located in the U.S., net of agreed credits and deductions. The Company has set its transfer prices for products sold between these affiliates at the same prices that the Company sells such products to third parties as required by two successive Advance Pricing Agreements (APAs) the Company entered into with the IRS. For the years 2001 through 2004, the IRS had previously accepted the transfer pricing methodology related to these APAs after a comprehensive review conducted in two separate audit cycles. On December 16, 2011, immediately prior to the 2011 Notice being issued, the IRS sent a letter stating that it was retrospectively canceling the APAs, even though their respective APA terms had already expired.

The Company is contesting the proposed assessments. The Company believes that it was in full compliance with the terms of the two APAs, and that the IRS's cancellation of these two APAs is without merit. On February 29, 2012, the Company filed a Petition with the U.S. Tax Court in which it asserted that the transfer pricing established in the APAs meets the arms-length standard set by the U.S. income tax laws, and accordingly, that the APAs should be enforced in accordance with their terms. The case involves both whether the APAs should be enforced and, if not, the appropriate transfer pricing methodology. The Company believes that another important U.S. Tax Court decision in 2015 further supports the Company's arms-length transfer pricing methodology. The case was tried before the U.S. Tax Court in August and September 2015. The case will be fully submitted to the Court after the parties complete post-trial briefing in April 2016.

During the third quarter of 2014, the Company received a Notice from the IRS for the 2007 through 2010 tax years (the 2014 Notice) proposing assessments of $190 in additional taxes plus $72 in penalties, net of agreed credits and deductions. The proposed assessments pertain primarily to the same transfer pricing issues that are currently in litigation for the 2011 Notice, as noted above. During 2007 through 2010, the Company set its transfer prices for products sold between these affiliates consistent with the terms of a written APA between it and the IRS that covered the years at issue. To establish the relevant transfer prices, the APA relied on prices at which the Company sells the products to third parties. The Company has continued to apply the arms-length transfer pricing methodology for 2011 through the current reporting period. The 2014 Notice includes a separate proposed assessment involving the recognition of income for several of the Company’s controlled foreign corporations. The Company believes that these proposed assessments are without merit. On November 25, 2014, the Company filed a Petition with the U.S. Tax Court in which it challenged the IRS's adjustments. The Company expects the outcome of the 2014 Notice on the transfer pricing matter to be determined by the judicial decision related to the 2011 Notice.

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

During 2010, the Company received a tax assessment of $64, plus interest and penalties, in Brazil for the tax years 2005 through 2008 that relates to the amortization of certain goodwill generated from the acquisition of third-party businesses and corporate reorganizations. The Company is contesting the assessment, which is under review at the second of three administrative appeals levels. During 2013, the Brazilian tax authorities began an audit of tax years 2009 through 2012. During the third quarter of 2014, the Company received a tax assessment of $50, plus interest and penalties, for the 2009 through 2012 tax years (primarily relating to the same issues concerning the 2005 through 2008 tax years), which the Company is also contesting and is under review in the second of three administrative appeals levels. Multiple outside advisors have stated that Brazilian tax authorities are raising the issue for most clients with similar facts and that the matter is expected to require at least 10 years to resolve. The Company continues to believe that final resolution of the assessments will not have a material impact on its consolidated financial statements.

For the first time, during 2015, the Organization for Economic Cooperation and Development (OECD), in conjunction with the G20, finalized broad-based international tax policy guidelines that involve transfer pricing and other international tax subjects. While some member jurisdictions automatically adopt the new OECD guidelines, most member countries can adopt the guidelines only by new law or regulations. The Company is currently adopting processes to comply with the reporting requirements specified by the guidelines and is evaluating the other parts of the guidelines.

Note 10. Eaton Shareholders’ Equity

There are 750 million Eaton ordinary shares authorized ($0.01 par value per share), 458.8 million and 467.9 million of which were issued and outstanding at December 31, 2015 and 2014, respectively. Eaton's Memorandum and Articles of Association authorized 40 thousand deferred ordinary shares (€1.00 par value per share) and 10 thousand preferred A shares ($1.00 par value per share), all of which were issued and outstanding at December 31, 2015 and 2014, and 10 million serial preferred shares ($0.01 par value per share), none of which is outstanding at December 31, 2015 and 2014. At December 31, 2015, there were 18,538 holders of record of Eaton ordinary shares. Additionally, 23,559 current and former employees were shareholders through participation in the Eaton Savings Plan, Eaton Personal Investment Plan, Eaton Puerto Rico Retirement Savings Plan.

On September 28, 2011, Eaton Corporation's Board of Directors adopted a common share repurchase program (2011 Program) which authorized the purchase of up to 20 million common shares, not to exceed an aggregate purchase price of $1.25 billion. During 2012, no common shares were repurchased under the 2011 Program. On April 24, 2013, the Company's shareholders authorized the Board of Directors to adopt an ordinary share repurchase program (the 2013 Program) for up to 40 million ordinary shares at prices between 70% and 120% of the closing price of Eaton's ordinary shares on the day preceding the day of purchase. On October 22, 2013, Eaton's Board of Directors adopted the 2013 Program. The ordinary shares are expected to be repurchased over time, depending on market conditions, the market price of ordinary shares, capital levels, and other considerations. During 2015 and 2014, 11.3 million and 9.6 million ordinary shares were repurchased under the 2013 Program in the open market at a total cost of $682 and $650, respectively. During 2013, no ordinary shares were repurchased under the 2013 Program.

Eaton has deferral plans that permit certain employees and directors to defer a portion of their compensation. A trust contains $16 and $19 of ordinary shares and marketable securities, as valued at December 31, 2015 and 2014, respectively, to fund a portion of these liabilities. The marketable securities were included in Other assets and the ordinary shares were included in Shareholders' equity at historical cost.

On February 24, 2016, Eaton's Board of Directors declared a quarterly dividend of $0.57 per ordinary share, payable on March 18, 2016, to shareholders of record at the close of business on March 7, 2016.

Comprehensive Income (Loss)

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

	2015		2014		2013	
	Pre-tax	After-tax	Pre-tax	After-tax	Pre-tax	After-tax
Currency translation and related hedging instruments	$ (1,080)	$ (1,078)	$(1,014)	$(1,019)	$ (30)	$ (28)
Pensions and other postretirement benefits						
Prior service credit (cost) arising during the year	1	1	82	51	(6)	(4)
Net (loss) gain arising during the year	(123)	(89)	(718)	(519)	456	277
Currency translation	62	46	56	47	(5)	(4)
Other	-	(3)	-	(4)	2	16
Amortization of actuarial loss and prior service cost reclassified to earnings	237	156	168	110	229	144
	177	111	(412)	(315)	676	429
Cash flow hedges						
Gain (loss) on derivatives designated as cash flow hedges	20	13	(3)	(2)	6	3
Changes in cash flow hedges reclassified to earnings	(16)	(10)	(5)	(3)	-	-
Cash flow hedges, net of reclassification adjustments	4	3	(8)	(5)	6	3
Other comprehensive (loss) income attributable to Eaton ordinary shareholders	$ (899)	$ (964)	$(1,434)	$(1,339)	$ 652	$ 404

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, 2014	$(1,414)	$(1,485)	$ -	$(2,899)
Other comprehensive (loss) income before reclassifications	(1,078)	(45)	13	(1,110)
Amounts reclassified from Accumulated other comprehensive loss (income)	-	156	(10)	146
Net current-period Other comprehensive (loss) income	(1,078)	111	3	(964)
Balance at December 31, 2015	$(2,492)	$(1,374)	$ 3	$(3,863)

The reclassifications out of Accumulated other comprehensive loss follow:

	December 31, 2015	Consolidated Statements of Income classification
Amortization of defined benefit pension and other postretirement benefits items		
Actuarial loss and prior service cost	$ (237)	1
Tax benefit	81	
Total, net of tax	(156)	
Gains and (losses) on cash flow hedges		
Currency exchange contracts	16	Cost of products sold
Tax expense	(6)	
Total, net of tax	10	
Total reclassifications for the period	$ (146)	

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

Net Income Per Share Attributable to Eaton Ordinary Shareholders

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

	2015	2014	2013
(Shares in millions)			
Net income attributable to Eaton ordinary shareholders	$ 1,979	$ 1,793	$ 1,861
Weighted-average number of ordinary shares outstanding - diluted	467.1	476.8	476.7
Less dilutive effect of equity-based compensation	1.6	2.7	3.2
Weighted-average number of ordinary shares outstanding - basic	465.5	474.1	473.5
Net income per share attributable to Eaton ordinary shareholders			
Diluted	$ 4.23	$ 3.76	$ 3.90
Basic	4.25	3.78	3.93

In 2015, 2014, and 2013, 1.6 million, 0.5 million, and 0.2 million stock options, respectively, were excluded from the calculation of diluted net income per share attributable to Eaton ordinary shareholders because the exercise price of the options exceeded the average market price of the ordinary shares during the period and their effect, accordingly, would have been antidilutive.

Note 11. Equity-Based Compensation

Restricted Stock Units and Awards

Restricted stock units (RSUs) and restricted stock awards (RSAs) have been issued to certain employees and directors. Participants awarded RSUs do not receive dividends; therefore, the fair value is determined by reducing the closing market price of the Company's ordinary shares on the date of grant by the present value of the estimated dividends had they been paid. The RSUs entitle the holder to receive one ordinary share for each RSU upon vesting, generally over three or four years. The fair value of RSAs is determined based on the closing market price of the Company's ordinary shares at the date of grant. RSAs are issued and outstanding at the time of grant, but remain subject to forfeiture until vested, generally over three or four years. A summary of the RSU and RSA activity for 2015 follows:

	Number of restricted stock units and awards	Weighted-average fair value per unit and award
(Restricted stock units and awards in millions)		
Non-vested at January 1	2.8	$ 60.11
Granted	1.1	67.46
Vested	(1.6)	57.50
Forfeited	(0.2)	66.94
Non-vested at December 31	2.1	$65.06

Information related to RSUs and RSAs follows:

	2015	2014	2013
Pretax expense for RSUs and RSAs	$ 68	$ 81	$ 69
After-tax expense for RSUs and RSAs	44	53	45
Fair value of vested RSUs and RSAs	110	105	82

As of December 31, 2015, total compensation expense not yet recognized related to non-vested RSUs and RSAs was $82, and the weighted-average period in which the expense is expected to be recognized is 2.7 years. Excess tax benefit for RSUs and RSAs totaled $5, and $10 for 2014 and 2013, respectively. There was no excess tax benefit for RSU's and RSA's in 2015.

Performance Share Units

In February 2015, the Compensation and Organization Committee of the Board of Directors approved the grant of performance share units (PSUs) to certain employees that vest based on the satisfaction of a three-year service period and the achievement of certain performance metrics over that same period. Upon vesting, PSU holders receive dividends that accumulate during the vesting period. The fair value of these PSUs is determined based on the closing market price of the Company's ordinary shares at the date of grant. Equity-based compensation expense is recognized over the period an employee is required to provide service based on the number of PSUs for which achievement of the performance objectives is probable. A summary of PSU activity for 2015 follows:

(Performance share units in millions)	Number of performance share units	Weighted-average fair value per unit
Non-vested at January 1	-	$ -
Granted	0.9	71.72
Vested	-	-
Forfeited	(0.1)	71.72
Non-vested at December 31	0.8	$ 71.72

Information related to PSUs follows:

	2015
Pretax expense for PSUs	$ 2
After-tax expense for PSUs	1

As of December 31, 2015, total compensation expense not yet recognized related to non-vested PSUs was $5 and the weighted average period in which the expense is to be recognized is 2 years.

Stock Options

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

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

	2015	2014	2013
Expected volatility	29%	34%	36%
Expected option life in years	5.5	5.5	5.5
Expected dividend yield	2.6%	2.4%	2.0%
Risk-free interest rate	1.6 to 1.5%	1.7 to 1.5%	1.5 to 0.8%
Weighted-average fair value of stock options granted	$ 15.25	$ 19.46	$ 17.49

A summary of stock option activity follows:

(Options in millions)	Weighted-average exercise price per option	Options	Weighted-average remaining contractual life in years	Aggregate intrinsic value
Outstanding at January 1, 2015	$ 47.30	7.0		
Granted	71.66	0.8		
Exercised	37.91	(1.4)		
Forfeited and canceled	71.18	(0.2)		
Outstanding at December 31, 2015	$ 51.94	6.2	4.3	$ 36.2
Exercisable at December 31, 2015	$ 47.23	5.0	3.3	$ 36.2
Reserved for future grants at December 31, 2015		25.5		

The aggregate intrinsic value in the table above represents the total excess of the $52.04 closing price of Eaton ordinary shares on the last trading day of 2015 over the exercise price of the stock option, multiplied by the related number of options outstanding and exercisable. The aggregate intrinsic value is not recognized for financial accounting purposes and the value changes based on the daily changes in the fair market value of the Company's ordinary shares.

Information related to stock options follows:

	2015	2014	2013
Pretax expense for stock options	$ 12	$ 12	$ 11
After-tax expense for stock options	8	8	7
Proceeds from stock options exercised	52	54	121
Income tax benefit related to stock options exercised			
Tax benefit classified in operating activities in the Consolidated Statements of Cash Flows	4	4	3
Excess tax benefit classified in financing activities in the Consolidated Statements of Cash Flows	1	15	22
Intrinsic value of stock options exercised	44	55	102
Total fair value of stock options vested	$ 12	$ 12	$ 11
Stock options exercised, in millions of options	1.4	1.5	3.6

As of December 31, 2015, total compensation expense not yet recognized related to non-vested stock options was $11, and the weighted-average period in which the expense is expected to be recognized is 1.7 years.

Note 12. Fair Value Measurements

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

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

	Total	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
2015				
Cash	$ 268	$ 268	$ -	$ -
Short-term investments	177	177	-	-
Net derivative contracts	86	-	86	-
Long-term debt converted to floating interest rates by interest rate swaps - net	(94)	-	(94)	-
2014				
Cash	$ 781	$ 781	$ -	$ -
Short-term investments	245	245	-	-
Net derivative contracts	70	-	70	-
Long-term debt converted to floating interest rates by interest rate swaps - net	(74)	-	(74)	-

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

Other Fair Value Measurements

Long-term debt and the current portion of long-term debt had a carrying value of $8,023 and fair value of $8,231 at December 31, 2015 compared to $9,032 and $9,509, respectively, at December 31, 2014. The fair value of Eaton's debt instruments was estimated using prevailing market interest rates on debt with similar creditworthiness, terms and maturities and is considered a Level 2 fair value measurement.

Short-Term Investments

Eaton invests excess cash generated from operations in short-term marketable investments. For those investments classified as "available-for-sale", Eaton marks these investments to fair value with the offset recognized in Accumulated other comprehensive loss. A summary of the carrying value of short-term investments follows:

	2015	2014
Time deposits, certificates of deposit and demand deposits with banks	$122	$113
Money market investments	55	131
Other	-	1
Total short-term investments	$177	$245

Note 13. Derivative Financial Instruments and Hedging Activities

In the normal course of business, Eaton is exposed to certain risks related to fluctuations in interest rates, currency exchange rates and commodity prices. The Company uses various derivative and non-derivative financial instruments, primarily interest rate swaps, currency forward exchange contracts, currency swaps and, 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 Consolidated Balance Sheets. Accounting for the gain or loss resulting from the change in the fair value of the derivative financial instrument depends on whether it has been designated, and is effective, as part of a hedging relationship and, if so, as to the nature of the hedging activity. Eaton formally documents all relationships between derivative financial instruments accounted for as designated hedges and the hedged item, as well as its risk-management objective and strategy for undertaking the hedge transaction. This process includes linking derivative financial instruments to a recognized asset or liability, specific firm commitment, forecasted transaction, or net investment in a foreign operation. These financial instruments can be designated as:

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

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

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

Eaton uses certain of its debt denominated in foreign currency to hedge portions of its net investments in foreign operations against foreign currency exposure (net investment hedges). Foreign currency denominated debt designated on an after-tax basis as non-derivative net investment hedging instruments was $83 and $84 at December 31, 2015 and 2014, respectively. See Note 6 for additional information about debt.

Interest Rate Risk

Eaton has entered into fixed-to-floating interest rate swaps to manage interest rate risk of certain long-term debt. These interest rate swaps are accounted for as fair value hedges of certain long-term debt. The maturity of the swap corresponds with the maturity of the debt instrument as noted in the table of long-term debt in Note 6. Eaton has also entered into a forward starting floating-to-fixed interest rate swap to manage interest rate risk on an anticipated debt refinancing in 2017.

A summary of interest rate swaps outstanding at December 31, 2015, follows:

Fixed-to-Floating Interest Rate Swaps

Notional amount	Fixed interest rate received	Floating interest rate paid	Basis for contracted floating interest rate paid
$ 150	5.30%	4.59%	1 month LIBOR + 4.26%
750	1.50%	0.71%	1 month LIBOR + 0.46%
415	5.60%	3.78%	6 month LIBOR + 3.18%
300	6.95%	5.66%	3 month LIBOR + 5.07%
25	8.875%	4.59%	6 month LIBOR + 3.84%
150	3.875%	2.45%	1 month LIBOR + 2.12%
275	3.47%	2.07%	1 month LIBOR + 1.74%
1,350	2.75%	0.80%	1 month LIBOR + 0.56%
200	3.68%	1.40%	1 month LIBOR + 1.07%
25	7.625%	3.01%	6 month LIBOR + 2.48%
50	7.65%	3.17%	6 month LIBOR + 2.57%
25	5.45%	0.80%	6 month LIBOR + 0.28%

Forward Starting Floating-to-Fixed Interest Rate Swaps

Notional amount	Fixed interest rate paid	Floating interest rate received	Basis for contracted floating interest rate received
$ 50	2.52%	-%	3 month LIBOR + 0.00%

Derivative Financial Statement Impacts

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

	Notional amount	Other current assets	Other noncurrent assets	Other current liabilities	Other noncurrent liabilities	Type of hedge	Term
December 31, 2015							
Derivatives designated as hedges							
Fixed-to-floating interest rate swaps	$ 3,715	$ -	$ 96	$ -	$ 2	Fair value	2 to 19 years
Forward starting floating-to-fixed interest rate swaps	50	-	-	-	-	Cash flow	12 years
Currency exchange contracts	724	18	1	8	6	Cash flow	1 to 36 months
Commodity contracts	1	-	-	-	-	Cash flow	1 to 12 months
Total		$ 18	$ 97	$ 8	$ 8		
Derivatives not designated as hedges							
Currency exchange contracts	$ 4,198	$ 27		$ 40			1 to 12 months
Total		$ 27		$ 40			
December 31, 2014							
Derivatives designated as hedges							
Fixed-to-floating interest rate swaps	$ 3,440	$ -	$ 84	$ -	$ 10	Fair value	2 to 19 years
Currency exchange contracts	432	8	1	5	3	Cash flow	1 to 36 months
Commodity contracts	1	-	-	-	-	Cash flow	1 to 12 months
Total		$ 8	$ 85	$ 5	$ 13		
Derivatives not designated as hedges							
Currency exchange contracts	$ 4,447	$ 47		$ 52			1 to 12 months
Total		$ 47		$ 52			

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.

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

	Gain (loss) recognized in other comprehensive (loss) income		Location of gain (loss) reclassified from Accumulated other comprehensive loss	Gain (loss) reclassified from Accumulated other comprehensive loss	
	2015	2014		**2015**	2014
Derivatives designated as cash flow hedges					
Floating-to-fixed interest rate swaps	$ -	$ -	Interest expense - net	$ -	$ (1)
Currency exchange contracts	20	(3)	Cost of products sold	16	6
Total	$ 20	$ (3)		$ 16	$ 5

Amounts recognized in net income follow:

	2015	2014
Derivatives designated as fair value hedges		
Fixed-to-floating interest rate swaps	$ 20	$ 113
Related long-term debt converted to floating interest rates by interest rate swaps	(20)	(113)
	$ -	$ -

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

Note 14. Accounts Receivable and Inventory

Accounts Receivable

Eaton performs ongoing credit evaluation of its customers and maintains sufficient allowances for potential credit losses. The Company evaluates the collectability of its accounts receivable based on the length of time the receivable is past due and any anticipated future write-off based on historic experience. Accounts receivable balances are written off against an allowance for doubtful accounts after a final determination of uncollectability has been made. Accounts receivable are net of an allowance for doubtful accounts of $50 and $60 at December 31, 2015 and 2014, respectively.

Inventory

Inventory is carried at lower of cost or market. Inventory in the United States is generally accounted for using the last-in, first-out (LIFO) method. Remaining United States and non-United States inventory is accounted for using the first-in, first-out (FIFO) method. Cost components include raw materials, purchased components, direct labor, indirect labor, utilities, depreciation, inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, and costs of the distribution network.

The components of inventory follow:

	2015	2014
Raw materials	$ 885	$ 924
Work-in-process	412	422
Finished goods	1,131	1,201
Inventory at FIFO	2,428	2,547
Excess of FIFO over LIFO cost	(105)	(119)
Total inventory	$ 2,323	$ 2,428

Inventory at FIFO accounted for using the LIFO method was 43% and 41% at the end of 2015 and 2014, respectively

Note 15. Business Segment and Geographic Region Information

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

Electrical Products and Electrical Systems and Services

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

Hydraulics

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

Aerospace

The Aerospace segment is a leading global supplier of aerospace fuel, hydraulics, and pneumatic systems for commercial and military use. Products include hydraulic power generation systems for aerospace applications including pumps, motors, hydraulic power units, hose and fittings, electro-hydraulic pumps; controls and sensing products including valves, cylinders, electronic controls, electromechanical actuators, sensors, aircraft flap and slat systems and nose wheel steering systems; fluid conveyance products, including hose, thermoplastic tubing, fittings, adapters, couplings, sealing and ducting; and fuel systems including fuel pumps, sensors, valves, adapters and regulators. In addition, products included power and load management systems and displays and panels until these businesses were sold in May of 2014. The principal markets for the Aerospace segment are manufacturers of commercial and military aircraft and related after-market customers. These manufacturers and other customers operate globally. Products are sold and serviced through a variety of channels.

Vehicle

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

Other Information

No single customer represented greater than 10% of net sales in 2015, 2014 or 2013, respectively.

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

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

Notes to Consolidated Financial Statements

Business Segment Information	**2015**	2014	2013
Net sales			
Electrical Products	$ 6,976	$ 7,254	$ 7,026
Electrical Systems and Services	5,931	6,457	6,430
Hydraulics	2,459	2,975	2,981
Aerospace	1,807	1,860	1,774
Vehicle	3,682	4,006	3,835
Total net sales	$ 20,855	$ 22,552	$ 22,046
Segment operating profit			
Electrical Products	$ 1,156	$ 1,184	$ 1,090
Electrical Systems and Services	776	843	889
Hydraulics	246	367	355
Aerospace	310	273	252
Vehicle	645	645	592
Total segment operating profit	3,133	3,312	3,178
Corporate			
Litigation settlements	-	(644)	-
Amortization of intangible assets	(406)	(431)	(437)
Interest expense - net	(232)	(227)	(271)
Pension and other postretirement benefits expense	(130)	(138)	(183)
Inventory step-up adjustment	-	-	(34)
Other corporate expense - net	(220)	(111)	(369)
Income before income taxes	2,145	1,761	1,884
Income tax expense (benefit)	164	(42)	11
Net income	1,981	1,803	1,873
Less net income for noncontrolling interests	(2)	(10)	(12)
Net income attributable to Eaton ordinary shareholders	$ 1,979	$ 1,793	$ 1,861

Business segment operating profit was reduced by acquisition integration charges as follows:

	2015	2014	2013
Electrical Products	$ 25	$ 66	$ 44
Electrical Systems and Services	15	51	37
Hydraulics	2	12	36
Total	$ 42	$ 129	$ 117

Corporate acquisition integration charges totaled $5, $25 and $37 in 2015, 2014 and 2013, respectively. Corporate acquisition integration charges related primarily to the acquisition of Cooper and are included above in Other corporate expense - net.

Acquisition-related transaction costs, such as investment banking, legal and other professional fees, and costs associated with change in control agreements, are included above in Interest expense - net and Other corporate expense - net. These charges totaled $9 in 2013. There were no Corporate acquisition-related transition costs in 2014 and 2015. See Note 3 for additional information about acquisition integration charges and transaction costs.

Business Segment Information	2015	2014	2013
Identifiable assets			
Electrical Products	$ 2,538	$ 3,012	$ 3,204
Electrical Systems and Services	2,285	2,512	2,683
Hydraulics	1,138	1,315	1,362
Aerospace	841	832	852
Vehicle	1,579	1,668	1,716
Total identifiable assets	8,381	9,339	9,817
Goodwill	13,479	13,893	14,495
Other intangible assets	6,014	6,556	7,186
Corporate	3,157	3,741	3,993
Total assets	$ 31,031	$ 33,529	$ 35,491
Capital expenditures for property, plant and equipment			
Electrical Products	$ 137	$ 170	$ 152
Electrical Systems and Services	94	147	113
Hydraulics	61	79	80
Aerospace	33	28	29
Vehicle	119	160	161
Total	444	584	535
Corporate	62	48	79
Total expenditures for property, plant and equipment	$ 506	$ 632	$ 614
Depreciation of property, plant and equipment			
Electrical Products	$ 137	$ 148	$ 151
Electrical Systems and Services	82	90	86
Hydraulics	67	67	65
Aerospace	28	28	27
Vehicle	113	130	133
Total	427	463	462
Corporate	52	51	54
Total depreciation of property, plant and equipment	$ 479	$ 514	$ 516

Geographic Region Information	2015	2014	2013
Net sales are measured based on the geographic destination of sales. Long-lived assets consist of property, plant and equipment - net.			
Net sales			
United States	$ 11,396	$ 11,701	$ 11,092
Canada	969	1,113	1,154
Latin America	1,726	1,988	2,113
Europe	4,379	5,074	5,112
Asia Pacific	2,385	2,676	2,575
Total	$ 20,855	$ 22,552	$ 22,046
Long-lived assets			
United States	$ 1,982	$ 1,988	$ 1,966
Canada	19	25	28
Latin America	243	306	331
Europe	734	799	856
Asia Pacific	587	632	652
Total	$ 3,565	$ 3,750	$ 3,833

Note 16. Condensed Consolidating Financial Statements

On November 14, 2013, Eaton Corporation registered senior notes under the Securities Act of 1933 (the Senior Notes). Eaton and certain other of Eaton's 100% owned direct and indirect subsidiaries (the Guarantors) fully and unconditionally guaranteed (subject, in the case of the Guarantors, other than Eaton, to customary release provisions as described below), on a joint and several basis, the Senior Notes. The following condensed consolidating financial statements are included so that separate financial statements of Eaton, Eaton Corporation and each of the Guarantors are not required to be filed with the Securities and Exchange Commission. The consolidating adjustments primarily relate to eliminations of investments in subsidiaries and intercompany balances and transactions. The condensed consolidating financial statements present investments in subsidiaries using the equity method of accounting. See Note 6 for additional information related to the 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 2015, the Company undertook certain steps to restructure ownership of various subsidiaries. The transactions were entirely among wholly-owned subsidiaries under the common control of Eaton. This restructuring has been reflected as of the beginning of the earliest period presented below.

Consolidating Statements of Comprehensive Income	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Year ended December 31, 2015						
Net sales	$ -	$ 6,925	$ 6,654	$ 12,538	$ (5,262)	$ 20,855
Cost of products sold	-	5,508	5,033	8,984	(5,233)	14,292
Selling and administrative expense	141	1,223	737	1,495	-	3,596
Research and development expense	-	266	196	163	-	625
Interest expense (income) - net	-	222	21	(13)	2	232
Other expense (income) - net	-	27	2	(64)	-	(35)
Equity in loss (earnings) of subsidiaries, net of tax	(2,456)	(793)	(3,267)	(666)	7,182	-
Intercompany expense (income) - net	336	(452)	1,239	(1,123)	-	-
Income (loss) before income taxes	1,979	924	2,693	3,762	(7,213)	2,145
Income tax expense (benefit)	-	103	(73)	145	(11)	164
Net income (loss)	1,979	821	2,766	3,617	(7,202)	1,981
Less net loss (income) for noncontrolling interests	-	-	-	(3)	1	(2)
Net income (loss) attributable to Eaton ordinary shareholders	$ 1,979	$ 821	$ 2,766	$ 3,614	$ (7,201)	$ 1,979
Other comprehensive income (loss)	(964)	1	(947)	(1,170)	2,116	(964)
Total comprehensive income (loss) attributable to Eaton ordinary shareholders	$ 1,015	$ 822	$ 1,819	$ 2,444	$ (5,085)	$ 1,015
Year ended December 31, 2014						
Net sales	$ -	$ 6,990	$ 6,885	$ 13,521	$ (4,844)	$ 22,552
Cost of products sold	-	5,519	5,075	9,882	(4,830)	15,646
Selling and administrative expense	171	1,246	743	1,650	-	3,810
Litigation settlements	-	644	-	-	-	644
Research and development expense	-	240	202	205	-	647
Interest expense (income) - net	-	225	25	(29)	6	227
Other expense (income) - net	-	(17)	(81)	(85)	-	(183)
Equity in loss (earnings) of subsidiaries, net of tax	(2,191)	(663)	(2,654)	(292)	5,800	-
Intercompany expense (income) - net	227	(263)	855	(819)	-	-
Income (loss) before income taxes	1,793	59	2,720	3,009	(5,820)	1,761
Income tax expense (benefit)	-	(100)	76	(11)	(7)	(42)
Net income (loss)	1,793	159	2,644	3,020	(5,813)	1,803
Less net loss (income) for noncontrolling interests	-	-	-	(8)	(2)	(10)
Net income (loss) attributable to Eaton ordinary shareholders	$ 1,793	$ 159	$ 2,644	$ 3,012	$ (5,815)	$ 1,793
Other comprehensive income (loss)	(1,339)	(197)	(1,368)	(1,646)	3,211	(1,339)
Total comprehensive income (loss) attributable to Eaton ordinary shareholders	$ 454	$ (38)	$ 1,276	$ 1,366	$ (2,604)	$ 454
Year ended December 31, 2013						
Net sales	$ -	$ 6,695	$ 6,421	$ 13,579	$ (4,649)	$ 22,046
Cost of products sold	-	5,227	4,784	10,010	(4,652)	15,369
Selling and administrative expense	32	1,400	749	1,705	-	3,886
Research and development expense	-	255	200	189	-	644
Interest expense (income) - net	-	271	28	(22)	(6)	271
Other expense (income) - net	-	8	4	(20)	-	(8)
Equity in loss (earnings) of subsidiaries, net of tax	(2,147)	(657)	(2,005)	(277)	5,086	-
Intercompany expense (income) - net	254	(155)	(433)	334	-	-
Income (loss) before income taxes	1,861	346	3,094	1,660	(5,077)	1,884
Income tax expense (benefit)	-	(108)	(90)	207	2	11
Net income (loss)	1,861	454	3,184	1,453	(5,079)	1,873
Less net loss (income) for noncontrolling interests	-	-	-	(9)	(3)	(12)
Net income (loss) attributable to Eaton ordinary shareholders	$ 1,861	$ 454	$ 3,184	$ 1,444	$ (5,082)	$ 1,861
Other comprehensive income (loss)	404	221	475	262	(958)	404
Total comprehensive income (loss) attributable to Eaton ordinary shareholders	$ 2,265	$ 675	$ 3,659	$ 1,706	$ (6,040)	$ 2,265

Condensed Consolidating Balance Sheets

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
December 31, 2015						
Assets						
Current assets						
Cash	$ -	$ 26	$ 7	$ 235	$ -	$ 268
Short-term investments	-	-	2	175	-	177
Accounts receivable - net	-	512	1,030	1,937	-	3,479
Intercompany accounts receivable	1	842	3,888	2,928	(7,659)	-
Inventory	-	357	651	1,395	(80)	2,323
Prepaid expenses and other current assets	-	77	40	229	23	369
Total current assets	1	1,814	5,618	6,899	(7,716)	6,616
Property, plant and equipment - net	-	930	750	1,885	-	3,565
Other noncurrent assets						
Goodwill	-	1,355	6,264	5,860	-	13,479
Other intangible assets	-	182	3,624	2,208	-	6,014
Deferred income taxes	-	1,016	-	218	(872)	362
Investment in subsidiaries	29,627	13,001	60,139	10,163	(112,930)	-
Intercompany loans receivable	-	8,641	1,573	44,835	(55,049)	-
Other assets	-	527	122	346	-	995
Total assets	$ 29,628	$ 27,466	$ 78,090	$ 72,414	$(176,567)	$ 31,031
Liabilities and shareholders' equity						
Current liabilities						
Short-term debt	$ -	$ 408	$ -	$ 18	$ -	$ 426
Current portion of long-term debt	-	1	240	1	-	242
Accounts payable	-	392	260	1,106	-	1,758
Intercompany accounts payable	219	4,009	2,248	1,183	(7,659)	-
Accrued compensation	-	77	53	236	-	366
Other current liabilities	1	644	318	875	(5)	1,833
Total current liabilities	220	5,531	3,119	3,419	(7,664)	4,625
Noncurrent liabilities						
Long-term debt	-	7,088	675	17	1	7,781
Pension liabilities	-	639	165	782	-	1,586
Other postretirement benefits liabilities	-	245	118	77	-	440
Deferred income taxes	-	-	815	447	(872)	390
Intercompany loans payable	14,222	2,962	36,432	1,433	(55,049)	-
Other noncurrent liabilities	-	346	200	432	-	978
Total noncurrent liabilities	14,222	11,280	38,405	3,188	(55,920)	11,175
Shareholders' equity						
Eaton shareholders' equity	15,186	10,655	36,566	65,770	(112,991)	15,186
Noncontrolling interests	-	-	-	37	8	45
Total equity	15,186	10,655	36,566	65,807	(112,983)	15,231
Total liabilities and equity	$ 29,628	$ 27,466	$ 78,090	$ 72,414	$(176,567)	$ 31,031

Condensed Consolidating Balance Sheets

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
December 31, 2014						
Assets						
Current assets						
Cash	$ 1	$ 173	$ 13	$ 594	$ -	$ 781
Short-term investments	-	-	1	244	-	245
Accounts receivable - net	-	500	955	2,212	-	3,667
Intercompany accounts receivable	2	759	3,822	4,101	(8,684)	-
Inventory	-	397	637	1,445	(51)	2,428
Prepaid expenses and other current assets	-	464	171	340	4	979
Total current assets	3	2,293	5,599	8,936	(8,731)	8,100
Property, plant and equipment - net	-	972	756	2,022	-	3,750
Other noncurrent assets						
Goodwill	-	1,355	6,263	6,275	-	13,893
Other intangible assets	-	196	3,811	2,549	-	6,556
Deferred income taxes	-	889	10	137	(808)	228
Investment in subsidiaries	26,612	12,238	58,684	9,185	(106,719)	-
Intercompany loans receivable	-	7,542	2,249	40,635	(50,426)	-
Other assets	-	473	142	387	-	1,002
Total assets	$ 26,615	$ 25,958	$ 77,514	$ 70,126	$(166,684)	$ 33,529
Liabilities and shareholders' equity						
Current liabilities						
Short-term debt	$ -	$ -	$ -	$ 2	$ -	$ 2
Current portion of long-term debt	-	702	304	2	-	1,008
Accounts payable	-	475	340	1,125	-	1,940
Intercompany accounts payable	117	4,087	3,443	1,037	(8,684)	-
Accrued compensation	-	112	59	249	-	420
Other current liabilities	1	674	343	981	(14)	1,985
Total current liabilities	118	6,050	4,489	3,396	(8,698)	5,355
Noncurrent liabilities						
Long-term debt	-	7,079	932	13	-	8,024
Pension liabilities	-	726	183	903	-	1,812
Other postretirement benefits liabilities	-	283	136	94	-	513
Deferred income taxes	-	-	1,160	549	(808)	901
Intercompany loans payable	10,711	2,723	36,162	830	(50,426)	-
Other noncurrent liabilities	-	457	186	442	-	1,085
Total noncurrent liabilities	10,711	11,268	38,759	2,831	(51,234)	12,335
Shareholders' equity						
Eaton shareholders' equity	15,786	8,640	34,266	63,854	(106,760)	15,786
Noncontrolling interests	-	-	-	45	8	53
Total equity	15,786	8,640	34,266	63,899	(106,752)	15,839
Total liabilities and equity	$ 26,615	$ 25,958	$ 77,514	$ 70,126	$(166,684)	$ 33,529

Condensed Consolidating Statements of Cash Flows	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
December 31, 2015						
Net cash provided by (used in) operating activities	$ (137)	$ (46)	$ (283)	$ 2,841	$ (4)	$ 2,371
Investing activities						
Capital expenditures for property, plant and equipment	-	(94)	(146)	(266)	-	(506)
Cash received from (paid for) acquisitions of businesses, net of cash acquired	-	-	(36)	(36)	-	(72)
Sales (purchases) of short-term investment - net	-	-	(2)	39	-	37
Investments in affiliates	(1,482)	-	(1,176)	(1,482)	4,140	-
Loans to affiliates	-	(1,235)	(39)	(10,608)	11,882	-
Repayments of loans from affiliates	-	342	359	7,148	(7,849)	-
Proceeds from the sales of businesses	-	-	-	1	-	1
Other - net	-	(50)	47	(32)	-	(35)
Net cash provided by (used in) investing activities	(1,482)	(1,037)	(993)	(5,236)	8,173	(575)
Financing activities						
Proceeds from borrowings	-	408	-	17	-	425
Payments on borrowings	-	(724)	(301)	(2)	-	(1,027)
Proceeds from borrowings from affiliates	3,322	6,885	997	678	(11,882)	-
Payments on borrowings from affiliates	(48)	(6,122)	(1,282)	(397)	7,849	-
Capital contribution from affiliates	-	1,176	1,482	1,482	(4,140)	-
Other intercompany financing activities	-	(688)	374	314	-	-
Cash dividends paid	(1,026)	-	-	-	-	(1,026)
Cash dividends paid to affiliates	-	-	-	(4)	4	-
Exercise of employee stock options	52	-	-	-	-	52
Repurchase of shares	(682)	-	-	-	-	(682)
Excess tax benefit from equity-based compensation	-	1	-	-	-	1
Other - net	-	-	-	(10)	-	(10)
Net cash provided by (used in) financing activities	1,618	936	1,270	2,078	(8,169)	(2,267)
Effect of currency on cash	-	-	-	(42)	-	(42)
Total increase (decrease) in cash	(1)	(147)	(6)	(359)	-	(513)
Cash at the beginning of the period	1	173	13	594	-	781
Cash at the end of the period	$ -	$ 26	$ 7	$ 235	$ -	$ 268

Condensed Consolidating Statements of Cash Flows	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
December 31, 2014						
Net cash provided by (used in) operating activities	$ (93)	$ (411)	$ (218)	$ 2,568	$ 32	$ 1,878
Investing activities						
Capital expenditures for property, plant and equipment	-	(127)	(168)	(337)	-	(632)
Cash received from (paid for) acquisitions of businesses, net of cash acquired	-	-	-	2	-	2
Sales (purchases) of short-term investments - net	-	-	133	389	-	522
Investments in affiliates	(753)	-	-	(753)	1,506	-
Loans to affiliates	-	(354)	(162)	(10,546)	11,062	-
Repayments of loans from affiliates	-	978	212	8,451	(9,641)	-
Proceeds from the sales of businesses	-	93	175	14	-	282
Other - net	-	(47)	44	(28)	-	(31)
Net cash provided by (used in) investing activities	(753)	543	234	(2,808)	2,927	143
Financing activities						
Payments on borrowings	-	(553)	(1)	(28)	-	(582)
Proceeds from borrowings from affiliates	2,628	7,599	808	27	(11,062)	-
Payments on borrowings from affiliates	(476)	(6,907)	(1,875)	(383)	9,641	-
Capital contribution from affiliates	-	-	753	753	(1,506)	-
Other intercompany financing activities	217	(169)	302	(350)	-	-
Cash dividends paid	(929)	-	-	-	-	(929)
Cash dividends received from affiliates	-	-	-	32	(32)	-
Exercise of employee stock options	54	-	-	-	-	54
Repurchase of shares	(650)	-	-	-	-	(650)
Excess tax benefit from equity-based compensation	-	20	-	-	-	20
Other - net	-	-	-	(43)	-	(43)
Net cash provided by (used in) financing activities	844	(10)	(13)	8	(2,959)	(2,130)
Effect of currency on cash	-	-	-	(25)	-	(25)
Total increase (decrease) in cash	(2)	122	3	(257)	-	(134)
Cash at the beginning of the period	3	51	10	851	-	915
Cash at the end of the period	$ 1	$ 173	$ 13	$ 594	$ -	$ 781

Condensed Consolidating Statements of Cash Flows	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
December 31, 2013						
Net cash provided by (used in) operating activities	$ (17)	$ 860	$ 428	$ 1,067	$ (53)	$ 2,285
Investing activities						
Capital expenditures for property, plant and equipment	-	(171)	(119)	(324)	-	(614)
Cash received from (paid for) acquisitions of businesses, net of cash acquired	-	-	-	(9)	-	(9)
Sales (purchases) of short-term investments - net	-	25	(95)	(218)	-	(288)
Loans to affiliates	-	(535)	(545)	(6,215)	7,295	-
Repayments of loans from affiliates	-	36	626	5,795	(6,457)	-
Proceeds from the sales of businesses	-	-	-	777	-	777
Other - net	-	(41)	(12)	(15)	-	(68)
Net cash provided by (used in) investing activities	-	(686)	(145)	(209)	838	(202)
Financing activities						
Proceeds from borrowings	-	-	-	9	-	9
Payments on borrowings	-	(1,048)	(43)	(5)	-	(1,096)
Proceeds from borrowings from affiliates	-	2,395	4,260	640	(7,295)	-
Payments on borrowings from affiliates	-	(2,921)	(2,874)	(662)	6,457	-
Other intercompany financing activities	688	1,365	(1,630)	(423)	-	-
Cash dividends paid	(796)	-	-	-	-	(796)
Cash dividends paid to affiliates	-	-	-	(53)	53	-
Exercise of employee stock options	121	-	-	-	-	121
Excess tax benefit from equity-based compensation	-	32	-	-	-	32
Other - net	-	-	-	(6)	-	(6)
Net cash provided by (used in) financing activities	13	(177)	(287)	(500)	(785)	(1,736)
Effect of currency on cash	-	-	-	(9)	-	(9)
Total increase (decrease) in cash	(4)	(3)	(4)	349	-	338
Cash at the beginning of the period	7	54	14	502	-	577
Cash at the end of the period	$ 3	$ 51	$ 10	$ 851	$ -	$ 915

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

Company Overview

Eaton Corporation plc (Eaton or the Company) is a power management company with 2015 net sales of $20.9 billion. The Company provides energy-efficient solutions that help its customers effectively manage electrical, hydraulic and mechanical power more efficiently, safely and sustainably. Eaton has approximately 97,000 employees in over 60 countries and sells products to customers in more than 175 countries.

Summary of Results of Operations

During 2015, the Company's results of operations were impacted by decline in several of the Company's end markets. Further, the results of operations were negatively impacted by fluctuations in currency exchange rates. Despite the declining market conditions and unfavorable impact from currency translation, the Company generated solid operating margins and net income per share - diluted. During 2015, Eaton took actions to reduce its cost structure and gain efficiencies in all business segments and at corporate in order to respond to declining market conditions and announced a multi-year restructuring initiative. The restructuring charges related to this initiative were $129 in 2015 and were primarily comprised of severance costs. We anticipate additional restructuring charges of $140 in 2016 and $130 in 2017. The projected annualized savings from these restructuring actions are expected to be $400, fully realized in 2018.

During 2014, the Company's results of operations were impacted by modest growth in the Company's end markets, particularly in North America. This was partially offset by the impact of settlement of two litigation matters with ZF Meritor LLC and Meritor Transmission Corporation (collectively, Meritor) and Triumph Actuation Systems, LLC and other claimants (collectively, Triumph) for $500 and $147.5, respectively, and the sale of the Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses to Safran for $270, which resulted in a pretax gain of $154. Also, during the second half of 2014 the Company's results of operations were negatively impacted by shifts in currency exchange rates. Despite the modest growth and negative currency exchange rates, the Company generated net income per share - diluted in 2014 that was broadly in line with the Company's guidance at the start of the year after excluding the litigation settlements and the gain on the sale of the Aerospace businesses.

Additional information related to business acquisitions and sales, restructuring activities and the litigation settlements is presented in Note 2, Note 3, Note 4 and Note 8, respectively, of the Notes to the Consolidated Financial Statements.

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

	2015	2014	2013
Net sales	$20,855	$22,552	$22,046
Net income attributable to Eaton ordinary shareholders	1,979	1,793	1,861
Net income per share attributable to Eaton ordinary shareholders - diluted	$ 4.23	$ 3.76	$ 3.90

Results of Operations

Non-GAAP Financial Measures

The following discussion of Consolidated Financial Results and Business Segment Results of Operations includes certain non-GAAP financial measures. These financial measures include operating earnings, operating earnings per ordinary share, and operating profit before acquisition integration charges for each business segment as well as corporate, each of which differs from the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). A reconciliation of operating earnings and operating earnings per ordinary share to the most directly comparable GAAP measure is included in the table below. Operating profit before acquisition integration charges is reconciled in the discussion of the operating results of each business segment, and excludes acquisition integration expense related primarily to integration of Cooper Industries plc (Cooper). Management believes that these financial measures are useful to investors because they exclude transactions of an unusual nature, allowing investors to more easily compare Eaton's financial performance period to period. Management uses this information in monitoring and evaluating the on-going performance of Eaton and each business segment. For additional information on acquisition integration charges, see Note 3 to the Consolidated Financial Statements.

Consolidated Financial Results

	2015	Change from 2014	2014	Change from 2013	2013
Net sales	$20,855	(8)%	$22,552	2%	$22,046
Gross profit	6,563	(5)%	6,906	3%	6,677
Percent of net sales	31.5%		30.6%		30.3%
Income before income taxes	2,145	22%	1,761	(7)%	1,884
Net income	1,981	10%	1,803	(4)%	1,873
Less net income for noncontrolling interests	(2)		(10)		(12)
Net income attributable to Eaton ordinary shareholders	1,979	10%	1,793	(4)%	1,861
Excluding acquisition integration charges and transaction costs (after-tax)	31		102		110
Operating earnings	$ 2,010	6%	$ 1,895	(4)%	$ 1,971
Net income per share attributable to Eaton ordinary shareholders - diluted	$ 4.23	13%	$ 3.76	(4)%	$ 3.90
Excluding per share impact of acquisition integration charges and transaction costs (after-tax)	0.07		0.21		0.23
Operating earnings per ordinary share	$ 4.30	8%	$ 3.97	(4)%	$ 4.13

Net Sales

Net sales in 2015 decreased by 8% compared to 2014 due to a decrease of 6% from the impact of currency translation and a decrease of 2% in organic sales. The decrease in organic sales was primarily due to weakening demand in several of the Company's end markets.

Net sales in 2014 increased by 2% compared to 2013 due to an increase in organic sales of 4%, partially offset by a decrease of 1% from the impact of currency translation and a decrease of 1% from the divestiture of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses. The increase in organic sales in 2014 is primarily due to growth in the Company's end markets, particularly in North America.

Gross Profit

Gross profit margin increased from 30.6% in 2014 to 31.5% in 2015. The increase in gross profit margin in 2015 was primarily due to cost savings from restructuring actions taken in the second half of 2015 and other cost control measures, partially offset by restructuring charges incurred in 2015. Gross profit increased from 30.3% in 2013 to 30.6% in 2014. The increase in gross profit margin in 2014 was primarily due to higher sales volumes, offset by certain restructuring activities Eaton undertook in 2014 in an effort to gain efficiencies in the Vehicle, Hydraulics and Aerospace business segments.

Income Taxes

During 2015, an income tax expense of $164 was recognized (an effective tax expense rate of 7.7%) compared to income tax benefit of $42 in 2014 (an effective tax benefit rate of 2.4%). Excluding the net tax benefit of 7.6% for the Meritor and Triumph litigation settlements and related legal costs and the gain on the sale of the Aerospace businesses, all of which occurred in the second quarter of 2014, the income tax rate was 5.2% for 2014. The 2015 income tax rate increased from 2014 primarily due to greater levels of income earned in higher tax jurisdictions and net increases in worldwide tax liabilities.

During 2014, an income tax benefit of $42 was recognized (an effective tax benefit rate of 2.4%) compared to income tax expense of $11 for 2013 (an effective tax expense rate of 0.6%). The lower tax rate in 2014 was primarily attributable to the net tax benefit of litigation settlements and related legal costs and gain on sale of business, all of which occurred in the second quarter of 2014. Excluding the previously mentioned litigation settlements and gain on the sale of businesses, the 2014 income tax rate increased from 2013 due to greater levels of income earned in higher tax jurisdictions and net increases in worldwide tax liabilities, partially offset by additional foreign tax credit recognition in the United States and recognition of deferred tax assets in foreign jurisdictions.

Operating Earnings

Operating earnings, a non-GAAP measure discussed above in Non-GAAP Financial Measures, of $2,010 in 2015 increased 6% compared to Operating earnings of $1,895 in 2014. The increase in Operating earnings in 2015 was primarily due to lower income in the second quarter of 2014 as a result of settlement of the Meritor and Triumph litigation matters for $500 and $147.5, respectively, partially offset by the impact of the sale of the Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses. Excluding litigation settlements and gain on sale, operating earnings declined in 2015 due to lower sales volume, the negative impact of currency translation, a higher tax rate, and $129 of restructuring charges incurred in 2015, offset by savings resulting from the 2015 restructuring actions and other cost control measures. Operating earnings of $1,895 in 2014 decreased 4% compared to 2013 Operating earnings of $1,971. The decrease was primarily due to the litigation settlements, partially offset by the gain on the sale of the Aerospace businesses, higher sales volumes as noted above and a lower effective income tax rate.

Operating earnings per ordinary share increased to $4.30 in 2015 compared to $3.97 in 2014. The increase in Operating earnings per ordinary share in 2015 is due to higher Operating earnings and the impact of the Company's share repurchases in 2015. Operating earnings per ordinary share of $3.97 in 2014 decreased 4% from $4.13 in 2013. Operating earnings per ordinary share in 2014 was reduced by $0.70 per share from the litigation settlements partially offset by the gain from the Aerospace divestitures.

Business Segment Results of Operations

The following is a discussion of Net sales, operating profit and operating profit margin by business segment, which includes a discussion of operating profit and operating profit margin before acquisition integration charges. For additional information related to acquired businesses and integration charges, see Note 2 and Note 3, respectively, to the Consolidated Financial Statements.

Electrical Products

	2015	Change from 2014	2014	Change from 2013	2013
Net sales	$ 6,976	(4)%	$ 7,254	3%	$ 7,026
Operating profit	1,156	(2)%	1,184	9%	1,090
Operating margin	16.6%		16.3%		15.5%
Acquisition integration charges	$ 25		$ 66		$ 44
Before acquisition integration charges					
Operating profit	$ 1,181	(6)%	$ 1,250	10%	$ 1,134
Operating margin	16.9%		17.2%		16.1%

Net sales decreased 4% in 2015 compared to 2014 due to a decrease of 5% from the impact of currency translation, partially offset by an increase of 1% in organic sales. Organic sales in 2015 were positively impacted by North American markets. Net sales increased 3% in 2014 compared to 2013 due to an increase of 4% in organic sales, partially offset by a decrease of 1% from the impact of currency translation. Organic sales in 2014 were positively impacted by strength in North American markets.

The operating margin before acquisition integration charges decreased from 17.2% in 2014 to 16.9% in 2015. The decrease in operating margin in 2015 was primarily due to lower sales volumes, unfavorable product mix and $12 of restructuring charges, partially offset by $3 of savings from the restructuring actions and other cost control measures. The operating margin before acquisition integration charges increased from 16.1% in 2013 to 17.2% in 2014. The increase in operating margin in 2014 was due to higher sales volumes, as noted above, and incremental synergies related to the acquisition of Cooper.

Electrical Systems and Services

	2015	Change from 2014	2014	Change from 2013	2013
Net sales	$ 5,931	(8)%	$6,457	-%	$ 6,430
Operating profit	776	(8)%	843	(5)%	889
Operating margin	13.1%		13.1%		13.8%
Acquisition integration charges	$ 15		$ 51		$ 37
Before acquisition integration charges					
Operating profit	$ 791	(12)%	$ 894	(3)%	$ 926
Operating margin	13.3%		13.8%		14.4%

Net sales decreased 8% in 2015 compared to 2014 due to decreases of 4% in organic sales and 4% from negative currency translation. The organic sales decline in 2015 was primarily due to weakness in global oil and gas and other industrial markets. Net sales in 2014 were flat compared to 2013 due to an increase in organic sales of 2%, offset by a decrease of 2% from the impact of currency translation. The increase in organic sales in 2014 was primarily due to strength in the North American markets.

The operating margin before acquisition integration charges decreased from 13.8% in 2014 to 13.3% in 2015. The decrease in operating margin was primarily due to unfavorable product mix and $29 of restructuring charges, partially offset by $14 of savings from the restructuring actions and savings resulting from cost control measures. The operating margin before acquisition integration charges decreased from 14.4% in 2013 to 13.8% in 2014. The decrease in operating margin in 2014 was primarily due to higher logistics costs, unfavorable mix, and pricing pressures.

Hydraulics

	2015	Change from 2014	2014	Change from 2013	2013
Net sales	$ 2,459	(17)%	$ 2,975	-%	$2,981
Operating profit	246	(33)%	367	3%	355
Operating margin	10.0%		12.3%		11.9%
Acquisition integration charges	$ 2		$ 12		$ 36
Before acquisition integration charges					
Operating profit	$ 248	(35)%	$ 379	(3)%	$ 391
Operating margin	10.1%		12.7%		13.1%

Net sales in 2015 decreased 17% compared to 2014 due to a decrease in organic sales of 10% and a decrease of 7% from the impact of currency translation. The decrease in organic sales is due to broad weakness in global hydraulics markets. Net sales in 2014 remained flat compared to 2013 due to an increase in organic sales of 2% offset by a decrease of 2% from the impact of currency translation. The increase in organic sales in 2014 was primarily driven by demand for industrial products in North America and growth in distributor sales, partially offset by weakness in the global agricultural equipment market and the China construction equipment market.

The operating margin before acquisition integration charges decreased from 12.7% in 2014 to 10.1% in 2015. The decrease in operating margin was primarily due to lower sales volumes and $31 of restructuring charges, partially offset by $33 of savings from the 2015 restructuring actions, current year cost control measures and efficiencies generated from certain restructuring activities taken in 2014. The operating margin before acquisition integration charges decreased from 13.1% in 2013 to 12.7% in 2014. The decrease in operating margin in 2014 was primarily due to costs related to new initiatives and certain restructuring activities Eaton undertook in 2014 in an effort to gain efficiencies in the segment.

Aerospace

	2015	Change from 2014	2014	Change from 2013	2013
Net sales	$ 1,807	(3)%	$ 1,860	5%	$ 1,774
Operating profit	310	14%	273	8%	252
Operating margin	17.2%		14.7%		14.2%

Net sales in 2015 decreased 3% compared to 2014 due to a decrease of 2% from the impact of currency translation and a decrease of 2% from the divestiture of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions business in the second quarter of 2014, offset by a 1% increase in organic sales. The increase in organic sales during 2015 was related to higher aftermarket sales and strength in commercial OEM markets, offset by a weakness in military OEM markets. Net sales in 2014 increased 5% compared to 2013 due to an increase in organic sales of 8% and an increase of 1% from the impact of currency translation, partially offset by a decrease of 4% due to the divestitures of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses. The increase in organic sales in 2014 was primarily due to strength in commercial OEM markets as well as growth in the commercial and military aftermarkets.

The operating margin increased from 14.7% in 2014 to 17.2% in 2015. The increase is primarily due to favorable product mix and $2 of savings resulting from restructuring and other cost control measures, partially offset by $5 of restructuring charges. The operating margin increased from 14.2% in 2013 to 14.7% in 2014. The increase in operating margin in 2014 was due to higher sales volumes, as noted above, partially offset by certain restructuring activities Eaton undertook in 2014 in an effort to gain efficiencies in the segment.

Vehicle

	2015	Change from 2014	2014	Change from 2013	2013
Net sales	$ 3,682	(8)%	$ 4,006	4%	$3,835
Operating profit	645	-%	645	9%	592
Operating margin	17.5%		16.1%		15.4%

Net sales decreased 8% in 2015 compared to 2014 due to a decrease of 8% from the impact of currency translation. Organic sales remained flat. Organic sales increased in 2015 in North American and Asia Pacific markets, but were offset by weakness in South American markets. Net sales increased 4% in 2014 compared to 2013 due to an increase in organic sales of 6%, partially offset by a decrease of 2% from the impact of currency translation. The increase in organic sales in 2014 was primarily due to strong demand in North American and select Asia Pacific markets, partially offset by weakness in South American markets.

The operating margin increased from 16.1% in 2014 to 17.5% in 2015. The increase in operating margin in 2015 was primarily due to favorable mix, $8 of savings resulting from restructuring actions and other cost control measures, partially offset by lower sales volume and $34 of restructuring charges. The operating margin increased from 15.4% in 2013 to 16.1% in 2014. The increase in operating margin in 2014 was primarily due to higher sales volumes, as noted above, partially offset by certain restructuring activities Eaton undertook in 2014 to generate ongoing efficiencies in the segment.

Corporate Expense

	2015	Change from 2014	2014	Change from 2013	2013
Litigation settlements	$ -	NM	$ 644	NM	$ -
Amortization of intangible assets	406	(6)%	431	(1)%	437
Interest expense - net	232	2%	227	(16)%	271
Pension and other postretirement benefits expense	130	(6)%	138	(25)%	183
Inventory step-up adjustment	-	NM	-	NM	34
Gain on divestiture of Aerospace businesses	-	NM	(154)	NM	-
Other corporate expense - net	220	(17)%	265	(28)%	369
Total corporate expense	$ 988	(36)%	$ 1,551	20%	$ 1,294

Total Corporate expense decreased 36% in 2015 to $988 from $1,551 in 2014 primarily due to litigation settlements of $644 during the second quarter of 2014, partially offset by a gain of $154 on the divestiture of Eaton's Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses during the second quarter of 2014. Excluding the litigation settlement and gain on the divestiture of the business, total corporate expenses-net decreased 7% in 2015 due to savings from cost control measures. Total corporate expense increased 20% in 2014 to $1,551 from $1,294 in 2013 primarily due to litigation settlements during the second quarter of 2014, partially offset by a gain on the divestiture during the second quarter of 2014 and lower costs associated with the acquisition of Cooper.

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 $2.0 billion commercial paper program. To support the commercial paper program, in October 2014 the Company refinanced a $500, five-year revolving credit facility and a $750, three-year revolving credit facility with a $500, four-year revolving credit facility that will expire October 2018 and a $750, five-year revolving credit facility that will expire October 2019, respectively. The Company also maintains a $750, five-year revolving credit facility that will expire June 2017. These refinancings maintain long-term revolving credit facilities at a total of $2,000. The revolving credit facilities are used to support commercial paper borrowings and are fully and unconditionally guaranteed by Eaton and certain of its direct and indirect subsidiaries on an unsubordinated, unsecured basis. There were no borrowings outstanding under Eaton's revolving credit facilities at December 31, 2015 or 2014. The Company had available lines of credit of $850 from various banks for the issuance of letters of credit, of which there was $351 outstanding at December 31, 2015. 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.

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

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

Sources and Uses of Cash

Operating Cash Flow

Net cash provided by operating activities was $2,371 in 2015, an increase of $493 compared to $1,878 in 2014. The increase was primarily due to payments totaling $654 for the Meritor, Triumph and related litigation in the third quarter of 2014.

Net cash provided by operating activities was $1,878 in 2014, a decrease of $407 compared to $2,285 in 2013. The decrease was primarily due to settlement of the Meritor, Triumph and related litigation in the third quarter of 2014.

For additional information on litigation settlements, see Note 8 to the Consolidated Financial Statements.

Investing Cash Flow

Net cash used in investing activities was $575 in 2015, a decrease of $718 compared to net cash provided by investing activities of $143 in 2014. The decrease in 2015 was principally due to fewer net proceeds from short-term investments of $37 in 2015 compared to $522 in 2014, and proceeds from the sale of business of $282 in 2014. Capital expenditures were $506 in 2015 compared to $632 in 2014. Eaton expects approximately $525 in capital expenditures in 2016.

Net cash provided by investing activities was $143 in 2014, an increase of $345 as compared to a use of cash of $202 in 2013. The increase in 2014 was principally due to sales of short-term investments of $522 in 2014 compared to purchases of short-term investments of $288 in 2013. This source of cash in 2014 was partially offset by a decrease in proceeds from the sales of business, from $777 in 2013 to $282 in 2014. Capital expenditures were $632 in 2014 compared to $614 in 2013.

Financing Cash Flow

Net cash used in financing activities was $2,267 in 2015, an increase in the use of cash of $137 compared to $2,130 in 2014. The increase in the use of cash was primarily due to higher payment on borrowings of $1,027 in 2015 compared to $582 in 2014 and higher cash dividends paid of $1,026 in 2015 compared to $929 in 2014, offset by proceeds from borrowings of $425 in 2015.

Net cash used in financing activities was $2,130 in 2014, an increase in use of cash of $394 compared to $1,736 in 2013. The increase in the use of cash was primarily due to $650 in share repurchases and an increase in cash dividends paid. Partially offsetting these uses of cash was a decrease in payments on borrowings, from $1,096 in 2013 to $582 in 2014. On February 1, 2013, Eaton repaid the $669 outstanding balance on a $1,669 borrowing on the bridge facility related to financing the acquisition of Cooper Industries plc.

Credit Ratings

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

Credit Rating Agency (long- /short-term rating)	Rating	Outlook
Standard & Poor's	A-/A-2	Stable outlook
Moody's	Baa1/P-2	Stable outlook
Fitch	BBB+/F2	Stable outlook

Defined Benefits Plans

Pension Plans

During 2015, the fair value of plan assets in the Company's employee pension plans decreased $215 to $4,406 at December 31, 2015. The decrease in plan assets was primarily due to lower than expected return on assets. At December 31, 2015, the net unfunded position of $1,598 in pension liabilities consisted of $691 in the U.S. qualified pension plans, $859 in plans that have no minimum funding requirements, and $105 in all other plans that require minimum funding, partially offset by $57 in plans that are overfunded.

Funding requirements are a major consideration in making contributions to Eaton's pension plans. With respect to the Company's pension plans worldwide, the Company intends to contribute annually not less than the minimum required by applicable law and regulations. In 2015, $330 was contributed to the pension plans. The Company anticipates making $162 of contributions to certain pension plans during 2016. The funded status of the Company's pension plans at the end of 2016, and future contributions, will depend primarily on the actual return on assets during the year and the discount rate used to calculate certain benefits at the end of the year. Depending on these factors, and the resulting funded status of the pension plans, the level of future contributions could be materially higher or lower than in 2015.

Off-Balance Sheet Arrangements

Eaton does not have off-balance sheet arrangements or financings with unconsolidated entities or other persons. In the ordinary course of business, the Company leases certain real properties and equipment, as described in Note 8 to the Consolidated Financial Statements.

Critical Accounting Policies

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

Revenue Recognition

Sales of products are recognized when a sales agreement is in place, products have been shipped to unaffiliated customers and title has transferred in accordance with shipping terms, the selling price is fixed and determinable and collectability is reasonably assured, all significant related acts of performance have been completed, and no other significant uncertainties exist. Shipping and handling costs billed to customers are included in Net sales and the related costs in Cost of products sold. Although the majority of the sales agreements contain standard terms and conditions, there are agreements that contain multiple elements or non-standard terms and conditions. As a result, judgment is required to determine the appropriate accounting, including whether the deliverables specified in these agreements should be treated as separate units of accounting for recognition purposes, and, if so, how the sales price should be allocated among the elements and when to recognize sales for each element. For delivered elements, sales generally are recognized only when the delivered elements have standalone value and there are no uncertainties regarding customer acceptance. Sales for service contracts generally are recognized as the services are provided.

Eaton records reductions to revenue for 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.

Impairment of Goodwill and Other Long-Lived Assets

Goodwill

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

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

Goodwill impairment testing for 2015 and 2014 was performed using a qualitative analysis, which is performed by assessing certain trends and factors that require significant judgment, including projected market outlook and growth rates, forecasted and actual sales and operating profit margins, discount rates, industry data, and other relevant qualitative factors. These trends and factors are compared to, and based on, the assumptions used in the most recent quantitative assessment. The results of these qualitative analyses did not indicate a need to perform a quantitative analysis.

Goodwill impairment testing for 2013 was performed using a quantitative analysis under which the fair value for each reporting unit was estimated using a discounted cash flow model, which considered forecasted cash flows discounted at an estimated weighted-average cost of capital. The forecasted cash flows were based on the Company's long-term operating plan and a terminal value was used to estimate the operating segment's cash flows beyond the period covered by the operating plan. The weighted-average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt market holders of a business enterprise. These analyses require the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the timing of expected future cash flows of the respective reporting unit. Sensitivity analyses were performed in order to assess the reasonableness of the assumptions and the resulting estimated fair values.

Based on quantitative analyses performed in 2015 and 2014 and quantitative analysis performed in 2013, the fair values of Eaton's reporting units continue to substantially exceed the respective carrying amounts.

Indefinite Life Intangible Assets

Indefinite life intangible assets consist of trademarks. They are evaluated annually for impairment as of July 1 using either a quantitative or qualitative analysis to determine whether their fair values exceed their respective carrying amounts. Indefinite life intangible asset impairment testing for 2015 and 2014 was performed using a quantitative analysis. Determining the fair value of these assets requires significant judgment and the Company uses a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability.

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

For 2015 and 2014, the fair value of indefinite lived intangible assets substantially exceeded the respective carrying value.

Other Long-Lived Assets

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

For additional information about goodwill and other intangible assets, see Note 5 to the Consolidated Financial Statements.

Recoverability of Deferred Income Tax Assets

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

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

Pension and Other Postretirement Benefits Plans

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

The discount rate for United States plans was determined by discounting the expected future benefit payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date and solving for the single rate that generated the same benefit obligation. Only corporate bonds with a rating of Aa or higher by either Moody's or Standard & Poor's were included. Callable bonds and certain other non-comparable bonds were eliminated. Finally, a subset of bonds was selected by grouping the universe of bonds by duration and retaining 50% of the bonds that had the highest yields.

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

Key assumptions used to calculate pension and other postretirement benefits expense are adjusted at each year-end. A 1-percentage point change in the assumed rate of return on pension plan assets is estimated to have approximately a $45 effect on pension expense. Likewise, a 1-percentage point change in the discount rate is estimated to have approximately a $78 effect on pension expense. A 1-percentage point change in the assumed rate of return on other postretirement benefits assets is estimated to have approximately a $1 effect on other postretirement benefits expense. A 1-percentage point change in the discount rate is estimated to have approximately a $3 effect on expense for other postretirement benefits plans.

Beginning in 2016, the Company will adopt a change in the method it will use to estimate the service and interest cost components of net periodic benefit cost for its defined benefit pension and other postretirement benefit plans. Historically, for the vast majority of its plans, the service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. Beginning in 2016, the Company will use a spot rate approach by applying the specific spot rates along the yield curve to the relevant projected cash flows in the estimation of the service and interest components of benefit cost, resulting in a more precise measurement. This change does not affect the measurement of total benefit obligations. The change will be accounted for as a change in estimate and, accordingly, will be accounted for prospectively starting in 2016. The reductions in service cost and interest cost for 2016 associated with this change in estimate are expected to be $3 and $42, respectively.

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

Environmental Contingencies

As a result of past operations, Eaton is involved in remedial response and voluntary environmental remediation at a number of sites, including certain of its currently-owned or formerly-owned plants. The Company has also been named a potentially responsible party under the United States federal Superfund law, or the state equivalents thereof, at a number of disposal sites.

A number of factors affect the cost of environmental remediation, including the number of parties involved at a particular site, the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations, and the continuing advancement of remediation technology. Taking these factors into account, Eaton has estimated the costs of remediation, which will be paid over a period of years. The Company accrues an amount on an undiscounted basis, consistent with the estimates of these costs, when it is probable that a liability has been incurred. At December 31, 2015 and 2014, $131 and $140, respectively, was accrued for these costs.

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

Market Risk Disclosure

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

Eaton uses derivative instruments to manage exposure to volatility in raw material costs, currency, and interest rates on certain debt instruments. Derivative financial instruments used by the Company are straightforward and non-leveraged. The counterparties to these instruments are financial institutions with strong credit ratings. Eaton maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit rating of these institutions. See Note 13 to the Consolidated Financial Statements for additional information about hedges and derivative financial instruments.

Eaton's ability to access the commercial paper market, and the related cost of these borrowings, is based on the strength of its credit rating and overall market conditions. The Company has not experienced any material limitations in its ability to access these sources of liquidity. At December 31, 2015, Eaton had $2,000 of long-term revolving credit facilities with banks in support of its commercial paper program. It has no borrowings outstanding under these credit facilities.

Interest rate risk can be measured by calculating the short-term earnings impact that would result from adverse changes in interest rates. This exposure results from short-term debt, which includes commercial paper at a floating interest rate, long-term debt that has been swapped to floating rates, and money market investments that have not been swapped to fixed rates. Based upon the balances of investments and floating rate debt at year end 2015, a 100 basis-point increase in short-term interest rates would have increased the Company's net, pretax interest expense by $39.

Eaton also measures interest rate risk by estimating the net amount by which the fair value of the Company's financial liabilities would change as a result of movements in interest rates. Based on Eaton's best estimate for a hypothetical, 100 basis point decrease in interest rates at December 31, 2015, the market value of the Company's debt and interest rate swap portfolio, in aggregate, would increase by $407.

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

Contractual Obligations

A summary of contractual obligations as of December 31, 2015 follows:

	2016	2017 to 2018	2019 to 2020	Thereafter	Total
Long-term debt, including current portion [(1)]	$ 242	$ 2,120	$ 581	$ 4,890	$ 7,833
Interest expense related to long-term debt	312	538	431	1,939	3,220
Reduction of interest expense from interest rate swap agreements related to long-term debt	(59)	(79)	(33)	(74)	(245)
Operating leases	151	203	81	55	490
Purchase obligations	759	89	38	7	893
Other obligations	188	18	14	25	245
Total	$ 1,593	$ 2,889	$ 1,112	$ 6,842	$12,436

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

Interest expense related to long-term debt is based on the fixed interest rate, or other applicable interest rate, related to the debt instrument. The reduction of interest expense due to interest rate swap agreements related to long-term debt is based on the difference in the fixed interest rate the Company receives from the swap, compared to the floating interest rate the Company pays on the swap. Purchase obligations are entered into with various vendors in the normal course of business. These amounts include commitments for purchases of raw materials, outstanding non-cancelable purchase orders, releases under blanket purchase orders, and commitments under ongoing service arrangements. Other long-term obligations principally include anticipated contributions of $162 to pension plans in 2016 and $50 of deferred compensation earned under various plans for which the participants have elected to receive disbursement at a later date.

The table above does not include future expected pension benefit payments or expected other postretirement benefits payments. Information related to the amounts of these future payments is described in Note 7 to the Consolidated Financial Statements. The table above also excludes the liability for unrecognized income tax benefits, since the Company cannot predict with reasonable certainty the timing of cash settlements with the respective taxing authorities. At December 31, 2015, the gross liability for unrecognized income tax benefits totaled $584 and interest and penalties were $108.

Forward-Looking Statements

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

Quarterly Data (unaudited)

	Quarter ended in 2015				Quarter ended in 2014			
	Dec. 31	**Sept. 30**	**June 30**	**Mar. 31**	Dec. 31	Sept. 30	June 30	Mar. 31
(In millions except for per share data)								
Net sales	$ 5,057	$ 5,203	$ 5,372	$ 5,223	$ 5,565	$ 5,728	$ 5,767	$ 5,492
Gross profit	1,630	1,606	1,697	1,630	1,718	1,812	1,742	1,634
Percent of net sales	32.2%	30.9%	31.6%	31.2%	30.9%	31.6%	30.2%	29.8%
Income before income taxes	555	487	598	505	609	642	57	453
Net income	534	445	535	467	585	605	172	441
Less net income for noncontrolling interests	(2)	1	-	(1)	(4)	(3)	(1)	(2)
Net income attributable to Eaton ordinary shareholders	$ 532	$ 446	$ 535	$ 466	$ 581	$ 602	$ 171	$ 439
Net income per share attributable to Eaton ordinary shareholders								
Diluted	$ 1.15	$ 0.96	$ 1.14	$ 0.99	$ 1.23	$ 1.26	$ 0.36	$ 0.92
Basic	1.15	0.96	1.14	1.00	1.24	1.27	0.36	0.92
Cash dividends declared per ordinary share	$ 0.55	$ 0.55	$ 0.55	$ 0.55	$ 0.49	$ 0.49	$ 0.49	$ 0.49
Market price per ordinary share								
High	$ 58.59	$ 68.23	$ 73.82	$ 72.78	$ 70.51	$ 79.98	$ 79.65	$ 78.19
Low	49.46	49.21	66.86	62.80	57.11	62.84	70.26	66.89

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

Acquisition integration charges included in Income before income taxes are as follows:

	Quarter ended in 2015				Quarter ended in 2014			
	Dec. 31	**Sept. 30**	**June 30**	**Mar. 31**	Dec. 31	Sept. 30	June 30	Mar. 31
Acquisition integration charges	$ 14	$ 10	$ 12	$ 11	$ 32	$ 19	$ 37	$ 66

Ten-Year Consolidated Financial Summary (unaudited)

(In millions except for per share data)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Continuing operations										
Net sales	$ 20,855	$ 22,552	$ 22,046	$ 16,311	$ 16,049	$ 13,715	$ 11,873	$ 15,376	$ 13,033	$ 12,232
Income before income taxes	2,145	1,761	1,884	1,251	1,553	1,036	303	1,140	1,055	979
Income after income taxes	1,981	1,803	1,873	1,220	1,352	937	385	1,067	973	907
Income from discontinued operations	-	-	-	-	-	-	-	3	35	53
Net income	1,981	1,803	1,873	1,220	1,352	937	385	1,070	1,008	960
Less net income for noncontrolling interests	(2)	(10)	(12)	(3)	(2)	(8)	(2)	(12)	(14)	(10)
Net income attributable to Eaton ordinary shareholders	$ 1,979	$ 1,793	$ 1,861	$ 1,217	$ 1,350	$ 929	$ 383	$ 1,058	$ 994	$ 950
Net income per share attributable to Eaton ordinary shareholders - diluted										
Continuing operations	$ 4.23	$ 3.76	$ 3.90	$ 3.46	$ 3.93	$ 2.73	$ 1.14	$ 3.25	$ 3.19	$ 2.94
Discontinued operations	-	-	-	-	-	-	-	0.01	0.12	0.17
Total	$ 4.23	$ 3.76	$ 3.90	$ 3.46	$ 3.93	$ 2.73	$ 1.14	$ 3.26	$ 3.31	$ 3.11
Net income per share attributable to Eaton ordinary shareholders - basic										
Continuing operations	$ 4.25	$ 3.78	$ 3.93	$ 3.54	$ 3.98	$ 2.76	$ 1.16	$ 3.29	$ 3.26	$ 2.99
Discontinued operations	-	-	-	-	-	-	-	0.01	0.12	0.17
Total	$ 4.25	$ 3.78	$ 3.93	$ 3.54	$ 3.98	$ 2.76	$ 1.16	$ 3.30	$ 3.38	$ 3.16
Weighted-average number of ordinary shares outstanding										
Diluted	467.1	476.8	476.7	350.9	342.8	339.5	335.8	324.6	300.6	305.8
Basic	465.5	474.1	473.5	347.8	338.3	335.5	332.7	320.4	294.6	300.4
Cash dividends declared per ordinary share	$ 2.20	$ 1.96	$ 1.68	$ 1.52	$ 1.36	$ 1.08	$ 1.00	$ 1.00	$ 0.86	$ 0.74
Total assets	$ 31,031	$ 33,529	$ 35,491	$ 35,810	$ 17,873	$ 17,252	$ 16,282	$ 16,655	$ 13,430	$ 11,417
Long-term debt	7,781	8,024	8,969	9,765	3,366	3,382	3,349	3,190	2,432	1,774
Total debt	8,449	9,034	9,549	10,836	3,773	3,458	3,467	4,271	3,417	2,586
Eaton shareholders' equity	15,186	15,786	16,791	15,113	7,469	7,362	6,777	6,317	5,172	4,106
Eaton shareholders' equity per ordinary share	$ 33.10	$ 33.74	$ 35.34	$ 32.11	$ 22.34	$ 21.66	$ 20.39	$ 19.14	$ 17.71	$ 14.04
Ordinary shares outstanding	458.8	467.9	475.1	470.7	334.4	339.9	332.3	330.0	292.0	292.6

Directors and Leadership Team

As of March 1, 2016

Directors, Eaton Corporation plc

Craig Arnold

President and Chief Operating Officer, Eaton Corporation, a subsidiary of the company

Todd M. Bluedorn [1, 3]

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

Christopher M. Connor [2*, 3]

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

Michael J. Critelli [1, 4]

Chief Executive Officer and President, Dossia Services Corporation, San Francisco, California, a personal health management systems company

Alexander M. Cutler [5*]

Chairman, Eaton Corporation plc, Dublin, Ireland, a power management company

Richard H. Fearon

Vice Chairman and Chief Financial Planning Officer, Eaton Corporation, a subsidiary of the company

Charles E. Golden [2, 3*]

Retired. Former Executive Vice President and Chief Financial Officer and Director, Eli Lilly and Company, Indianapolis, Indiana, a pharmaceutical company

Linda A. Hill [2, 4]

Professor of Business Administration, Harvard Business School, Cambridge, Massachusetts

Arthur E. Johnson [2, 4*]

Retired. Former Senior Vice President, Corporate Strategic Development, Lockheed Martin Corporation, Bethesda, Maryland, a manufacturer of advanced technology systems, products and services

Ned C. Lautenbach [2, 4]

Retired. Former Partner, Clayton, Dubilier & Rice Inc., New York, N.Y., a private equity investment firm specializing in management buyouts

Deborah L. McCoy [1, 4]

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

Gregory R. Page [1*, 4]

Executive Director, Cargill Incorporated, Minneapolis, Minnesota, an international marketer, processor and distributor of agricultural, food, financial and industrial products and services

Sandra Pianalto [2, 3]

Retired. Former President and Chief Executive Officer of the Federal Reserve Bank of Cleveland

Gerald B. Smith [1, 3]

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

Board Committees

Each of the non-employee directors serves a four-month term on the Executive Committee. Alexander M. Cutler will serve as Committee Chair until his retirement on May 31, 2016. Craig Arnold will serve as Committee Chair from June 1, 2016 through April 26, 2017.

January 1, 2015 through April 22, 2015	April 22, 2015 through August 31, 2015	September 1, 2015 through December 31, 2015	January 1, 2016 through April 26, 2016
C. E. Golden	T. M. Bluedorn	C. M. Connor	C. E. Golden
D. L. McCoy	M. J. Critelli	L. A. Hill	D. L. McCoy
G. R. Page	S. Pianalto	A. E. Johnson	G. R. Page
G. B. Smith		N. C. Lautenbach	G. B. Smith

1 Audit Committee
2 Compensation and Organization Committee
3 Finance Committee
4 Governance Committee
5 Executive Committee
* Denotes Committee Chair

Eaton Global Leadership Team

Alexander M. Cutler

Chief Executive Officer

Craig Arnold

President and Chief Operating Officer

Richard H. Fearon

Vice Chairman and Chief Financial and Planning Officer

Revathi Advaithi

Chief Operating Officer, Electrical Sector

Uday Yadav

Chief Operating Officer, Industrial Sector

Brian S. Brickhouse

President, Asia Pacific Region, Electrical Sector

Frank C. Campbell

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

Kenneth F. Davis

President–Vehicle Group

Curtis J. Hutchins

President–Hydraulics Group

Nanda Kumar

President–Aerospace Group

James W. McGill

President–Americas Region, Electrical Sector

William W. Blausey Jr.

Senior Vice President and Chief Information Officer

Cynthia K. Brabander

Executive Vice President and Chief Human Resources Officer

Rogerio Branco

Senior Vice President–Supply Chain Management

Donald H. Bullock

Senior Vice President–Investor Relations

Harold V. Jones

Senior Vice President–Environment, Health and Safety

Staci Kroon

Executive Vice President–Eaton Business System

John J. Matejka

Senior Vice President–Internal Audit

Mark M. McGuire

Executive Vice President and General Counsel

Trent M. Meyerhoefer

Senior Vice President–Treasury

Mary Kim Elkins

Senior Vice President–Taxes

Thomas E. Moran*

Senior Vice President and Secretary

Molly A. Murphy

Senior Vice President–Sales and Marketing

Ramanath Ramakrishnan

Executive Vice President and Chief Technology Officer

Harpreet Saluja

Senior Vice President–Corporate Development and Planning

Ken D. Semelsberger

Senior Vice President and Controller

Deborah R. Severs

Senior Vice President–Global Ethics and Compliance

Taras G. Szmagala

Senior Vice President–Public and Community Affairs

*Officer of Eaton Corporation plc. Other leaders are officers of various Eaton affiliates.

Shareholder Information

Eaton Shareholder Contact Information

Investor Relations, Eaton, 1000 Eaton Boulevard, Cleveland, OH 44122 USA
+1 888.328.6647 +1 440.523.5000 www.eaton.com

Annual General Meeting of Shareholders

The company's 2016 Annual General Meeting of Shareholders will be held at 8:00 a.m., Dublin time, on Wednesday, April 27, 2016, at Eaton House, 30 Pembroke Road, Dublin 4, Ireland. Formal notice of the meeting will be made available on or about March 18, 2016, to each shareholder of record as of February 29, 2016.

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

Annual Report on Form 10-K and Other Financial Reports

Any shareholder may obtain at no charge a copy of Eaton's Annual Report on Form 10-K for 2015, as filed with the Securities and Exchange Commission, upon written request to the address shown above. The Annual Report on Form 10-K and other public financial reports also are available on Eaton's website at www.eaton.com.

Annual Certifications

The most recent certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 were filed as Exhibits 31.1,31.2, 32.1 and 32.2 to Eaton's Annual Report on Form 10-K for 2015. Additionally, Eaton submitted to the New York Stock Exchange its 2015 Chief Executive Officer Certification regarding Eaton's compliance with the corporate governance listing standards of the Exchange.

Quarterly Financial Releases

Eaton's financial results are available approximately four weeks after the end of each quarter. Releases are available on Eaton's website at www.eaton.com. Copies may also be obtained by calling +1 440.523.4254.

Common Shares

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

Annual Report to Shareholders

Eaton's 2015 Annual Report to Shareholders is available online at www.eaton.com/annualreport.

Transfer Agent, Registrar, Dividend Disbursement Agent and Dividend Reinvestment Agent

Computershare Inc.
First Class/Registered Mail: P.O. Box 30170, College Station, TX 77842-3170
Courier Packages: 211 Quality Circle, Suite 210, College Station, TX 77845
Toll-free: +1 888.597.8625 +1 312.588.4141 (outside the U.S.)
TDD: +1 800.952.9245 (hearing impaired inside the U.S.)
TDD: +1 781.575.4592 (hearing impaired outside the U.S.)
Computershare may also be contacted via its website at www.computershare.com/investor.

Dividend Reinvestment and Direct Stock Purchase Plan

A dividend reinvestment plan is available at no charge to shareholders of record of Eaton Ordinary Shares. Through the plan, shareholders of record may buy additional shares by reinvesting their cash dividends or investing additional cash up to $60,000 per year. Also, new investors may buy Eaton shares under this plan. Interested shareholders of record or new investors should contact Computershare, as shown above.

Direct Deposit of Dividends

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

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Power Forward Online: **www.eaton.com/AR15**

Powering Business Worldwide

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