At December 31, 1995, certain subsidiaries outside the United States ad operating loss carryforwards aggregating $181 million. Carryforwards of $131 million have no expiration dates and the balance expire at various dates from 1996 through 2005.

Reconciliations of income taxes at the United States Federal statutory rate to the effective income tax rate for the years ended December 31 follow (in millions):

	1995		1994	1993
	Amount	Rate	Rate	Rate
Income taxes at the United States statutory rate	$207	35.0%	35.0%	35.0%
State and local income taxes	19	3.1	2.8	1.5
Adjustment of worldwide tax liabilities	12	2.0	1.6	1.4
Possessions credit related to Puerto Rican operations	(32)	(5.4)	(5.2)	
Reduction of valuation allowance for deferred income tax assets	(11)	(1.8)	(.6)	(2.1)
Adjustment of deferred income taxes for change in statutory rates			(.4)	(2.3)
Effective tax rate differential on earnings of consolidated subsidiaries and associate companies outside the United States	(5)	(.8)	(1.3)	.1
Other – net	3	.5		(2.1)
	$193	32.6%	31.9%	31.5%

The Company has manufacturing facilities in Puerto Rico. These facilities operate under tax relief and other incentives that expire at various :es beginning in 2004 through 2013.

No provision has been made for income taxes on undistributed earnings of consolidated subsidiaries outside the United States of $408 million at December 31, 1995, since the earnings retained have been reinvested by the subsidiaries. If distributed, such remitted earnings would be subject to withholding taxes but substantially free of United States income taxes.

Worldwide income tax payments, including Federal and state income taxes in the United States, in 1995, 1994 and 1993 (in millions) were $166, $109 and $156, respectively.

QUARTERLY DATA

(Unaudited)

Quarter ended	Dec. 31	Sept. 30	June 30	Mar. 31
(Millions except for per share data)				
1995				
Net sales	$1,661	$1,672	$1,758	$1,731
Gross margin	430	429	469	466
Percent of sales	26%	26%	27%	27%
Net income	90	91	110	108
Per Common Share				
Net income	$ 1.16	$ 1.18	$ 1.41	$ 1.39
Cash dividends paid	.40	.40	.40	.30
Market price				
High	56¼	62½	61¼	55⅞
Low	49½	52⅜	51⅞	45⅜
1994				
Net sales	$1,605	$1,531	$1,545	$1,371
Gross margin	442	411	429	373
Percent of sales	28%	27%	28%	27%
Net income	89	84	86	74
Per Common Share				
Net income	$ 1.15	$ 1.10	$ 1.13	$ 1.01
Cash dividends paid	.30	.30	.30	.30
Market price				
High	54¼	54⅝	58¾	62⅛
Low	43⅞	45¾	49⅞	50⅜

In the fourth quarter of 1995, the effective income tax rate for full year 1995 was adjusted to 32.6% from 33.5%. This adjustment reduced income tax expense for the fourth quarter by $4 million.

BUSINESS SEGMENT AND GEOGRAPHIC REGION INFORMATION

Eaton is a global manufacturer of highly engineered products which serve the vehicle, industrial, construction, commercial and aerospace markets with operations located in 23 countries. Operations are classified among three business segments: Vehicle Components, Electrical and Electronic Controls and Defense Systems. The major classes of products included in each segment and other information follows.

Vehicle Components

- Truck Components Heavy and medium-duty mechanical and automatic transmissions; power take-offs; drive, trailer and steering axles; brakes; anti-lock brake systems; locking differentials; engine valves; valve lifters; leaf springs; viscous fan drives; fans and fan shrouds; power steering pumps; tire pressure control systems; tire valves; collision warning systems and advanced drivetrain controls.
- Passenger Car Components Engine valves; hydraulic valve lifters; viscous fan drives; fans and fan shrouds; locking differentials; spring fluid dampers; superchargers and tire valves.