

Risk Factors Comparison 2024-02-29 to 2023-02-23 Form: 10-K

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Among the risks that could materially adversely affect Eaton's businesses, financial condition or results of operations are the following: Operational Risks Impacts related to, and recovery from, the COVID- 19 pandemic could have an adverse effect on our business and results of operations. The global outbreak of COVID- 19 disrupted economic activity around the world. As a result, we and our employees, suppliers, customers and others were, at times, restricted or prevented from conducting normal business activities, as a result of shutdowns, travel restrictions and other actions that were requested or mandated by governmental authorities. These impacts were partially mitigated for us, given that a substantial portion of our businesses and facilities were classified as essential in jurisdictions in which facility closures were mandated, and most of these disruptions have subsided. Nonetheless ~~None the less~~, we can give no assurance that there will not be additional closures in the future or that our businesses and facilities will be classified as essential in each of the jurisdictions in which we operate, should future outbreaks and / or additional strains of the virus impact global economic activity. Further, the pandemic has, and could further disrupt our supply chain. The duration of and extent to which the COVID- 19 pandemic continues to impact our results of operations and financial condition will depend on future developments that are highly uncertain and cannot be predicted. The impact of COVID- 19 may also continue to exacerbate other risks discussed in Item 1A of this Annual Report on Form 10- K, any of which could have a material effect on our results of operations. If Eaton is unable to protect its information technology infrastructure against service interruptions, data corruption, cyber- based attacks or network security breaches, product or service offerings could be compromised or operations could be disrupted or data confidentiality impaired. Eaton relies on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including procurement, manufacturing, distribution, invoicing and collection. Additionally, many of our products and services include integrated software and information technology that collects data or connects to external and internal systems. Because of this, cybersecurity threats pose a material risk to our business operations. Global cybersecurity threats range from widespread vulnerabilities, sophisticated and targeted measures known as advanced persistent threats, or uncoordinated individual attempts to gain unauthorized access to IT / OT systems. These threats may be directed at Eaton, its products, software embedded in Eaton's products, or its third- party service providers. The risk is amplified by the increasingly connected nature of our products and systems. These threats may originate from anywhere in the connected world and take the form of phishing, malware, bots, or human- centric attacks. Eaton continually seeks to deploy comprehensive measures to deter, prevent, detect, respond to and mitigate these threats. As a result of our worldwide operations, we are subject to laws and regulations, including data protection / privacy and cybersecurity laws and regulations, in many jurisdictions. In addition, we operate in an environment in which there are different and potentially conflicting data privacy laws in effect in the various U. S. states and foreign jurisdictions in which we operate and we must understand and comply with each law and standard in each of these jurisdictions while ensuring the data is secure. For example, the Global Data Protection Regulation (GDPR) prefers that we manage personal data in the E. U. and may impose fines of up to four percent of our global revenue in the event of certain violations. Eaton's customers, including Governmental Agencies, are increasingly requiring cybersecurity protections and mandating cybersecurity standards which may result in additional operating or production costs. Our cybersecurity program aligns with well- known industry- wide security control frameworks. Despite these efforts, cybersecurity incidents could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information and the disruption of business operations. The potential consequences of a material cybersecurity incident include theft of intellectual property, disruption of operations, reputational damage, adverse health and safety consequences, the loss or misuse of confidential information, product failure, as well as exposure to fines, legal claims or enforcement actions. The effects of climate change, including weather disruptions and regulatory / market reactions, create uncertainties that could negatively impact our business. Global increases in greenhouse gas emissions are linked to climate change, and there is a growing consensus that dramatic emissions reductions are needed to avoid severe climate impacts. Extreme weather events linked to climate change, including hurricanes, flooding, wildfires, and high heat / water scarcity, create physical risks to Eaton's operating locations and supply chains. While Eaton is working to make its own operations carbon neutral by 2030, a global failure to achieve commitments could cause increases in these extreme weather events, political instability, and workforce migration, ultimately increasing Eaton's cost of doing business. Regulatory reactions to climate change may pose more stringent obligations on Eaton's operations and change customer demands. While Eaton is already gearing its portfolio towards products that will reduce carbon and combat climate change, there is a risk that Eaton may not innovate quickly enough to meet changing regulatory or market demands. Increasing demands for metals as the world electrifies may lead to scarcity and increased costs, as may uncertainty over carbon taxes and grid stability during a renewables transition. Despite these uncertainties, we believe Eaton is well positioned to capitalize on secular trends and market opportunities arising from these risks. Eaton's operations depend on production facilities throughout the world, which subjects them to varying degrees of risk of disrupted production. Eaton manages businesses with manufacturing facilities worldwide. The Company's manufacturing facilities and operations could be disrupted by a natural disaster, labor strike, war, political unrest, terrorist activity, economic upheaval, or public health concerns such as the spread of COVID- 19. Any such disruption could cause delays in shipments of products and the loss of sales and customers, and insurance proceeds may not adequately compensate for losses. Eaton uses a variety of raw materials, components and services in its businesses, and significant inflation could increase operating costs that may not be fully recouped in product pricing. Eaton's major requirements for raw materials are described

above in Item 1 “Raw Materials”. Global shortages have continued to affect the prices Eaton's businesses are charged for raw materials, particularly commodities. Further, Eaton has been impacted by logistics and wage inflation. If this trend continues and we are unable to fully recoup these price increases in product pricing, the competitive position of our products and services may be impacted, which could have a material adverse impact on operating results. Further, some of Eaton's suppliers of component parts have increased their prices in response to increased costs of raw materials that they use to manufacture component parts. Should this trend continue or become more prevalent, the Company may not be able to increase its prices commensurately with its increased costs, adversely affecting operating results. Significant shortages of raw materials, energy, components, and / or labor, or similar challenges for our customers could continue to adversely impact our results of operations. Eaton has been impacted by supply chain disruptions. Further, labor shortages persist broadly in select markets. Some of our suppliers have experienced the same conditions and in response, have continued to increase their prices in response to increases in their costs of raw materials, energy and / or labor. While we strive to recoup these increased costs through our pricing, if we are unable to do so without compromising the competitive position of our products and services, our results could continue to be impacted by this trend. Further, should these trends continue or worsen, the impact could have a material adverse impact on our operating results.

Industry and Market Risks Volatility of end markets that Eaton serves. Eaton's segment revenues, operating results, and profitability have varied in the past and may vary from quarter to quarter in the future. Profitability can be negatively impacted by volatility in the end markets that Eaton serves. The Company has undertaken measures to reduce the impact of this volatility through diversification of the markets it serves and expansion of the geographic regions in which it operates. Future downturns in any of the markets could adversely affect revenues, operating results, and profitability. Eaton's operating results depend in part on continued successful research, development, and marketing of new and / or improved products and services, and there can be no assurance that Eaton will continue to successfully introduce new products and services or maintain its present market positions. The success of new and improved products and services depends on their initial and continued acceptance by Eaton's customers. The Company's businesses are affected, to varying degrees, by technological change and corresponding shifts in customer demand, which could result in unpredictable product transitions or shortened life cycles. Eaton may experience difficulties or delays in the research, development, production, or marketing of new products and services which may prevent Eaton from recouping or realizing a return on the investments required to bring new products and services to market. The Company's market positions may also be impacted by new entrants into Eaton's product or regional markets.

Legal and Regulatory Risks Eaton's global operations subject it to economic risk as Eaton's results of operations may be adversely affected by changes in government legislation, regulations and policies, or currency fluctuations. Operating globally subjects Eaton to changes in government regulations and policies in a large number of jurisdictions around the world, including those related to tariffs and trade barriers, investments, property ownership rights, taxation, data privacy, and exchange controls. Changes in the relative values of currencies occur from time to time and could affect Eaton's operating results. While the Company monitors exchange rate exposures and attempts to reduce these exposures through hedging activities, these risks could adversely affect operating results. Further, existing free trade laws and regulations provide certain beneficial duties and tariffs for qualifying imports and exports, subject to compliance with applicable classification and other requirements. Changes in laws or policies governing the terms of foreign trade, and in particular increased trade restrictions, tariffs or taxes on imports from countries where we manufacture products, could have an impact on our business and financial results. Eaton may be subject to risks relating to changes in its tax rates, changes in global tax laws and regulations, or exposure to additional income tax liabilities. Eaton is subject to income taxes in many jurisdictions around the world. Income tax liabilities are subject to the allocation of income among various tax jurisdictions. The Company's effective tax rate could be affected materially by changes in the mix among earnings in countries with differing statutory tax rates, changes in the valuation allowance of deferred tax assets, or changes in tax legislation, regulations, and policies. The amount of income taxes paid is subject to ongoing audits by tax authorities in the countries in which Eaton operates. If these audits result in assessments different from amounts reserved, future financial results may include material unfavorable adjustments to the Company's tax liabilities. Eaton may be unable to adequately protect its intellectual property rights, which could affect the Company's ability to compete. Protecting Eaton's intellectual property rights is critical to its ability to compete and succeed. The Company owns a large number of patents and patent applications worldwide, as well as trademark and copyright registrations that are necessary, and contribute significantly, to the preservation of Eaton's competitive position in various markets. Although management believes that the loss or expiration of any single intellectual property right would not have a material effect on the results of operations or financial position of Eaton or its business segments, there can be no assurance that any one, or more, of these patents and other intellectual property will not be challenged, invalidated, or circumvented by third parties. Eaton enters into confidentiality and invention assignment agreements with the Company's employees, and into non-disclosure agreements with suppliers and appropriate customers, so as to limit access to and disclosure of proprietary information. These measures may not suffice to deter misappropriation or independent third party development of similar technologies. Eaton is subject to litigation and environmental regulations that could adversely impact Eaton's businesses. At any given time, Eaton may be subject to litigation, the disposition of which may have a material adverse effect on the Company's businesses, financial condition or results of operations. Information regarding current legal proceedings is presented in Note 10-11 and Note 11-12 of the Notes to the Consolidated consolidated Financial financial Statements statements.