FORM 10-K

Annual report pursuant to section 13 and 15(d)

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AEROQUIP-VICKERS INC
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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

Commission File No. 1-924

AEROQUIP-VICKERS, INC.
(Exact name of registrant as specified in its charter)

OHIO	34-4288310
(State of Incorporation)	(I.R.S. Employer Identification No.)
3000 STRAYER, MAUMEE, OHIO	43537-0050
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code: (419) 867-2200

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Shares, $5.00 Par Value	Frankfurt Stock Exchange
	Chicago Stock Exchange
	New York Stock Exchange
	Pacific Exchange, Inc.
	The Stock Exchange (London)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

[Cover page continued]

The aggregate market value of the Common Shares held by non-affiliates of the registrant as of March 5, 1999, was $1,573,268,645.

The number of Common Shares, $5 Par Value, outstanding as of March 5, 1999, was 27,638,225.

DOCUMENTS INCORPORATED BY REFERENCE

None.

This document, including exhibits, contains 85 pages.

The cover page consists of 2 pages.

The Exhibit Index is located at pages 66-68.

[End of cover page]

PART I

ITEM 1. Business.

(a) Aeroquip-Vickers, Inc. ("Aeroquip-Vickers") is a world leader in the manufacture and distribution of engineered components and systems, sold through its operating companies, Aeroquip Corporation ("Aeroquip") and Vickers, Incorporated ("Vickers"), to the industrial, automotive and aerospace markets.

On February 1, 1999, Eaton Corporation and Aeroquip-Vickers, Inc. announced that the companies had entered into an "Agreement and Plan of Merger" whereby Eaton Corporation would acquire all of the outstanding shares of Aeroquip-Vickers, Inc. for $58 per share in cash. The Boards of Directors of both companies have approved the transaction, which is subject to normal closing conditions and the approval of Aeroquip-Vickers shareholders. A special shareholders' meeting has been called for April 8, 1999. The transaction is expected to be completed in mid-April 1999.

In 1998, Aeroquip-Vickers paid a quarterly dividend of $.22 per share, or $.88 per share for the year.

During 1998, the Company purchased 657,500 shares of the Company's outstanding common stock at a cost of $23.2 million. At December 31, 1998, $57.8 million of additional common stock was available for purchase under the current Board of Directors' authorization.

During 1998, the Company issued $65 million of medium-term notes with interest rates from 6.40% to 7.09% due at various dates from 2005 to 2018. Under provisions of the current shelf registration statement for the Medium-Term Note program, $185 million remains available for issuance.

On February 3, 1998, the Company redeemed its 9.55% senior sinking fund debentures. Proceeds from additional borrowings in 1998 under the Medium-Term Note program were used to redeem the debentures. The pretax loss from redemption of the debentures amounting to approximately $2.5 million was recognized in the 1998 first quarter.

On March 27, 1998, Vickers completed the acquisition of the assets of Precision Hydrostatics, Inc. and the stock of Wooster Hydrostatics, Inc. Precision is primarily an aftermarket supplier of remanufactured hydraulic products. Wooster is an aftermarket supplier of remanufactured hydraulic parts and products.

On April 7, 1998, Vickers completed the purchase of Hydrokraft GmbH. Hydrokraft manufactures high-pressure axial piston hydraulic pumps, motors and transmissions for applications in stationary industrial equipment, marine, mining, chemical processing, food processing and other markets.

On April 13, 1998, Aeroquip completed the acquisition of the assets of Aerotech South Africa (Pty) Ltd. in Johannesburg, South Africa. Aerotech South Africa supplies hose assemblies and fitting products to industrial and automotive customers.

On April 16, 1998, Virgis W. Colbert, Executive Vice President of Miller Brewing Company, was elected to the Board of Directors of Aeroquip-Vickers.

On May 11, 1998, Aeroquip completed the acquisition of Finimpresa S.r.l. and Comaco S.r.l. of Milan, Italy. Finimpresa manufactures and distributes valves and accessory products, and Comaco manufactures and distributes copper and flexible linesets. Both products serve the residential and commercial air conditioning and refrigeration markets. Finimpresa also manufactures and distributes hydronic heating valves.

On August 26, 1998, John H. Weber resigned as president of Vickers and executive vice president of Aeroquip-Vickers to accept a position in another industry.

On December 14, 1998, Vickers purchased all of the outstanding capital stock of M.C. Aerospace Corporation. M.C. Aerospace designs, develops and manufactures high-precision hydraulic and pneumatic components for military and commercial aircraft and military land vehicles. Its product lines include hydraulic and pneumatic valves, pumps, compressors and drives.

(b) Financial information about the industry segments can be found in the Company's financial statements at "Note 14 - Business Segments" on pages 40 to 43 herein.

(c) A description of the business done and intended to be done by Aeroquip-Vickers and its subsidiaries in each industry segment follows.

The Aeroquip segment designs, manufactures and distributes fluid connectors and plastic products. Fluid connectors include all pressure ranges of hose and hose assemblies; fittings, adapters, couplings and swivels; automotive air conditioning, power steering, and oil and transmission cooler components and assemblies; tube fittings and assemblies; refrigeration/air conditioning connectors; clamps and V-band couplings; fuel-handling products; noise-reduction products; chemical containment products; and electronic fluid system products. Aeroquip plastic products include molded, extruded and co-extruded plastic products. The Aeroquip segment serves original equipment and aftermarket customers in industrial markets located principally in the U.S., Europe, Asia-Pacific and Brazil; original equipment and aftermarket customers in aerospace and defense markets located principally in the U.S. and Europe; and automobile, light truck, sport utility and van manufacturers in automotive markets located principally in the U.S. and Europe.

Aeroquip's business is highly competitive in terms of price, quality and service. Aeroquip serves many customers in the industrial, automotive and aerospace markets. Due to the diversity of Aeroquip products, there are a large number of competitors scattered across a wide variety of market segments, with no single competitor competing in each of Aeroquip's product lines.

Aeroquip is a preferred supplier to the world's automobile manufacturers. Aeroquip has significant market position worldwide for aerospace hose, fittings and quick-disconnect couplings. Aeroquip has significant market position worldwide for industrial hose, fittings, couplings and adapters. Approximately 26% of Aeroquip's 1998 sales were made to three automotive customers.

The order backlog for the Aeroquip industrial and aerospace businesses was $143.6 million as of December 31, 1998, compared to $130.8 million as of December 31, 1997. Approximately 85% of the December 31, 1998, backlog is expected to be filled in 1999.

Approximately 14% of Aeroquip's backlog at December 31, 1998, represents direct government contracts or subcontracts on government programs which are subject to termination at the election of the government. In the event any such contract was terminated, Aeroquip would be entitled to reimbursement for costs incurred according to a formula set forth in the affected contract.

The Vickers segment designs, manufactures and distributes power and motion control products. Vickers products include hydraulic, electrohydraulic, pneumatic and electronic control devices; piston and vane pumps and motors; open architecture machine controls; hydraulic and pneumatic cylinders; hydraulic power packages; electric motors and drives; fuel pumps; electric motorpumps and generator packages; electrohydraulic and electromechanical actuators; sensors and monitoring devices; hydraulic and lubrication filtration; and fluid-evaluation products and services. The Vickers segment

serves original equipment and aftermarket customers in industrial markets located principally in the U.S., Europe, Asia-Pacific and Brazil, and original equipment and aftermarket customers in aerospace and defense markets located principally in the U.S. and Europe.

Vickers' business is highly competitive in terms of price, quality and service. Vickers serves many customers in the industrial and aerospace markets. Due to the diversity of Vickers' products, there are a large number of competitors scattered across a wide variety of market segments, with no single competitor competing in each of Vickers' product lines.

Vickers has significant market position worldwide for hydraulic and electrohydraulic controls; piston and vane pumps and motors; hydraulic power packages; electronic controls, drives and motors; aerospace fixed- and variable-displacement hydraulic pumps; hydraulic motors and motor packages; and aerospace sensors and monitoring devices.

The order backlog for the Vickers business was $447.7 million as of December 31, 1998, compared to $481.2 million as of December 31, 1997. Approximately 90% of the December 31, 1998, backlog is expected to be filled in 1999.

Approximately 21% of Vickers' backlog at December 31, 1998, represents direct government contracts or subcontracts on government programs which are subject to termination at the election of the government. In the event any such contract was terminated, Vickers would be entitled to reimbursement for costs incurred according to a formula set forth in the affected contract.

Aeroquip-Vickers and its subsidiaries are generally not dependent upon any one source for raw materials or purchased components essential to their businesses, and it is anticipated that such raw materials and components will be available in adequate quantities to meet anticipated production schedules.

Aeroquip-Vickers owns or controls significant intellectual property, including a sizable portfolio of patents, copyrights, trademarks and trade secrets, and is involved in numerous licensing arrangements. Although Aeroquip-Vickers' intellectual property plays an important role in maintaining Aeroquip-Vickers' competitive position in the markets that it serves, no single patent, copyright, trade secret or license, or group of related patents, copyrights, trade secrets or licenses, is of such value to Aeroquip-Vickers that the business of Aeroquip-Vickers would be materially affected by the expiration or termination thereof. Aeroquip-Vickers continues to apply for patent and trademark protection on its significant patentable developments in the United States and abroad.

Both the Aeroquip and Vickers names remain significant trademarks within the respective industry segments. In addition, Aeroquip-Vickers owns a number of trademarks, in the United States and abroad, applicable to certain of the Aeroquip-Vickers products.

Aeroquip-Vickers devotes engineering, research and development efforts to new products and improvement of existing products and production processes. During 1998, 1997 and 1996, Aeroquip-Vickers spent a total of $71.5 million, $72.2 million and $74.9 million, respectively, on these efforts.

Aeroquip-Vickers employed 15,168 persons at December 31, 1998.

(d) Financial information about foreign and U.S. sales and properties can be found in the Company's financial statements at "Note 14 - Business Segments" on pages 40 to 43 herein. As assessed by Aeroquip-Vickers, the risk attendant to non-U.S. operations, which is primarily in developed countries, is not significantly greater than that attendant to its U.S. operations.

ITEM 2. Properties.

A description of Aeroquip-Vickers' principal properties follows. Except as otherwise indicated, all properties are owned by Aeroquip-Vickers or its subsidiaries.

Aeroquip-Vickers' executive offices (leased) are located in Maumee, Ohio.

AEROQUIP: Aeroquip has executive and administrative offices in Maumee (leased), Ohio. Aeroquip has technical and administrative offices in Ann Arbor (leased) and Mt. Clemens (leased), Michigan and Maumee (leased), Ohio; and manufacturing facilities throughout the United States and abroad, including plants in Mountain Home, Arkansas; Atlanta, Fitzgerald and Toccoa Georgia; New Haven, Indiana; Williamsport, Maryland; Jackson, Michigan; Forest City, Middlesex, Mooresville and Norwood, North Carolina; Fremont and Van Wert, Ohio; Gainesboro and Livingston, Tennessee; Wausau, Wisconsin; Guaratingueta, Brazil; Chambray-Les-Tours, and Serres-Castet (leased), France; Baden-Baden, Hann-Muenden and Wolfsburg (leased), Germany; Livorno and Milan (leased), Italy; Johannesburg (leased), South Africa; Alcala de Henares, Spain; and Brierley Hill, Cardiff and Lakeside (leased), United Kingdom.

Aeroquip also owns or leases warehouse, assembly and distribution facilities and sales offices in the United States and abroad.

VICKERS: Vickers, Incorporated has executive and administrative offices in Maumee (leased), Ohio, and a technical center in Rochester Hills (leased), Michigan. Vickers has manufacturing facilities throughout the United States and abroad, including plants in Decatur, Alabama; Searcy, Arkansas; Los Angeles (2 locations, one leased), California; Carol Stream and Petersburg (leased), Illinois; Grand Rapids, Jackson and Lake Orion, Michigan; Jackson, Mississippi; Omaha, Nebraska; Hi-Nella, New Jersey; Lebanon (leased), South Lebanon and

Wooster, Ohio; White City, Oregon; Glenolden, Pennsylvania; Charleston and Greenwood, South Carolina; Memphis, Tennessee; Sao Paulo, Brazil; Suzhou (leased), China; Goeppingen (leased) and Wehrheim (leased), Germany; Mumbai and Pune, India; Casella and Vignate (leased), Italy; and Bedford (leased), Bedhampton, Havant and Telford (leased), United Kingdom.

Vickers also owns or leases warehouse, assembly and distribution facilities and sales offices in the United States and abroad.

ITEM 3. Legal Proceedings.

As previously reported, on March 26, 1992, the United States Environmental Protection Agency ("USEPA") issued an Administrative Order ("106 Order") under Section 106 of the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") to Aeroquip-Vickers' subsidiary, Aeroquip Corporation ("Aeroquip"), and five other Potentially Responsible Parties ("PRPs") relative to the San Fernando Valley Burbank Operable Unit ("BOU"), involving groundwater contamination. (Reference is made to Part I, Item 3, of Aeroquip-Vickers' Annual Report on Form 10-K for the year ended December 31, 1994.) The 106 Order required the six PRPs to design and construct a water blending facility. Aeroquip's portion of the cost was 18.33% based on a cost-sharing agreement among the six PRPs, dated July 6, 1992. The final cost to Aeroquip for its share was approximately $950,000.

Also related to the BOU, on May 15, 1994, USEPA issued to Lockheed Corporation ("Lockheed"), Aeroquip and other PRPs a Special Notice of Liability under CERCLA for the remaining 18 years of operation and maintenance (O&M) costs associated with the blending facility, as well as the groundwater treatment facility constructed by Lockheed under its BOU Consent Decree with USEPA. The Special Notice of Liability also covered USEPA's past response costs. On April 26, 1994, Lockheed filed an action against Aeroquip and 105 other PRPs seeking contribution toward costs Lockheed incurred to construct the BOU groundwater treatment facility and related matters. In November 1995, a

settlement agreement was entered into by Lockheed and most of the members of a joint defense group (the "Joint Defense Group"), including Aeroquip, to resolve this contribution action. The settlement agreement was to be effective upon the satisfaction of certain conditions, including the payment of $16 million by the Joint Defense Group and entry of a Second Consent Decree. Aeroquip's portion of the settlement was approximately $104,000. This amount reflects a credit to Aeroquip for its prior expenditures on the blending facility. The settlement was also intended to resolve Aeroquip's potential liability for the interim remedy at the Glendale Superfund site (see below); Aeroquip's potential liability for a toxic tort suit (known as the "Fournier" matter) brought against Lockheed; and the claims by other Joint Defense Group members against Aeroquip. The Second Consent Decree has been entered by the court, substantially resolving Aeroquip's alleged CERCLA liability at the BOU with respect to claims encompassed by the Second Consent Decree and the settlement agreement with Lockheed. Aeroquip and five other PRPs remain responsible for any future design defects in the blending facility; the PRPs also have potential liability with respect to the reopener provisions of the Second Consent Decree.

In December 1997, Aeroquip and over 50 other BOU PRPs were sued by over 2,800 plaintiffs in eight lawsuits pending in California state court (the "Abel consolidated cases"). The plaintiffs allege that hazardous and toxic waste dumped in the BOU leached into the groundwater and was released into the air causing bodily injury and property damage to the plaintiffs who were, for the most part, residents of the Burbank area. On May 15, 1998, the Abel consolidated cases were stayed as to Aeroquip and most of the defendants, other than Lockheed. Subsequent to imposition of the stay, plaintiffs agreed to settle with Aeroquip and a group of 22 other defendants. Aeroquip's share of this settlement is expected to be less than $100,000. If for some reason the settlement is not concluded and plaintiffs were to pursue their claims against Aeroquip, then Aeroquip intends to continue to deny any liability and vigorously defend itself in the litigation.

As previously reported, on November 13, 1992, the USEPA, Region IX, issued a General Notice of Liability letter to Aeroquip-Vickers' subsidiary Sterer Engineering and Manufacturing Company ("Sterer"). On December 31, 1994, Sterer was merged into Vickers, Incorporated ("Vickers"). (Reference is made to Part I, Item 3, of Aeroquip-Vickers' Annual Report on Form 10-K for the year ended December 31, 1994.) The letter notified Vickers of potential liability, as defined by Section 107(a) of CERCLA, that it may incur with respect to the San Fernando Valley Glendale South Operable Unit, involving groundwater contamination. The USEPA issued its Record of Decision ("ROD") on June 18, 1993. Twenty-seven PRPs (the "PRP Group"), including Vickers, entered into an Administrative Order on Consent with the USEPA on March 21, 1994, to conduct the

Remedial Design ("RD") of the interim remedy. The remedial design is complete at an approximate cost of $6 million. Vickers' portion of the RD costs was approximately 2.95%, based on an interim allocation agreement among the PRPs.

On November 26, 1996, the USEPA issued a Unilateral Administrative Order under Section 106 of CERCLA to all PRPs, including Vickers, to conduct the pre-construction phase of the interim remedy. On September 30, 1997, USEPA issued another administrative order directing the PRPs, including Vickers, to carry out the interim remedial action work which includes construction and operation and maintenance (over a 12-year period) of water treatment facilities for the extraction and treatment of contaminated groundwater. The PRP Group is now implementing the interim remedy. The PRP Group has entered into an agreement to allocate the costs. Cost allocation between Lockheed and other PRPs was determined by a technical arbitration panel, and that decision has been confirmed by a California court. Lockheed has appealed the allocation decision, but is participating in the funding of the interim remedy. In December 1997, a final settlement agreement and mutual release was negotiated among the intra-Glendale PRPs. The estimate for the cost of the interim remedy is a net present value of $81 million. Vickers' share is 1.04% of the total interim remedy work, assuming the allocation between Lockheed and the

PRP group remains unchanged from the arbitration award. Vickers' allocated share of the interim remedy-related costs is estimated to be in the range of $840,000 and $1.1 million.

As previously reported, on July 31, 1992, the Maine Department of Environmental Protection issued an Administrative Enforcement Order to Aeroquip-Vickers and its wholly owned subsidiaries, Aeroquip Corporation ("Aeroquip") and Sterling Engineered Products Inc. ("Sterling"), as well as one other party, Pioneer Plastics Corporation ("Pioneer Plastics"), (collectively the "respondents"), pursuant to Title 38, section 1304(12) of the Maine Revised Statutes. (Reference is made to Part I, Item 3, of Aeroquip-Vickers' Annual Report on Form 10-K for the year ended December 31, 1994.) The Order, required the respondents to conduct a complete Phase II environmental assessment of alleged soil and groundwater contamination at a manufacturing site in Auburn, Maine, which was formerly owned by Sterling and is now owned by Pioneer Plastics. The Order further required the respondents to remediate any environmental contamination identified in the Phase II assessment. On May 5, 1993, a Compliance Order on Consent ("COC") was entered into by the State of Maine, Sterling and Pioneer Plastics. The COC replaces and revokes the Order issued July 31, 1992. The COC requires Sterling to conduct a site investigation and to develop and implement a remedial work plan. Sterling was merged into Aeroquip Corporation effective December 31, 1996. The cost to Aeroquip to conduct the COC site investigation, develop the remedial work plan and complete a feasibility study (the "Feasibility Study") is estimated to be approximately $2,000,000. Aeroquip's remediation costs are undetermined at this time because the Feasibility Study has not been completed.

On June 9, 1998, the Company became aware of an investigation at the Aeroquip automotive facility located in Fitzgerald, Georgia, by the U.S Environmental Protection Agency. The EPA is investigating alleged violations of the Clean Air Act from approximately 1993 to 1995. The agency's allegations include: the release of ozone depleting substances into the environment from refrigerant equipment; use of non-certified technicians to service and maintain such equipment; the performance of refrigerant maintenance without the proper recovery equipment; and providing false statements to the agency. On January 14, 1999, the U. S. Department of Justice notified Aeroquip and Aeroquip-Vickers that it was willing to enter into settlement negotiations to resolve these alleged civil violations by entry of a consent decree and payment of an undetermined civil penalty.

The Fitzgerald facility, which employs approximately 50 people, manufactures custom-engineered extruded plastic products. The plant, with 1998 sales of approximately $7 million, is located on 12 acres of land, with the building occupying approximately 80,000 square feet.

A Vickers motor pump, which is a component of the hydraulic systems provided by Aerospatiale for Airbus Industries for use in the A330/340 aircraft, was involved in two separate fires which occurred on aircraft during ground maintenance and cargo unloading procedures. No personal injuries occurred, and Aerospatiale and Airbus Industries indicate that steps have been taken to prevent further incidents. The panel of experts which was appointed to investigate and report on the cause of the fires, related technical issues and damages has issued a draft final report to the parties and to the French court. The report of the panel, when completed, will be of an advisory nature and is not legally binding, but would serve as evidence of the facts in the event that claims are subsequently made on the merits. In its draft final report, the panel expresses its belief that the Aerospatiale/Airbus system design, the Air Malaysia and Air Mauritius maintenance practices and the Vickers pump design were all causes of the incidents. Vickers will have an opportunity to comment on the draft final report and plans to present arguments to the panel in the near future. The last meeting of the panel to discuss technical issues has been scheduled for April 1999.

No claims for recovery of damages have been made at this time. Evidence was presented to the panel through which Airbus and Aerospatiale allege that the property damage to the aircraft involved is in excess of $45 million. Based upon the evidence presented supporting potential airline claims against Airbus, the alleged cost of retrofitting other A330/340 aircraft cannot exceed $23 million. Any property damage claims which might ultimately be brought against Vickers as a result of the fires would be covered by Vickers' aviation insurance. Vickers denies responsibility for any damages and will vigorously defend its position. Because the draft final report indicates that all parties share responsibility for the cause of the incidents, it is impossible for Vickers to determine at this time what portion of any damages awarded in the event of claim would be attributed to Vickers. The proceedings regarding determination of damages by the expert panel will continue into June 1999.

Aeroquip-Vickers and certain subsidiaries are defendants in various lawsuits. While the ultimate outcome of these lawsuits and the above matters cannot now be predicted, management is of the opinion, based on the facts now known to it, that the liability, if any, in these lawsuits (to the extent not provided for by insurance or otherwise) and the above matters will not have a material adverse effect upon Aeroquip-Vickers' consolidated financial position, results of operations or cash flows.

ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters.

STOCK EXCHANGES - Aeroquip-Vickers' common stock is traded on the New York, Chicago and Pacific Stock Exchanges, and on the London and Frankfurt Stock Exchanges. Our NYSE ticker symbol is ANV.

QUARTERLY COMMON STOCK INFORMATION - The following table sets forth, for the calendar quarter indicated, the high and low closing prices per Aeroquip-Vickers common share as reported by the New York Stock Exchange:
<TABLE>
<CAPTION>

	1998		1997	
Quarter Ended	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>
March 31	$58.63	$44.94	$40.25	$33.50
June 30	72.25	55.88	48.38	33.00
September 30	60.00	28.75	57.50	47.88
December 31	38.50	22.81	55.81	47.31

</TABLE>

STOCK OWNERSHIP - On March 5, 1999, there were 8,305 record holders of Aeroquip-Vickers' common stock. Although exact information is unavailable, Aeroquip-Vickers estimates there are approximately 9,000 additional beneficial owners, based upon the 1998 proxy solicitation.

DIVIDEND INFORMATION - Cash dividends have been paid without interruption on common stock since 1933. The payment of dividends is subject to restrictions described in Note 7 to the Company's financial statements on page 31 herein.
<TABLE>
<CAPTION>

DIVIDEND PAYMENTS PER SHARE OF COMMON STOCK

	1998	1997
<S>	<C>	<C>
March	$ .22	$ .20
June	.22	.20
September	.22	.20
December	.22	.20
	$ .88	$ .80

====== ======
</TABLE>

ITEM 6. Selected Financial Data.

<TABLE>
<CAPTION>

5-Year Summary of Selected Financial Data
Years Ended December 31 (1998-1994)

(Dollars in millions, except per share data)

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$2,149.5	$2,112.3	$2,032.9	$1,884.0	$1,794.7
Income before cumulative effect of accounting change	100.3	100.9a	102.7b	94.9	65.9
Net income	97.1	100.9	102.7	94.9	65.9
Income per share:					
Basic:					
Before cumulative effect of accounting change	3.58	3.60	3.62	3.29	2.29
Net income	3.46	3.60	3.62	3.29	2.29
Diluted:					
Before cumulative effect of accounting change	3.56	3.51a	3.51b	3.20	2.26
Net income	3.44	3.51	3.51	3.20	2.26
Total assets	1,458.8	1,376.6	1,289.5	1,224.2	1,001.0
Long-term debt	278.3	256.7	257.7	302.4	234.9
Cash dividends per common share	.88	.80	.80	.72	.68

</TABLE>

(a) Includes a special charge of $30 million ($18.5 million net, or diluted net income per share of $.63) to exit the Company's automotive interior plastics business.

(b) Includes a combined net gain from sale of unconsolidated affiliates of $5 million (diluted net income per share of $.16) and a credit for settlement of claims for prior years' research and development tax credits of $4 million (diluted net income per share of $.13).

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

RESULTS OF OPERATIONS

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," which was adopted in the 1998 fourth quarter. Statement 131 requires that segment financial information be reported on a basis consistent with the Company's internal reporting used for evaluating segment performance and allocating resources. Accordingly, in the 1998 fourth quarter, the Company changed its business segments, which were previously based on markets served, from Industrial, Automotive and Aerospace to Aeroquip and Vickers. These segments reflect the way the Company is organized and managed and how performance is measured. The Company evaluates performance and allocates resources based on operating income before allocation of corporate costs. Corporate costs represent the total of corporate headquarters costs. Although Aeroquip and Vickers serve many of the same customers and markets, they are managed separately because of significantly different product technologies and manufacturing processes and the differing dynamics required to serve their customers. The discussion of prior years' operations has been restated to conform to the current year presentation. In order to provide additional information to better understand the Company's operations, separate tables showing sales and operating income by markets served are also included in this discussion. Each market served has distinct characteristics, including differing economic cycles, geographic potential, product life cycles and nature of competition.

1998 COMPARED WITH 1997

The following data provide highlights for the year 1998 compared with the year 1997.
<TABLE>
<CAPTION>

(dollars in thousands, except per share data)	YEAR ENDED DECEMBER 31 1998	1997	Percent Increase (Decrease)
<S>	<C>	<C>	<C>
CONSOLIDATED			
Net sales	$2,149,474	$2,112,293	1.8%
Manufacturing income	529,569	557,625	(5.0)
Manufacturing margin	24.6%	26.4%	
Operating income	186,380	191,640 (a)	(2.7)
Operating margin	8.7%	9.1%(a)	
Income before cumulative effect of accounting change	100,337	100,853 (a)	(.5)
Net income	97,054	100,853 (a)	(3.8)
Diluted income per share before cumulative effect of accounting change	3.56	3.51 (a)	1.4
Diluted net income per share	3.44	3.51 (a)	(2.0)
AEROQUIP			
Net sales	1,071,608	1,065,188	.6
Operating income	124,295	89,458 (a)	38.9
Operating margin	11.6%	8.4%(a)	
VICKERS			
Net sales	1,077,866	1,047,105	2.9
Operating income	90,407	132,599	(31.8)
Operating margin	8.4%	12.7%	

</TABLE>

(a) After deducting a special charge of $30 million, or $18.5 million net (diluted net income per share of $.63).

Consolidated net sales in 1998 of $2.15 billion were $37.2 million, or 1.8%, higher than in 1997. Sales for the Aeroquip and Vickers segments were .6% and 2.9% higher than in the prior year, respectively. U.S. sales were $37.9 million, or 2.8%, higher in 1998, while non-U.S. sales declined nearly $1 million. Sales generated by companies acquired in 1998 amounted to $31.7 million, and were principally outside the U.S., while sales for 1997 included $67 million from facilities that were sold or closed during 1997. Changes in currency exchange rates reduced non-U.S. sales, principally in the Asia-Pacific region, by nearly $17 million.

Aeroquip's sales for 1998 increased $6.4 million, or .6%, over 1997 to $1.07 billion. Aeroquip's sales in industrial markets increased 2.6% in 1998, with higher sales in the U.S. partially offset by declines in Europe and the Asia-Pacific region. Sales of U.S. mobile and stationary equipment, truck and bus, and residential air conditioning products improved over the prior year, but sales declined in most industrial markets served outside the U.S., except residential air conditioning and commercial refrigeration. Aeroquip acquired a small business in Italy during the 1998 second quarter that supplies components to European residential air conditioning and commercial refrigeration markets. Changes in currency exchange rates reduced Aeroquip's 1998 sales in industrial markets in Europe, Brazil and the Asia-Pacific region by nearly $5 million. Aeroquip's sales in automotive markets in 1998 declined $26.3 million, or 5.8%, from 1997 sales. During 1997, Aeroquip sold or closed eight facilities that had combined sales in 1997 of approximately $67 million. After adjusting to exclude sales originating from those facilities, Aeroquip's sales in U.S. automotive markets were nearly the same as in 1997, and sales in non-U.S. automotive markets were nearly 16% greater than in 1997. This growth in non-U.S. automotive sales included results from a company acquired during 1998. Aeroquip's sales in aerospace markets increased nearly 14% over 1997. Sales to commercial and military OEM and commercial aftermarket customers increased in 1998, but sales in the military aftermarket declined.

Vickers' sales for 1998 increased $30.8 million, or 2.9%, over 1997 to $1.08 billion. Vickers' sales in industrial markets declined 1% from 1997, as sharply higher sales in European markets were negated by declines in the U.S., Brazil and the Asia-Pacific region. Changes in currency exchange rates contributed to the decline in non-U.S. sales, most notably in the Asia-Pacific region. Fourth-quarter sales in all major U.S. industrial markets declined from 1997, particularly for agricultural and electronic machine control products, and led to full year declines in sales for U.S. stationary equipment and electronic machine control products. However, Vickers' sales for the year for U.S. agricultural, mobile equipment, and truck and bus products showed improvement over 1997. Vickers sales in aerospace markets, particularly in the U.S., increased substantially during 1998, leading to an overall increase of nearly 11.5% over the prior year. 1998 sales reflected strong increases over the prior year in sales to commercial OEM and aftermarket customers, and to military OEMs. Sales for military aftermarket applications declined approximately 5% from 1997's sales.

Consolidated manufacturing income fell $28.1 million, or 5%, from 1997. Manufacturing margin likewise declined from 26.4% to 24.6%. Manufacturing income for the Aeroquip segment improved over 1997, with a modest improvement in manufacturing margin. Both manufacturing income and margin for Aeroquip's industrial and aerospace products improved over 1997, and manufacturing margin for its automotive products also improved, but manufacturing income declined. Manufacturing income and margin for the Vickers segment declined significantly from 1997. A number of factors contributed to the decline in manufacturing income and margin for Vickers' industrial products, including the severe economic downturn in the Asia-Pacific region and the sharp decline in new orders, particularly during the last half of the year in the U.S. Manufacturing income for Vickers' operations in the Asia-Pacific region was $12.9 million lower in 1998 than in 1997. Losses associated with a new pump manufacturing facility in the U.S. amounted to $7.9 million, and incurred severance and related work force reduction costs charged to cost of products sold in the last quarter of the year amounted to $1.7 million. Manufacturing income for Vickers' aerospace products increased nearly 4% over 1997.

Operating income in 1998 amounting to $186.4 million was $5.3 million, or 2.7%, lower than in 1997. Before a special charge of $30 million in 1997 to dispose of Aeroquip's interior plastics facilities, as more fully discussed later, operating income declined $35.3 million, or nearly 16%, from 1997. Before the special charge, operating income in 1998 for the Aeroquip segment was $4.8 million, or 4%, higher than in 1997, but operating income for Vickers declined $42.2 million, or 31.8%, from 1997. Operating income includes selling and general administrative and engineering, research and development expenses (SGA&E) that were $7.2 million, or 2.1%, higher than in 1997. SGA&E costs associated with companies acquired in 1998 amounted to $5.6 million. In addition, higher costs amounting to nearly $1 million in the Asia-Pacific region during the first half of the year, and incurred severance and related work force reduction costs totaling $1.2 million in the last quarter of the year contributed to higher SGA&E costs in 1998. These higher SGA&E costs were partially offset by cost reductions totaling $3 million resulting from disposition of the interior plastics business.

The following tables provide net sales and operating income for the year 1998 compared with the year 1997 by markets served.
<TABLE>
<CAPTION>

(dollars in thousands)	YEAR ENDED DECEMBER 31 1998	1997	Percent Increase (DECREASE)
<S>	<C>	<C>	<C>
Net sales			
Industrial	$1,174,157	$1,170,192	.3%
Automotive	427,792	454,096	(5.8)
Aerospace	547,525	488,005	12.2
Consolidated net sales	$2,149,474	$2,112,293	1.8
Operating income			
Industrial	$ 68,707	$ 110,697	(37.9)
Automotive	47,009	20,007 (a)	135.0
Aerospace	98,986	91,353	8.4
Unallocated corporate	(28,322)	(30,417)	6.9
Consolidated operating income	$ 186,380	$ 191,640 (a)	(2.7)

========== ==========
</TABLE>

(a) After deducting a special charge of $30 million.

The Company's combined sales in industrial markets increased $4 million, or .3%, over 1997. Despite the decline in sales and orders from agricultural customers that began in the third quarter and accelerated in the fourth quarter, full-year 1998 sales in U.S. industrial markets increased 1.8% over 1997, as U.S. sales for the year to agricultural, residential air conditioning, mobile equipment, and truck and bus customers improved over 1997. Higher sales in those markets were partially offset by declines in sales of stationary industrial machinery and electronic machine control products. Sales in European industrial markets increased 7% over 1997, with particular strength in sales of residential air conditioning and commercial refrigeration, and electronic machine control products. Sales of industrial products in the Asia-Pacific region and Brazil were 25% and 11.5% lower than in 1997, respectively, with a significant portion of the sales decline in both regions due to changes in currency exchange rates. Sales in automotive markets in 1998 declined 5.8% from 1997. During 1997, Aeroquip sold or closed eight facilities that had combined sales in 1997 of approximately $67 million. After adjusting to exclude sales originating from those facilities, sales in U.S. automotive markets were nearly the same as in 1997, and sales in non-U.S. automotive markets were nearly 16% greater than in 1997. Sales of aerospace products increased more than 12% over the prior year. In both the U.S. and Europe, the Company recognized increases in sales in all aerospace markets served except the military aftermarket, which declined approximately 6%.

Operating income for industrial declined $42 million, or 37.9%, from 1997. This significant reduction in operating income was attributable to a number of factors. Because of the severe economic downturn in the Asia-Pacific region, operating income for the industrial operations of Aeroquip and Vickers in that region was $14.7 million lower than in 1997. Operating losses, including SGA&E expenses, associated with a new pump manufacturing facility amounted to $9.3 million in 1998 and incurred severance and related work force reduction costs in the 1998 fourth quarter amounted to $4.5 million. In addition, the sharp decline in new orders in the U.S. for the Vickers segment, particularly during the last half of 1998, adversely affected industrial's operating income for 1998. Before deducting the special charge of $30 million in 1997 to dispose of Aeroquip's interior plastics facilities, operating income for automotive declined $3 million, or 6%, from the prior year. Relocation of certain manufacturing operations and related costs for new facilities in the U.S. during 1998 contributed to lower automotive earnings. Operating income for aerospace increased $7.6 million, or 8.4%, over 1997, principally due to the year-over-year increase in sales volume.

Charges to Other income (expense) - net were $4.5 million lower in 1998 than in 1997, primarily because exchange losses were $4.3 million lower in 1998. The loss from redemption of the Company's 9.55% senior sinking fund debentures in 1998 in the amount of $2.5 million and the loss from redemption of the Company's 6% convertible subordinated debentures in 1997 in the amount of $1.5 million were recorded in Other income (expense) -net.

The Company adopted the American Institute of Certified Public Accountants' Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," in 1998 and recognized the cumulative effect of an accounting change of $4.8 million ($3.3 million after tax, or $.12 per share) to charge to income start-up costs for new facilities that had previously been deferred. Income before cumulative effect of accounting change in 1998 amounted to $100.3 million, or basic and diluted income per share of $3.58 and $3.56, respectively. These amounts compare with net income in 1997 of $100.9 million, or basic and diluted net income per share of $3.60 and $3.51, respectively. 1997 net income and net income per share included the special charge to exit Aeroquip's automotive interior plastics business amounting to $18.5 million net, or basic and diluted net income per share of $.66 and $.63, respectively. The effective income tax rate for 1998 before cumulative effect of accounting change was 32% and compares with 33% for 1997 exclusive of the special charge. The income tax provision included the benefit of utilization of operating loss carryforwards for which valuation allowances had previously been provided amounting to $1.2 million and $1.8 million in 1998 and 1997, respectively. Valuation allowances have been provided for deferred tax assets relating to deductible temporary differences and non-U.S. operating loss and foreign tax credit carryforwards where evidence did not exist to indicate that it was more likely than not that the associated deferred tax assets would be realized. Valuation allowances have generally been provided where future taxable earnings are not predictable and other tax planning strategies are not available.

1997 COMPARED WITH 1996

The following data provide highlights for the year 1997 compared with the year 1996.

(dollars in thousands, except per share data)	YEAR ENDED DECEMBER 31 1997	1996	Percent Increase (DECREASE)
CONSOLIDATED			
Net sales	$2,112,293	$2,032,915	3.9%
Manufacturing income	557,625	512,179	8.9
Manufacturing margin	26.4%	25.2%	
Operating income	191,640 (a)	176,575	8.5
Operating margin	9.1% (a)	8.7%	
Net income	100,853 (a)	102,721 (b)	(1.8)
Diluted net income per share	3.51 (a)	3.51 (b)	
AEROQUIP			
Net sales	1,065,188	1,099,914	(3.2)
Operating income	89,458 (a)	96,184	(7.0)
Operating margin	8.4% (a)	8.7%	
VICKERS			
Net sales	1,047,105	933,001	12.2
Operating income	132,599	110,571	19.9
Operating margin	12.7%	11.9%	

(a) After deducting a special charge of $30 million, or $18.5 million net (diluted net income per share of $.63).

(b) Includes a net gain from sales of investments in affiliates amounting to $17.3 million, or $5 million net (diluted net income per share of $.16) and an income tax credit of $4 million (diluted net income per share of $.13).

Consolidated net sales in 1997 of $2.11 billion were $79.4 million, or 3.9%, greater than in 1996. Sales for the Aeroquip segment declined 3.2%, but sales for the Vickers segment increased 12.2%. The sales decline for Aeroquip was due to the sale or closure of certain interior automotive plastics plants. Sales for these facilities that were sold or closed in 1997 were $67 million in 1997 and $132 million in 1996. Exclusive of sales in both years for the divestitures, consolidated net sales would have increased 7.6%. The divestitures are discussed more specifically later. Companies acquired in 1996 generated 1997 sales totaling approximately $41.9 million for the Vickers segment during the 1997 period for which there were no comparable 1996 sales. Including the results of acquisitions, U.S. sales increased $64.5 million, or 5%, and non-U.S. sales increased $14.9 million, or 2%. Changes in currency exchange rates reduced non-U.S. sales, principally in the Aeroquip segment, by more than $44 million.

Aeroquip's sales for 1997 declined $34.7 million, or 3.2%, from 1996 to $1.07 billion. Aeroquip's sales in industrial markets were nearly the same as in 1996 as somewhat stronger sales in the U.S. and Brazil were offset by declines in Europe. U.S. sales in mobile equipment and truck and bus markets remained strong, but sales of residential air conditioning components were down in 1997 due to unseasonably cool spring and summer temperatures and high levels of inventory at OEMs. Sales in European industrial markets declined primarily because of the effects of currency exchange rate changes. Aeroquip's sales in automotive markets declined nearly 10% from 1996 levels. As part of its strategy to focus on fluid connectors in its automotive business, Aeroquip sold or closed eight facilities during 1997 that had combined sales of approximately $67 million in 1997 and $132 million in 1996. Exclusive of the effects of these divestitures, Aeroquip's sales in automotive markets increased approximately 4%. This sales growth was recognized principally in European markets and was after the significant effects of changes in currency exchange rates that lowered Aeroquip's European automotive sales by nearly $28 million. Aeroquip's sales in aerospace markets increased more than 10% over 1996. 1997 sales reflected increases over 1996 in sales to commercial OEM and aftermarket customers and to the military aftermarket, but sales for military original equipment applications declined from the 1996 level.

Vickers' sales for 1997 increased $114.1 million, or 12.2%, over 1996 to $1.05 billion. Vickers' sales in industrial markets increased 4.6% over 1996. Sales in industrial markets increased 5% in the U.S., 9% in Brazil and 18.7% in the Asia-Pacific region, but declined nearly 3% in Europe. Industrial mobile equipment and stationary industrial machinery product sales improved, although sales were hindered by capacity constraints and delivery performance at a major pump manufacturing facility. Vickers' sales in aerospace markets increased substantially in both the U.S. and Europe, resulting in an overall increase of nearly 33% over the prior year. 1997 sales reflected strong increases over 1996 in sales to commercial OEM and aftermarket customers and to the military aftermarket. Sales for military original equipment applications declined from the 1996 level.

Consolidated manufacturing income increased $45.4 million, or 8.9%, over 1996. Manufacturing margin improved from 25.2% in 1996 to 26.4% in 1997. Manufacturing income and margin for the Aeroquip segment improved in 1997. Although manufacturing margin remained nearly the same in 1997 as in the prior year for Aeroquip's industrial and aerospace products, manufacturing income increased. Moreover, manufacturing income and margin for Aeroquip's automotive products improved significantly over the prior year, reflecting the positive effects of the divestiture of the automotive interior plastics facilities. Manufacturing income for the Vickers segment improved over the prior year, but with a small decline in manufacturing margin. Manufacturing income and margin for Vickers' industrial products declined, principally due to manufacturing performance issues at a major pump manufacturing facility where manufacturing income was $15.1 million lower than in the prior year. Manufacturing income for Vickers' aerospace products increased significantly, primarily due to the substantial increase in sales volume.

The Aeroquip segment recorded a special charge of $30 million in the 1997 first quarter to exit its automotive interior plastics business. The special charge included a provision for severance payments of $6.3 million to terminate approximately 1,500 salaried and hourly employees, principally in

Germany. The special charge also included lease termination costs amounting to $6.9 million; asset disposition costs, including environmental costs, amounting to $9.6 million; litigation costs amounting to $3 million; and other costs amounting to $4.2 million. The planned actions to which this special charge related were substantially completed during 1997, and as of December 31, 1998, all costs had been incurred.

Operating income for 1997 increased $15.1 million, or 8.5%, over 1996 to $191.6 million. Operating income in 1997 for Aeroquip was $6.7 million, or 7%, lower than in 1996 because of the special charge amounting to $30 million that was discussed above. Before the special charge, Aeroquip's operating income was $23.3 million, or 24.2%, higher than in 1996. Operating income for Vickers increased $22 million, or 19.9%. Operating income includes selling and general administrative and engineering, research and development expenses (SGA&E) that were nearly the same in 1997 as in 1996, but as a percent of sales were 15.9% in 1997 compared with 16.5% in 1996. SGA&E costs for Vickers' European operations were substantially lower than in 1997 as a result of organizational realignments and continuing process improvements. Such costs, however, were higher in Asia-Pacific due to the expansion of operations in the region and were also higher in the U.S. due to higher levels of business activity. The disposition of its automotive interior plastics business also served to reduce Aeroquip's SGA&E costs in 1997.

The following tables provide net sales and operating income for the year 1997 compared with the year 1996 according to markets served.
<TABLE>
<CAPTION>

(dollars in thousands, except per share data)	YEAR ENDED DECEMBER 31 1997	1996	Percent Increase (DECREASE)
<S>	<C>	<C>	<C>
Net sales			
Industrial	$1,170,192	$1,138,501	2.8%
Automotive	454,096	503,781	(9.9)
Aerospace	488,005	390,633	24.9
Consolidated net sales	$2,112,293	$2,032,915	3.9

Operating income

Industrial	$ 110,697	$ 109,462	1.1
Automotive	20,007 (a)	36,352	(45.0)
Aerospace	91,353	60,941	49.9
Unallocated corporate	(30,417)	(30,180)	(.8)
Consolidated operating income	$ 191,640 (a)	$ 176,575	8.5

</TABLE>

(a) After deducting a special charge of $30 million.

The Company's combined sales for Aeroquip and Vickers in industrial markets increased $31.7 million, or 2.8%, over 1996. Sales in U.S. industrial markets increased 4.1% over 1996, as U.S. sales to mobile equipment, truck and bus, and stationary industrial machinery customers remained strong. Sales of residential air conditioning components were down in 1997 due to unseasonably cool spring and summer temperatures and high levels of inventory at OEMs. Sales in European industrial markets declined 6.3% from 1996, principally the result of the effects of currency exchange rate changes. Sales of industrial products in Asia-Pacific and Brazil collectively increased 15% over 1996. Sales in automotive markets declined nearly 10% from 1996. As part of its strategy to focus on fluid connectors in its automotive business, Aeroquip sold or closed eight facilities during 1997 that had combined sales of approximately $67 million in 1997 and $132 million in 1996. Exclusive of the effects of these divestitures, sales of automotive products increased approximately 4%. This sales growth was recognized principally in European markets and was after the significant effects of changes in currency exchange rates that lowered Aeroquip's European automotive sales by nearly $28 million. Sales in aerospace markets increased nearly 25% over 1996, reflecting strong increases in sales to commercial OEM and aftermarket customers and to the

military aftermarket. Sales for military original equipment applications declined from the 1996 level.

Operating income for industrial increased $1.2 million, or 1.1%. A small decline in manufacturing income for industrial was more than offset by reductions in selling and general administrative and engineering, research and development expenses due to organizational realignments and process improvements. Operating income for automotive declined $16.3 million, or 45%, due to the special charge of $30 million discussed earlier. Before considering the special charge, operating income for automotive increased $13.7 million, reflecting the positive effects of the divestiture and higher fluid connector sales in Europe. Operating income for aerospace improved $30.4 million, or 49.9%, over that of the prior year, principally due to the substantial increase in sales volume.

Interest expense for 1997 was $1.4 million higher than in 1996. The increase was primarily attributable to a higher interest rate on long-term debt that was issued in 1996. Other income (expense) - net for 1996 included a gain of $17.3 million resulting from the sales of investments in unconsolidated affiliates.

Net income for 1997 amounted to $100.9 million. Basic and diluted net income per share was $3.60 and $3.51, respectively. 1997 net income and net income per share included the special charge to exit Aeroquip's automotive interior plastics business amounting to $18.5 million net, or basic and diluted net income per share of $.66 and $.63, respectively. These amounts compare with 1996 net income of $102.7 million and basic and diluted net income per share of $3.62 and $3.51, respectively. Net income for 1996 included a net gain of $5 million (basic and diluted net income per share of $.18 and $.16, respectively) from the sale of unconsolidated affiliates and a credit for settlement of claims for prior years' research and development tax credits of $4 million (basic and diluted net income per share of $.14 and $.13, respectively). The income tax provision for 1997 included a credit of $11.5 million related to the special charge to exit Aeroquip's automotive interior plastics business. Exclusive of this item, the effective income tax rate for 1997 was 33% and compares with the 1996 effective income tax rate of 31.1% before special items. The income tax provision included the benefit of utilization of operating loss carryforwards for which valuation allowances had previously been provided amounting to $1.8 million and $3.7 million in 1997 and 1996, respectively. Valuation allowances have been provided for deferred tax assets relating to deductible temporary differences and non-U.S. operating loss carryforwards where evidence did not exist to indicate that it was more likely than not that the associated deferred tax assets would be realized. Valuation allowances have generally been provided where future taxable earnings are not predictable and other tax planning strategies are not available.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities in 1998 amounted to $177.5 million, compared with $137.7 million in 1997. Working capital requirements in 1998 included $21.9 million to reduce payables and accruals. These cash requirements were partially offset by the effects of reductions to receivables and inventories.

Capital expenditures during 1998 totaled $142.2 million compared with $139.8 million in 1997. In addition, the Company spent $30.7 million during 1998 to acquire two companies in the Aeroquip segment and four companies in the Vickers segment. In 1997, the Company received $43.4 million from the sales of its automotive interior plastics facilities. Quarterly dividend payments were $.22 per share in 1998, or $.88 per share for the year. In January 1999, the Company's Board of Directors approved a first-quarter 1999 dividend of $.22.

During 1998, the Company purchased 657,500 shares of its common stock at a cost of $23.2 million. At December 31, 1998, $57.8 million of additional common stock was available for purchase under the current Board of Directors authorization.

In the 1998 first quarter, the Company retired its 9.55% senior sinking fund debentures in the amount of $42 million. Additional borrowings under the Company's Medium Term Note program and short-term debt were used to redeem the debentures and to meet other funding requirements. The remaining borrowing capacity at December 31, 1998, under provisions of a current shelf registration statement for the Medium Term Note program, was $185 million. The Company also maintains a revolving credit agreement with a consortium of U.S. and non-U.S. banks expiring in 2001 under which the Company may borrow up to $175 million. The agreement is intended to support the Company's commercial paper borrowings and, to the extent not so utilized, provide domestic borrowing capacity. The remaining borrowing capacity under this agreement at December 31, 1998, was $120 million. In addition to this agreement, the Company has uncommitted arrangements with various banks to provide short-term financing as necessary.

The Company expects that cash flow from operating activities and remaining available credit lines will be sufficient to meet normal operating requirements, including debt obligations maturing in the near term and planned capital expenditures.

At December 31, 1998, the Company had forward exchange contracts outstanding with notional and carrying amounts of $14.3 million and $121,000, respectively, and option contracts maturing at various dates through November 1999, with notional and carrying amounts of $28 million and $204,000, respectively. At December 31, 1997, the Company had forward exchange contracts outstanding with notional and carrying amounts of $12.8 million and $227,000, respectively, and option contracts that matured at various dates through December 1998, with notional and carrying amounts of $61.6 million and $600,000, respectively. The effect of the Company's hedging activities on net income was not significant in 1998 or 1997.

CONTINGENCIES

The Company or certain of its subsidiaries have been named parties to various lawsuits, claims and proceedings including being named potentially responsible parties (PRP) for site investigation and cleanup costs under the Comprehensive Environmental Response, Compensation, and Liability Act (superfund) or similar regulations with respect to certain sites, as well as other product liability, tort and contract claims and lawsuits which have arisen in the ordinary course of the Company's business. While the ultimate outcome of the various lawsuits, claims and proceedings, including PRP designations and other environmental matters, cannot now be predicted, the Company believes that costs, in excess of amounts provided or covered by insurance as it relates to litigation, arising out of these matters, will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

YEAR 2000

The Company is continuing its efforts to assess and remediate problems caused by the inability of certain of its information systems to properly process transactions using dates in the Year 2000 and beyond, or to operate at the turn of the century. During the 1998 first quarter, the Company completed an inventory and identification of its mission-critical information systems relative to Year 2000-related deficiencies. Each operating unit of the Company is now engaged in the remediation and testing of its information systems for Year 2000 compliance.

A Year 2000 steering committee was formed composed of the Company's information technology leadership and other key executives to review and provide oversight of all Year 2000-related activities. A Year 2000 program office was also established as an adjunct to the steering committee to facilitate Year 2000 communications and coordinate Year 2000 efforts among the Company's operating units.

During the 1998 third quarter, the Company engaged an independent consultant to conduct a review of the Year 2000 program office and gauge operating unit progress to date on Year 2000-related issues. The independent consultant

reported to the Company's senior management and Board of Directors that the Year 2000 program office management is sound and that the Company is managing Year 2000 projects according to plan.

The Company commenced testing of its mission-critical systems for Year 2000 compliance in the 1998 fourth quarter. This testing is being performed on an "end-to-end" basis to assure that every major technology platform used by the Company properly supports all business processes associated with acceptance of orders, manufacture of product, shipment of product, and collection of payment. Additionally, all supporting accounting and financial reporting systems are being tested. The independent consultant is providing oversight and guidance during the testing process. Following the successful conclusion of the Year 2000 compliance testing, the Year 2000 program office and the independent consultant will report the test results to the Company's senior management and the Board of Directors. Year 2000 compliance testing is expected to conclude in the 1999 third quarter.

The Company is also testing its embedded systems used in the manufacture and distribution of its products for Year 2000 compliance to avert any disruption in the supply of product to its customers. All remediation efforts and audits for the embedded systems are targeted to be completed in the 1999 third quarter. The Company has recently concluded testing of its microprocessor- based product line and has certified its Year 2000 compliance to the customer base.

In order to assure continuous flow of products to end customers, the Company has surveyed and is now assessing Year 2000 readiness on the part of the Company's supply chain. The majority of suppliers responding to the Company's initial survey indicated that they were in the process of implementing their own Year 2000 compliance programs. As a result of the preliminary nature of the initial survey results, the Company is planning a supplemental survey and plans to conduct on-site assessments of its critical suppliers. Based upon the outcome of the Company's final assessment of its external supply chain components, any business process or systems contingency plan will be developed and implemented accordingly.

The Company is responding to Year 2000 inquiries from customers and financial institutions. The Company will conduct on-site assessments of selected independent distributors during the first half of 1999. Major OEM customers and industry groups are conducting Year 2000 on-site assessments. To date, all on-site assessments conducted by OEM customers or their designees have rated the assessed Aeroquip-Vickers facilities as "low risk" relative to Year 2000 compliance. On-site OEM customer assessments are expected to continue into mid 1999.

From a cost perspective, the Company has budgeted the necessary funds to address Year 2000-related projects. The Company estimates that its historical and estimated costs of Year 2000 remediation will amount to approximately $17 million. This estimate includes costs directly related to fixing Year 2000 issues, costs associated with the accelerated replacement of non-compliant systems, and costs associated with compensation of internal employees who are assigned to work exclusively on Year 2000 projects.

The Company anticipates that its mission-critical systems will be Year 2000 compliant by the end of the 1999 third quarter. Failure to reach this anticipated goal, however, could have a material effect on the Company's business, results of operations or financial condition. Risk factors which may affect the Company's ability to meet its Year 2000 project plan and the ability of the Company's information systems to operate properly into the next century include, but are not limited to, the availability and adequacy of date-compliant software from vendors and the availability of necessary resources, both internal and external, to install new purchased software or reprogram existing systems and complete the necessary testing. In addition, the Company cannot predict the outcome of the Year 2000 assessment of its supply chain or the ability of its customers to achieve Year 2000 compliance by the end of 1999 or the impact of either on the future operating results of the Company.

SUBSEQUENT EVENT

During the 1998 third quarter, the Industrial & Mobile business of Vickers (I&M) began to experience a significant reduction in demand for its products in certain industries as well as unfavorable sales mix in the products it did sell. These developments were described in a press release issued on September 16, 1998, wherein the Company stated that it had lowered its expectations for the 1998 third quarter due to a number of factors, including the decline in higher margin distributor business in North America, the continued economic turmoil in the Asia-Pacific region, start-up costs for the new Greenwood, South Carolina, pump facility and the negative effect of changes in currency exchange rates.

Aeroquip-Vickers management initiated a review of I&M in an effort to better understand the industry dynamics affecting the business. Following this review, Aeroquip-Vickers' management concluded that I&M faced a number of operational challenges, including certain management issues, that would require substantial time and resources to properly address. As a consequence of this review, Aeroquip-Vickers' management began to consider various alternatives including a restructuring, a sale or other disposition of I&M.

In late October 1998, the Company contacted a representative of Eaton Corporation (Eaton) to explore acquisition of I&M by Eaton or a business combination with Eaton involving I&M. Over a period of time, Eaton's interest broadened to pursue acquisition of Aeroquip-Vickers in its entirety and, following lengthy negotiations involving numerous meetings, on February 1, 1999, Eaton and Aeroquip-Vickers announced that the companies had entered into an "Agreement and Plan of Merger" whereby Eaton would acquire all of the outstanding shares of Aeroquip-Vickers for $58 per share in cash. The Boards of Directors of both companies have approved the transaction, which is subject to normal closing conditions and the approval of Aeroquip-Vickers shareholders at a special shareholders' meeting on April 8, 1999. The transaction is expected to be completed in April 1999.

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Portions of this narrative, which are not historical in nature, are forward-looking statements. The forward-looking statements made in this narrative, as well as all other forward-looking statements or information provided by the Company or its officers and employees, whether written or oral, are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements of the Company are based on, among other things, the performance of the U.S. and international economies and the industrial, aerospace and automotive markets in which Aeroquip-Vickers does business. These statements should be considered in light of risks and uncertainties and other factors which may affect the Company's actual performance including its ability to continually improve margins by achieving anticipated cost reductions in manufacturing processes, to consistently win new business in each of its industries by delivering quality products and maintaining competitive pricing, and to successfully implement its growth strategies.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement will become effective for fiscal years beginning after June 15, 1999. Early application is permitted. The Company is currently evaluating the effect of the provisions of this Statement on its accounting and reporting policies, and does not presently expect that adoption of this Statement will have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company is exposed to market risks relating to fluctuations in interest rates and currency exchange rates. The Company utilizes a mix of fixed- and floating-rate debt to finance its investments and on going operations. The Company also enters into forward exchange and option contracts to manage its exposures to changes in currency exchange rates. In accordance with its

established policies, the Company enters into forward exchange contracts to hedge certain of its firm commitments, including foreign currency denominated receivables and payables, and enters into option contracts to hedge certain of its projected foreign currency sales and purchases. Forward exchange and option contracts are entered into with major commercial banks with high credit ratings. Forward exchange and option contracts are not entered into or held for trading or speculative purposes, and the Company is not a party to any leveraged derivatives. The terms of these contracts are generally one year or less. The Company's potential loss from a hypothetical 10% adverse change in interest rates and currency exchange rates as it relates to financial instruments would not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. See Notes 1 and 11 of Notes to Financial Statements for further discussion of the Company's accounting policies for and fair values of financial instruments.

ITEM 8. Financial Statements and Supplementary Data.

REPORT OF ERNST & YOUNG LLP,
INDEPENDENT AUDITORS

Shareholders and Board of Directors
Aeroquip-Vickers, Inc.

We have audited the accompanying statement of financial position of Aeroquip-Vickers, Inc. and subsidiaries at December 31, 1998 and 1997 and the related statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed at Item 14(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 Aeroquip-Vickers, Inc. and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 of Notes to Financial Statements, the Company changed its method of accounting for start-up activities in 1998.

/s/ ERNST & YOUNG LLP

Toledo, Ohio
January 27, 1999

<TABLE>
<CAPTION>

STATEMENT OF INCOME
Years ended December 31, 1998, 1997 and 1996
(In thousands, except per share data)

<S>	1998 <C>	1997 <C>	1996 <C>
Net sales	$2,149,474	$2,112,293	$2,032,915
Cost of products sold	1,619,905	1,554,668	1,520,736
MANUFACTURING INCOME	529,569	557,625	512,179
Selling and general administrative expenses	271,718	263,824	260,712
Engineering, research and development expenses	71,471	72,161	74,892
Special charge	--	30,000	--
OPERATING INCOME	186,380	191,640	176,575
Interest expense	(27,013)	(27,171)	(25,813)
Other income (expense) - net	(11,830)	(16,316)	2,659

INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	147,537	148,153	153,421
Income taxes	47,200	47,300	50,700
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	100,337	100,853	102,721
Cumulative effect of accounting change, net of income tax benefit of $1,549	(3,283)	--	--
NET INCOME	$ 97,054	$ 100,853	$ 102,721
BASIC INCOME PER SHARE			
Before cumulative effect of accounting change	$ 3.58	$ 3.60	$ 3.62
Cumulative effect of accounting change	(.12)	--	--
Basic net income per share	$ 3.46	$ 3.60	$ 3.62
DILUTED INCOME PER SHARE			
Before cumulative effect of accounting change	$ 3.56	$ 3.51	$ 3.51
Cumulative effect of accounting change	(.12)	--	--
Diluted net income per share	$ 3.44	$ 3.51	$ 3.51

</TABLE>

The Notes to Financial Statements are an integral part of this statement.

<TABLE>
<CAPTION>

STATEMENT OF FINANCIAL POSITION
December 31, 1998 and 1997
(Dollars in thousands, except per share data)

	1998	1997
ASSETS		
CURRENT ASSETS		
<S>	<C>	<C>
Cash and cash equivalents	$ 17,310	$ 18,736
Receivables	341,825	348,822
Inventories	302,236	294,767
Other current assets	52,146	49,323
TOTAL CURRENT ASSETS	713,517	711,648
Plants and properties	1,119,557	993,002
Less accumulated depreciation	571,340	518,860
	548,217	474,142
Other assets	197,067	190,806
TOTAL ASSETS	$ 1,458,801	$ 1,376,596
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	$ 101,829	$ 84,044
Accounts payable	113,698	111,800
Income taxes	27,167	30,496
Other accrued liabilities	197,726	212,800
Current maturities of long-term debt	1,035	1,857
TOTAL CURRENT LIABILITIES	441,455	440,997
Long-term debt	278,343	256,707
Postretirement benefits other than pensions	121,715	122,272
Other liabilities	48,469	46,421

SHAREHOLDERS' EQUITY

Common stock - par value $5 a share Authorized - 100,000,000 shares Outstanding - 27,600,520 and 28,064,981 shares, respectively (after deducting 6,680,326 and 6,215,865 shares, respectively, in treasury)	138,003	140,325
Additional paid-in capital	47,841	41,288
Retained earnings	419,178	366,676
Accumulated other comprehensive income (loss) - currency translation adjustments	(36,203)	(38,090)
TOTAL SHAREHOLDERS' EQUITY	568,819	510,199
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,458,801	$ 1,376,596

</TABLE>

The Notes to Financial Statements are an integral part of this statement.

<TABLE>
<CAPTION>
STATEMENT OF CASH FLOWS

Years ended December 31, 1998, 1997 and 1996
(In thousands)

	1998	1997	1996
OPERATING ACTIVITIES			
<S>	<C>	<C>	<C>
Net income	$ 97,054	$ 100,853	$ 102,721
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change, net of income tax benefit	3,283	--	--
Special charge	--	30,000	--
Depreciation	70,661	66,562	68,684
Amortization	8,986	6,639	4,789
Gain on sales of affiliates	--	--	(17,300)
Dividends received from affiliates	--	--	9,932
Deferred income taxes	511	(467)	11,997
Changes in certain assets and liabilities, excluding effects from special charge, acquisitions and dispositions			
-Receivables	14,807	(31,073)	(44,783)
-Inventories	4,113	(47,215)	10,656
-Accounts payable	(6,806)	19,018	(75)
-Income taxes	(4,654)	15,969	(15,929)
-Other assets, payables and accruals	(18,438)	(9,354)	(5,991)
Restructuring payments - net	9,370	(16,666)	810
Other	(1,404)	3,418	274
NET CASH PROVIDED BY OPERATING ACTIVITIES	177,483	137,684	125,785
INVESTING ACTIVITIES			
Capital expenditures	(142,243)	(139,811)	(90,626)
Businesses acquired	(30,741)	--	(42,540)
Sales of businesses and affiliates	--	43,381	40,261
Other	1,532	1,561	1,483
NET CASH USED BY INVESTING ACTIVITIES	(171,452)	(94,869)	(91,422)
FINANCING ACTIVITIES			
Cash dividends	(24,673)	(22,465)	(22,705)
Increase (decrease) in notes payable	12,406	50,866	(1,444)
Long-term borrowings	65,000	100,000	107,145
Repayments of long-term borrowings	(44,301)	(172,669)	(77,465)
Purchases of common stock	(23,166)	(21,590)	(32,213)
Stock issuance under stock plans	7,518	20,133	3,287
Other	(773)	(924)	(2,440)
NET CASH USED BY FINANCING ACTIVITIES	(7,989)	(46,649)	(25,835)
Effect of exchange rate changes on cash and cash equivalents	532	(1,364)	(780)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,426)	(5,198)	7,748

Cash and cash equivalents at beginning of year	18,736	23,934	16,186
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 17,310	$ 18,736	$ 23,934

</TABLE>

The Notes to Financial Statements are an integral part of this statement.

<TABLE>
<CAPTION>

STATEMENT OF SHAREHOLDERS' EQUITY
Years ended December 31, 1998, 1997 and 1996
(Dollars in thousands, except per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) - Currency Translation Adjustments	Total
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT JANUARY 1, 1996	$ 144,125	$ 17,933	$ 254,484	$ (15,670)	$ 400,872
Net income			102,721		102,721
Other comprehensive income:					
Currency translation adjustments during the year				841	
Reclassification of realized amounts to net income				(6,387)	(5,546)
Total comprehensive income					97,175
Cash dividends paid ($.80 share)			(22,705)		(22,705)
Issuance of 108,990 shares, net of shares exchanged, under stock plans	545	2,742			3,287
Purchase of 1,022,100 treasury shares	(5,111)		(27,102)		(32,213)
BALANCE AT DECEMBER 31, 1996	139,559	20,675	307,398	(21,216)	446,416
Net income			100,853		100,853
Other comprehensive income:					
Currency translation adjustments during the year				(19,144)	
Reclassification of realized amounts to net income				2,270	(16,874)
Total comprehensive income					83,979
Cash dividends paid ($.80 a share)			(22,465)		(22,465)
Issuance of 578,054 shares, net of shares exchanged, under stock plans	2,891	17,242			20,133
Issuance of 70,950 shares upon conversion of long-term debt	355	3,371			3,726
Purchase of 496,100 treasury shares	(2,480)		(19,110)		(21,590)
BALANCE AT DECEMBER 31, 1997	140,325	41,288	366,676	(38,090)	510,199
Net income			97,054		97,054
Other comprehensive income:					
Currency translation adjustments during the year				2,014	
Reclassification of realized amounts to net income				(127)	1,887
Total comprehensive income					98,941
Cash dividends paid ($.88 a share)			(24,673)		(24,673)
Issuance of 193,039 shares, net of shares exchanged, under stock plans	965	6,553			7,518
Purchase of 657,500 treasury shares	(3,287)		(19,879)		(23,166)
BALANCE AT DECEMBER 31, 1998	$ 138,003	$ 47,841	$ 419,178	$ (36,203)	$ 568,819

</TABLE>

The Notes to Financial Statements are an integral part of this statement.

(Dollars in thousands, except per share data)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries. Affiliated companies in which the Company's ownership is 20% to 50% are accounted for by the equity method. All significant intercompany transactions and accounts are eliminated upon consolidation.

Use of Estimates: The preparation of financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and exercise judgment affecting the reported amounts in the statements of income, financial position and cash flows, including disclosures in the Notes to Financial Statements. Actual results could differ from those estimates.

Revenue Recognition: Revenue is recognized when products are shipped to customers.

Cash Equivalents: Marketable securities that are highly liquid and have original maturities of three months or less are classified as cash equivalents. The carrying amount approximates fair value.

Inventories: Inventories are stated at the lower of cost or market. Inventory costs for U.S. operations are determined principally by the last-in, first-out (LIFO) method. The remaining inventory costs are determined principally by the first-in, first-out (FIFO) method.

Plants and Properties: Plants and properties are carried at cost. Depreciation is generally computed by the straight-line method over the estimated useful lives of the respective assets. In general, depreciation is provided at annual rates of 2.5% to 3% on buildings and 8% to 12% on equipment.

Intangibles: Intangible assets are carried at cost less accumulated amortization and consist principally of goodwill. Goodwill represents the excess of cost over fair value of assets acquired, which is amortized over periods from 15 to 40 years using the straight-line method. Other intangibles include software and patents which are amortized over periods from five to 15 years using the straight-line method. The carrying amounts for goodwill and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable. For any long-lived assets that are determined to be impaired, a loss would be recognized for the difference between the carrying value and the fair value for assets to be held.

Life Insurance: The Company's investment in corporate-owned life insurance is recorded net of policy loans. Net life insurance expense, including interest expense of $6,300, $10,800 and $9,150 on policy loans in 1998, 1997 and 1996, respectively, is included in Other income (expense) - net in the Statement of Income.

Accounting Pronouncements: The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards Nos. 130, "Reporting Comprehensive Income," and 131, "Disclosures about Segments of an Enterprise and Related Information," in 1997. In 1998, the FASB issued Statements Nos. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," and 133, "Accounting for Derivative Instruments and Hedging Activities." Statement 130 requires that comprehensive income, which includes net income and other comprehensive income consisting of foreign currency

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

items, minimum pension liability adjustments, and unrealized gains and losses on certain security investments, be reported as a total in the financial statements. Historically, the Company's only component of other comprehensive income has been foreign currency items. The Company adopted Statement 130 effective January 1, 1998, and reclassified financial statements for prior periods to reflect application of this Statement. Statement 131 requires that operating segment financial information be reported on a basis consistent with the Company's internal reporting that is used for evaluating segment performance and allocating resources. Statement 132 revises and standardizes disclosures about pensions and other postretirement benefit obligations and requires that information about changes in benefit obligations and fair values of plan assets be reported. Among other provisions, Statement 133 requires that all derivatives be recognized as assets or liabilities in the Statement of Financial Position and that those instruments be measured at fair value. The Company adopted Statement Nos. 131 and 132 in 1998, changing its reportable segments and providing the required disclosures for each of the statements. Prior-period segment information and pension and postretirement benefit obligation information were restated in accordance with the provisions of the statements. The adoption of Statement Nos. 130, 131 and 132 did not affect the Company's results of operations or consolidated financial position. Statement 133 will become effective for fiscal years beginning after June 15, 1999. Early application is permitted. The Company is currently evaluating the effect of the provisions of this Statement on its accounting and reporting policies, and has not determined when it will adopt the Statement. The Company does not expect that adoption of this Statement will have a material adverse effect on its consolidated financial position or results of operations.

In 1998, The American Institute of Certified Public Accountants issued Statements of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-1 requires the capitalization of certain costs incurred after the date of adoption in connection with acquiring or developing software for internal use. The Company adopted SOP 98-1 in 1998, and since the Company's previous capitalization policy was similar to the requirements of SOP 98-1, the adoption of this standard did not have a material effect on the Company's consolidated financial position or results of operations. SOP 98-5 requires that the costs of start-up activities, including organization costs, be expensed as incurred and that initial application of this standard be reported as the cumulative effect of a change in accounting principle. The Company adopted SOP 98-5 in 1998, and recognized the cumulative effect of an accounting change of $4,832 ($3,283 after tax, or $.12 per share). The effect of this change in accounting was not material to income before cumulative effect of accounting change for the year ended December 31, 1998.

Stock Options: The Company follows the intrinsic value method of accounting for stock options under Accounting Principles Board Opinion No. 25. When stock options are exercised, common stock is credited for the par value of shares issued; additional paid-in capital is credited for the consideration received in excess of par value and any related income tax benefits.

Derivative Financial Instruments: The Company uses forward exchange contracts and option contracts to manage certain foreign exchange exposures. The Company enters into forward exchange contracts to hedge the effects of changes in exchange rates on certain recorded receivables and payables that are denominated in currencies other than the functional currencies of the originating locations. Forward exchange contracts are marked to market with changes in market value recorded in income as foreign exchange gains or

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

losses, offsetting the losses or gains on the underlying transactions. The Company enters into option contracts to hedge certain anticipated transactions. These option contracts are designated as hedges of certain forecasted monthly purchases and sales transactions that are denominated in currencies other than the functional currencies of the originating locations, that otherwise would expose the Company to foreign currency exchange rate risk. Gains on option contracts are included in sales and cost of products sold when realized. Premiums on option contracts are deferred and amortized to cost of products sold on a straight-line basis over the life of the contracts. Forward exchange and option contracts are entered into with major commercial banks with high credit ratings. Forward exchange and option contracts are not held for trading or speculative purposes, and the Company is not a party to any leveraged derivatives. The terms of these contracts are generally one year or less.

<TABLE>
<CAPTION>
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - INCOME PER SHARE

Following is a reconciliation of income and average shares for purposes of calculating basic and diluted income per share:

	1998	1997	1996
Basic Income per Share			
Income before cumulative effect of accounting change	$ 100,337	$ 100,853	$ 102,721
Cumulative effect of accounting change	(3,283)	--	--
Net Income	$ 97,054	$ 100,853	$ 102,721
Average common shares outstanding	28,035,748	28,049,749	28,384,089
Basic Income per Share			
Before cumulative effect of accounting change	$ 3.58	$ 3.60	$ 3.62
Cumulative effect of accounting change	(.12)	--	--
Basic net income per share	$ 3.46	$ 3.60	$ 3.62
Diluted Income per Share			
Income before cumulative effect of accounting change	$ 100,337	$ 100,853	$102,721
After-tax equivalent of interest expense on 6% convertible debentures	--	2,192	3,720
Income for purpose of computing diluted income per share before cumulative effect of accounting change	100,337	103,045	106,441
Cumulative effect of accounting change	(3,283)	--	--
Income for purpose of computing diluted income per share	$ 97,054	$ 103,045	$ 106,441
Average common shares outstanding	28,035,748	28,049,749	28,384,089
Dilutive stock options	156,979	209,927	46,019
Assumed conversion of 6% convertible debentures	--	1,109,298	1,904,762
Average common shares for purpose of computing diluted income per share	28,192,727	29,368,974	30,334,870
Diluted Income per Share			
Before cumulative effect of accounting change	$ 3.56	$ 3.51	$ 3.51
Cumulative effect of accounting change	(.12)	--	--
Diluted net income per share	$ 3.44	$ 3.51	$ 3.51

</TABLE>

Options to purchase an average of 160,600 and 771,000 shares of common stock were outstanding during 1998 and 1996, respectively, that were not included in the computation of diluted income per share because the option exercise prices were greater than the average market price of common shares and, therefore, the effect would have been anti-dilutive.

NOTE 3 - SPECIAL CHARGE

In 1997, the Company's Aeroquip segment exited its automotive interior plastics business and recorded a special charge of $30,000 ($18,500 net, or diluted net income per share of $.63). The special charge included a provision for severance payments of $6.3 million to terminate approximately 1,500 salaried and hourly employees, principally in Germany. The special charge also included lease termination costs amounting to $6.9 million; asset disposal costs, including environmental costs, amounting to $9.6 million; litigation costs amounting to $3 million; and other costs amounting to $4.2 million. The Company sold or closed eight facilities during 1997 that had combined sales of approximately

$67,000 and $132,000 in 1997 and 1996, respectively. The planned actions to which this special charge related were substantially completed during 1997, and as of December 31, 1998, all costs had been incurred.

NOTE 4 - ACQUISITIONS

During 1998, the Company's Aeroquip segment acquired two companies and its Vickers segment acquired four companies for an aggregate purchase price of $30,741, including acquisition costs. In 1996, the Company's Vickers segment acquired two companies for an aggregate purchase price of $46,116, including acquisition costs.

All of the above acquisitions were accounted for as purchases, and their operations were included in the Statement of Income from their respective acquisition dates. Had these acquisitions occurred as of the beginning of the respective years, the pro forma results of operations giving effect to the acquisitions would not be materially different from the net sales, net income and net income per share presented in the Statement of Income.

NOTE 5 - GAIN ON SALE OF UNCONSOLIDATED AFFILIATES

In 1996, the Company sold its 35% interest in Yokohama Aeroquip K.K. and its 49% interest in Aeroquip Mexicana S.A. The two transactions resulted in a net combined pretax gain of $17,300 ($5,000 net, or diluted net income per share of $.16). The combined pretax gain included a net translation gain of $6,387 previously deferred in accumulated other comprehensive income.

NOTE 6 - INVENTORIES

Inventory costs determined by the LIFO method accounted for approximately 58% and 61% of total inventories at December 31, 1998 and 1997, respectively. If all inventories valued by the LIFO method had been valued at current costs, these inventories would have been approximately $27,591 and $27,884 higher than reported at December 31, 1998 and 1997, respectively.

NOTE 7 - DEBT
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
7.875% senior debentures, due June 1, 2026	$100,000	$100,000
Medium term notes - interest rates from 6.40% to 7.58% - due at various dates from 2002 to 2018	165,000	100,000
9.55% senior sinking fund debentures	--	42,000
Industrial revenue bonds - interest rates from 5.8% to 7.625% - due at various dates to 2013	7,264	7,300
Other	7,114	9,264
	279,378	258,564
Less current maturities	1,035	1,857
	$278,343	$256,707

</TABLE>

NOTE 7 - DEBT (Continued)

In December 1997, the Company called its 9.55% senior sinking fund debentures for redemption on February 3, 1998. The debentures were due to mature in February 2018. Proceeds from additional borrowings under the Company's Medium Term Note program were used to redeem the debentures. The loss from redemption of the debentures amounting to approximately $2,500 was recorded in Other income (expense) - net in 1998. In June 1997, the Company called its 6% convertible subordinated debentures for redemption and recorded a loss of $1,487 in Other income (expense) - net. The debentures, which were due to mature in October 2002, were convertible into common shares of the Company at a conversion price of $52.50 per share. Prior to the redemption date, debentures in the amount of $3,726 were converted into 70,950 shares of common stock.

In 1997, the Company established a Medium Term Note program. The remaining borrowing capacity at December 31, 1998, under provisions of a shelf registration statement designated for the Medium Term Note program was $185,000.

Under terms of a revolving credit agreement, expiring August 31, 2001, with a consortium of U.S. and non-U.S. banks, the Company can borrow up to $175,000. Borrowings under the credit agreement bear interest at rates agreed to by the Company and lenders. The agreement is maintained to support the Company's commercial paper borrowings and, to the extent not so utilized, to provide domestic borrowings. The remaining borrowing capacity under this agreement at December 31, 1998, was $120,000. Covenants of the revolving credit agreement and certain other debt instruments require the Company to maintain certain financial ratios, including a limitation that the Company's debt-to-capitalization ratio (exclusive of the effects of the change in accounting for postretirement benefit obligations) not exceed a specified amount. At December 31, 1998, retained earnings of $255,000 were available for the payment of cash dividends and purchase of common stock.

Maturities of long-term debt in 1999 and in the four succeeding years are $1,035, $355, $271, $25,188 and $97. Interest paid on short- and long-term debt during 1998, 1997 and 1996 amounted to $28,446, $27,664 and $27,392, respectively. The weighted-average interest rate of outstanding notes payable at December 31, 1998 and 1997, was 6.4% and 6.5%, respectively.

NOTE 8 - CONTINGENCIES

The Company or certain of its subsidiaries have been named parties to various lawsuits, claims and proceedings, including being named potentially responsible parties (PRP) for site investigation and cleanup costs under the Comprehensive Environmental Response, Compensation, and Liability Act (Superfund) or similar regulations with respect to certain sites, as well as other product liability, tort and contract claims and lawsuits which have arisen in the ordinary course of the Company's business. While the ultimate outcome of the various lawsuits, claims and proceedings, including PRP designations and other environmental matters, cannot now be predicted, the Company believes that any costs in excess of amounts provided, or covered by insurance as it relates to litigation, arising out of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

<TABLE>
<CAPTION>

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - INCOME TAXES

The components of income before income taxes and cumulative effect of accounting change consist of the following:

	1998	1997	1996
<S>	<C>	<C>	<C>
U.S.	$ 64,772	$ 84,300	$ 73,644
Non-U.S.	82,765	63,853	79,777
	$147,537	$148,153	$153,421

Income tax expense consists of the following:

	1998	1997	1996
Current:			
U.S. federal	$ 20,101	$ 23,231	$ 21,920
State and local	2,279	2,070	2,676
Non-U.S.	24,309	22,466	14,107
	46,689	47,767	38,703
Deferred:			
U.S. federal	952	(136)	4,356
Non-U.S.	(441)	(331)	7,641
	511	(467)	11,997
	$ 47,200	$ 47,300	$ 50,700

Reconciliation of the statutory U.S. federal income tax rate to the effective income tax rate before cumulative effect of accounting change follows:

	1998	1997	1996
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
State and local taxes, net of U.S. federal tax benefit	.9	.9	1.1
Basis differences on affiliates sold	--	--	4.1
Research and development credit	(2.9)	(1.9)	(2.6)
Taxes in excess of (less than) the U.S. tax rate on non-U.S. earnings, including utilization of net operating loss carryforwards	(1.0)	1.0	(3.2)
Other	--	(3.1)	(1.4)
Effective income tax rate	32.0%	31.9%	33.0%

</TABLE>

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - INCOME TAXES (Continued)

The effects of temporary differences and loss carryforwards giving rise to deferred tax assets and liabilities are as follows:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Gross Deferred Tax Assets:		
Postretirement benefits other than pensions	$ 42,729	$ 42,704
Tax credits and loss carryforwards	14,943	8,668
Employee benefit accruals	15,088	14,289
Other	14,728	9,617
	87,488	75,278
Gross Deferred Tax Liabilities:		
Depreciation	(38,067)	(33,241)
Other	(8,741)	(7,980)
	(46,808)	(41,221)
Valuation allowances	(12,969)	(6,816)
Net deferred tax assets	$ 27,711	$ 27,241

The components of net deferred tax assets are recorded in the Statement of Financial Position as follows:

	1998	1997
Current assets	$ 10,066	$ 3,679
Non-current assets	27,711	30,958
Non-current liabilities	(10,066)	(7,396)
	$ 27,711	$ 27,241

</TABLE>

Valuation allowances increased $6,153 in 1998 and decreased $5,773 and $3,364 in 1997 and 1996, respectively.

At December 31, 1998, the Company had net non-U.S. operating loss and foreign tax credit carryforwards of $20,700 and $8,200, respectively, for income tax purposes. Loss carryforwards of approximately $13,800 have no expiration dates. The remaining net operating loss and foreign tax credit carryforwards expire in years through 2008. Income tax expense for the years 1998, 1997 and 1996 was reduced by $1,190, $1,770 and $3,730, respectively, due to utilization of operating loss carryforwards. Non-U.S. operating loss carryforwards in the amount of $4,900 and $5,600 expired in 1998 and 1997, respectively, resulting in the loss of future tax benefits and a reduction in valuation allowances in the amount of $1,800 and $2,100, respectively. The Company does not provide deferred income taxes on undistributed earnings of certain of its non-U.S. subsidiaries which have been reinvested indefinitely. Undistributed earnings of non-U.S. subsidiaries for which U.S. income taxes have not been provided approximated $150,300 at December 31, 1998. Should these earnings be remitted, certain countries would impose withholding taxes that would be available for use as credits against any U.S. federal income tax liability, subject to certain limitations. It is not practical to estimate the amount of tax that would be payable should the Company remit these earnings.

Income taxes paid during 1998, 1997 and 1996 amounted to $51,343, $31,798 and $54,633, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - LEASES

The Company and its subsidiaries lease a variety of real property and equipment. Rent expense under operating leases amounted to approximately $22,554, $20,457 and $18,863 for 1998, 1997 and 1996, respectively. Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 1998, are as follows:

<TABLE>
<CAPTION>

<S>	<C>
1999	$ 19,499
2000	14,752
2001	12,232
2002	7,758
2003	6,893
Thereafter	11,526
	$ 72,660

</TABLE>

NOTE 11 - FINANCIAL INSTRUMENTS

Fair value for long-term debt, including current maturities, at December 31, 1998 and 1997, was $292,000 and $269,000, respectively. Fair value for notes payable at December 31, 1998 and 1997, approximated the carrying amounts at those dates.

At December 31, 1998, the Company had forward exchange contracts outstanding with notional amounts equivalent to $14,300. The carrying amount of these outstanding forward exchange contracts was $121. Fair value was approximately equal to the carrying amount. These forward exchange contracts will mature at various dates through April 1999. At December 31, 1997, the Company had forward exchange contracts outstanding with notional amounts equivalent to $12,800. The carrying amount of these outstanding forward exchange contracts was $227. Fair value was approximately equal to the carrying amount. These forward exchange contracts matured at various dates through April 1998.

At December 31, 1998, the Company held option contracts maturing at various dates through November 1999, with notional amounts equivalent to $28,000. Fair value of these option contracts was approximately $204. At December 31, 1997, the Company held option contracts maturing at various dates through December 1998, with notional amounts equivalent to $61,600. Fair value of these option contracts was approximately $600.

NOTE 12 - BENEFIT PLANS

The Company sponsors trusteed defined-contribution pension plans as its primary source of retirement benefits for U.S. and certain non-U.S. employees. In addition, the Company sponsors trusteed defined-benefit pension plans that cover a limited number of U.S. employees. The Company also provides access to postretirement benefits under life insurance and health care plans for most retired U.S. employees. Various pension plans are also in effect for subsidiaries operating outside the U.S., including trusteed or insured, government-sponsored and unfunded plans.

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - BENEFIT PLANS (Continued)

Following is a reconciliation of the changes in benefit obligations and fair values of plan assets for defined-benefit pension and postretirement benefit plans for the two-year period ended December 31, 1998, and a summary of funded status as of December 31, 1998 and 1997.

	Pension Plans		Postretirement Plans	
	1998	1997	1998	1997
CHANGE IN BENEFIT OBLIGATIONS				
Benefit obligations at beginning of year	$ 160,600	$ 157,800	$ 102,600	$ 111,100
Service cost	2,400	2,200	1,700	1,700
Interest cost	11,500	11,300	7,400	8,100
Participant contributions	300	200	100	200
Plan amendments	300	1,600	--	--
Actuarial (gains) losses	16,000	1,700	(600)	(10,700)
Benefit payments	(10,000)	(9,500)	(8,100)	(7,800)
Settlements	(2,800)	--	--	--
Exchange rate changes	1,700	(4,700)	--	--
Benefit obligations at end of year	$ 180,000	$ 160,600	$ 103,100	$ 102,600
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 181,400	$ 154,200	$ --	$ --
Actual return on plan assets	19,400	38,200	--	--
Employer contributions	1,000	900	8,000	7,600
Participant contributions	300	200	100	200
Benefit payments	(10,000)	(9,500)	(8,100)	(7,800)
Settlements	(1,700)	--	--	--
Exchange rate changes	1,000	(2,600)	--	--
Fair value of plan assets at end of year	$ 191,400	$ 181,400	$ --	$ --
FUNDED STATUS				
Funded status at end of year	$ 11,400	$ 20,800	$(103,100)	$(102,600)
Unrecognized gains	(19,500)	(33,700)	(9,815)	(9,172)
Unrecognized transition obligations	(1,500)	400	--	--
Unrecognized prior service cost (credit)	4,800	6,200	(8,800)	(10,500)
Accrued benefit cost	$ (4,800)	$ (6,300)	$(121,715)	$(122,272)
AMOUNTS RECORDED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF:				
Prepaid benefit cost	$ 24,400	$ 15,500	$ --	$ --
Accrued benefit cost	(29,200)	(21,800)	(121,715)	(122,272)
Net amount recorded	$ (4,800)	$ (6,300)	$(121,715)	$(122,272)

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - BENEFIT PLANS (Continued)

The aggregate accumulated benefit obligations and fair value of pension plan assets at the end of each year for plans that have an accumulated benefit obligation in excess of plan assets were as follows:

	1998	1997

<S>	<C>	<C>
Projected benefit obligations	$39,593	$35,039
Accumulated benefit obligations	37,456	33,358
Plan assets	15,570	14,228

</TABLE>

Components of net periodic benefit cost for the defined-benefit pension and postretirement benefit plans, total contributions charged to pension expense for the defined-contribution plans, and pension expense for other non-U.S. pension plans are summarized below:

<TABLE>
<CAPTION>

	Pension Plans			Postretirement Plans		
	1998	1997	1996	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>
COMPONENTS OF NET PERIODIC BENEFIT COST						
Service cost	$ 2,400	$ 2,200	$ 2,400	$ 1,700	$ 1,700	$ 1,700
Interest cost	11,500	11,300	11,300	7,400	8,100	8,200
Expected return on plan assets	(14,800)	(13,700)	(13,000)	--	--	--
Amortization of (gains) losses	(600)	(200)	(200)	--	--	--
Amortization of transition obligation	200	200	300	--	--	--
Amortization of prior service cost	700	500	400	(1,600)	(1,700)	(1,700)
Net periodic benefit cost (income) of defined benefit plans	(600)	300	1,200	7,500	8,100	8,200
Defined contribution plans	38,700	42,000	37,000	--	--	--
Other non-U.S. pension plans	1,100	1,000	1,200	--	--	--
Totals	$ 39,200	$ 43,300	$ 39,400	$ 7,500	$ 8,100	$ 8,200

</TABLE>

The Company's health care plans are contributory. In general, most participants meeting eligibility requirements and retiring after January 1, 1995, share in the cost of postretirement health care benefits by paying, in the form of a premium, the excess, if any, of the average of the Company's annual per-capita claims cost in the previous year over the amount of the Company's contribution as stated in the plans.

Following are the weighted-average assumptions used in determining the Company's benefit obligations and net periodic benefit cost. The measurement date for these plans was principally September 30.

<TABLE>
<CAPTION>

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - BENEFIT PLANS (Continued)

	Pension Benefits			Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Discount rate:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
U.S.	7.0%	7.5%	7.5%	7.0%	7.5%	7.5%
Non-U.S.	6.4	7.2	7.5			
Expected return on plan assets	9.5	10.0	10.0			
Rate of compensation increase	4.0	4.0	4.0			
Projected health care cost trend rates:						
Under age 65				7.95	8.6	9.1
Over age 65				5.95	6.4	6.7
Ultimate				5.0	5.25	5.25
Year ultimate health care cost trend rate is achieved				2008	2008	2008

</TABLE>

The projected health care cost trend rates listed above for under and over age 65 participants represent assumed increases in per capita cost of covered health care benefits for 1999, 1998 and 1997, respectively. For future years, the rates are assumed to decrease gradually and remain at the ultimate trend rate thereafter. Because the amount of the Company's annual contribution to retiree health care costs is limited, changes to the assumed health care cost trend rates do not have a significant effect on the amounts reported for the health care plans. Following are the effects of a one-percentage-point change in the assumed health care cost trend rates.

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total 1998 service and interest cost components of net periodic post-retirement health care benefit cost	$ 331	$ (308)
Effect on the health care component of the accumulated postretirement benefit obligation as of September 30, 1998	4,430	(4,121)

NOTE 13 - CAPITAL STOCK AND EMPLOYEE STOCK OPTIONS

The Company has rights outstanding as set forth in a Rights Agreement, whereby holders of common stock have one right for each share of common stock outstanding. When exercisable, each right entitles its holder to buy one one-hundredth of a new preferred share for $150. The Company has 4,000,000 shares of serial preferred stock authorized, of which no shares were outstanding at December 31, 1998 or 1997. In the absence of further Board of Directors action, the rights generally will become exercisable and allow the holder to acquire the Company's common stock at a discounted price if a person or group acquires 20% or more of the outstanding shares of the Company's common stock.

Rights held by persons who exceed the 20% threshold will be void. Under certain circumstances, the rights will entitle the holder to buy shares in an acquiring entity at a discounted price. The Agreement also includes an exchange option that, in general, after the rights become exercisable, allows the Board of Directors to, at its option, effect an exchange of part or all of the rights, other than rights that have become void, for shares of the Company's common stock. Under this option, the Company would issue one share of its common stock for each right, subject to adjustment in certain

NOTE 13 - CAPITAL STOCK AND EMPLOYEE STOCK OPTIONS (Continued)

circumstances. The Company may, at its option, redeem all rights for $.01 per right, generally at any time prior to the rights becoming exercisable. The rights will expire on February 7, 2009, unless earlier redeemed, exchanged or amended by the Board of Directors.

In 1998, the Company's shareholders approved the 1998 Stock Incentive Plan (the Plan) which permits the issuance of stock options, stock appreciation rights (SARs), performance awards and restricted stock awards to selected salaried employees as approved by the Organization and Compensation Committee of the Board of Directors. The number of shares of common stock that may be issued or transferred under the Plan may not exceed 1,772,299 shares (1,700,000 shares as designated in the Plan, plus 72,299 remaining shares available for grant under terms of the prior plan).

Among other considerations, options may be granted to selected employees to purchase common stock at prices not less than 100% of the fair market value on the date of grant. Options expire 10 years after date of grant. Options granted under the Plan become exercisable ratably over a three-year period commencing one year following date of grant. Options that expire, terminate or are canceled without exercise are available for the grant of new awards.

Performance awards may be granted to selected employees to receive future payments contingent on continuous service with the Company and achievement of pre-established goals. In January 1998 and 1997, 16,925 and 44,314 shares of common stock, respectively, were distributed to participants as performance awards under provisions of a plan that was discontinued in 1998. At December 31, 1998, there were no outstanding SARs, performance awards or restricted stock awards.

Also in 1998, the Company's shareholders approved the Non-Employee Directors' Stock Award Plan (Directors' Plan). The Directors' Plan provides, among other considerations, that upon election or re-election to the Board, each eligible director will receive a stock option covering 1,200 common shares and a stock award covering 200 common shares. Stock options are granted to purchase common stock at the fair market value of the Company's common stock on the date of grant. Stock options are exercisable ratably over a three-year period commencing one year following date of grant and expire 10 years after date of grant. Stock awards vest and become payable on the first anniversary following date of grant.

The Company accounts for stock options in accordance with Accounting Principles Board Opinion No. 25 and related interpretations. As a result, no compensation expense for stock options has been recognized in the financial statements because such options were granted at market value at date of grant. However, pro forma information regarding net income and net income per share is required by Statement of Financial Accounting Standards No. 123, and has been determined for disclosure purposes as if the Company had accounted for stock options under the fair value method as prescribed by that Statement. The fair values of the Company's stock options were estimated as of the dates of grant using the Black-Scholes option pricing model with the following assumptions:

	1998	1997	1996
Risk-free interest rates	5.49%	5.8%	6.52%
Expected dividend yields	1.7%	1.9%	2.3%
Expected stock price volatility	.330	.323	.319
Weighted-average expected option life	5 years	5 years	6 years

NOTES TO FINANCIAL STATEMENTS

NOTE 13 - CAPITAL STOCK AND EMPLOYEE STOCK OPTIONS (Continued)

For purposes of pro forma disclosures, the estimated fair values of stock options are amortized to expense over the options' vesting periods. The estimated fair value per share of options granted during 1998, 1997 and 1996 was $16.86, $13.43 and $11.36, respectively. Pro forma income and income per share before cumulative effect of accounting change are as follows:

		1998	1997	1996
Income before cumulative effect of accounting change	As reported	$100,337	$100,853	$102,721
	Pro forma	98,248	99,505	101,293
Diluted income per share before cumulative effect of accounting change	As reported	3.56	3.51	3.51
	Pro forma	3.48	3.46	3.46

Options outstanding at December 31, 1998, with a range of exercise prices from $22.50 to $33.75 had a weighted-average remaining contractual life of approximately 6.4 years and options with a range of exercise prices from $42.13 to $60.31 had a weighted-average remaining contractual life of approximately nine years.

At December 31, 1998, the Company had 2,787,331 shares of common stock reserved for issuance in connection with stock options.

The following table summarizes employee stock option activity:

	1998		1997		1996	
	Option Shares	Weighted-Average Exercise Price	Option Shares	Weighted-Average Exercise Price	Option Shares	Weighted-Average Exercise Price

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at January 1	1,129,911	$ 35.44	1,405,950	$ 31.30	1,164,980	$ 30.67
Granted	353,500	51.73	342,000	42.13	349,000	33.02
Exercised	(195,713)	32.57	(592,041)	29.52	(86,030)	29.18
Forfeited	(80,158)	42.24	(16,998)	34.77	(4,500)	33.58
Canceled	(11,335)	30.96	(9,000)	33.44	(17,500)	33.52
Outstanding at December 31	1,196,205	40.30	1,129,911	35.44	1,405,950	31.30
Exercisable at December 31	587,190	34.31	587,754	32.38	1,059,950	30.74
Available for future awards at December 31	1,491,126		58,133		391,060	

</TABLE>

In addition to the above, 9,800 options and stock awards were granted to directors in 1998 under the Directors' Plan at a weighted-average exercise price of $60.31. All options granted were outstanding at December 31, 1998, and none were exercisable at that date. 90,200 options are available for future awards at December 31, 1998.

NOTE 14 - BUSINESS SEGMENTS

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information," which was adopted in 1998. Statement 131 requires that segment financial information be reported on a basis consistent with the Company's internal reporting used for evaluating segment performance and allocating resources. Accordingly, in 1998, the Company changed its business segments, which were previously based on markets served, from Industrial, Automotive and Aerospace to Aeroquip and Vickers. These segments reflect the way the Company is organized and managed and how performance is measured. The Company evaluates performance and allocates resources based on operating income before allocation of corporate costs. Corporate costs represent the total of corporate headquarters costs. Although Aeroquip and Vickers serve many of the same customers and markets, they are managed separately because of significantly different product technologies and manufacturing processes and the differing dynamics required to serve their customers. Amounts for prior years have been restated to conform to the current year presentation.

The Aeroquip segment designs, manufactures and distributes fluid connectors and plastic products. Fluid connectors include all pressure ranges of hose and hose assemblies; fittings, adapters, couplings and swivels; automotive air conditioning, power steering, and oil and transmission cooler components and assemblies; tube fittings and assemblies; refrigeration/air conditioning connectors; clamps and V-band couplings; fuel-handling products; noise-reduction products; chemical containment products; and electronic fluid system products. Aeroquip plastic products include molded, extruded and co-extruded plastic products. The Aeroquip segment serves original equipment and aftermarket customers in industrial markets located principally in the U.S., Europe, Asia-Pacific and Brazil; original equipment and aftermarket customers in aerospace and defense markets located principally in the U.S. and Europe; and automobile, light truck, sport utility and van manufacturers in automotive markets located principally in the U.S. and Europe.

The Vickers segment designs, manufactures and distributes power and motion control products. Vickers products include hydraulic, electrohydraulic, pneumatic and electronic control devices; piston and vane pumps and motors; open architecture machine controls; hydraulic and pneumatic cylinders; hydraulic power packages; electric motors and drives; fuel pumps; electric motorpumps and generator packages; electrohydraulic and electromechanical actuators; sensors and monitoring devices; hydraulic and lubrication filtration; and fluid-evaluation products and services. The Vickers segment serves original equipment and aftermarket customers in industrial markets located principally in the U.S., Europe, Asia-Pacific and Brazil, and original equipment and aftermarket customers in aerospace and defense markets located principally in the U.S. and Europe.

The accounting policies for the reportable segments are the same as those described in Note 1 - Significant Accounting Policies. Intersegment sales are not significant.

NOTE 14 - BUSINESS SEGMENTS (Continued)

The following information relates to business segments:

	Aeroquip	Vickers	Reconciling Amounts-Corporate and Eliminations Net	Totals
1998				
Net sales	$1,071,608	$1,077,866	$ --	$2,149,474
Depreciation and amortization	35,284	42,017	2,346	79,647
Segment income	124,295	90,407	--	214,702 (A)
Investments in unconsolidated affiliates	1,585	--	--	1,585
Segment assets	581,553	795,070	82,178	1,458,801
Capital expenditures	73,554	64,833	3,856	142,243
Expenditures for businesses acquired	11,762	18,979	--	30,741
1997				
Net sales	$1,065,188	$1,047,105	$ --	$2,112,293
Depreciation and amortization	35,139	35,625	2,437	73,201
Segment income	89,458	132,599	--	222,057 (A)
Investments in unconsolidated affiliates	945	637	--	1,582
Segment assets	535,701	771,650	69,245	1,376,596
Capital expenditures	66,195	70,315	3,301	139,811
1996				
Net sales	$1,099,914	$ 933,001	$ --	$2,032,915
Depreciation and amortization	39,314	31,499	2,660	73,473
Segment income	96,184	110,571	--	206,755 (A)
Investments in unconsolidated affiliates	1,041	1,152	--	2,193
Segment assets	570,300	667,381	51,806	1,289,487
Capital expenditures	50,893	38,356	1,377	90,626
Expenditures for businesses acquired	--	42,540	--	42,540

Note A - See following reconcilement of total segment income to income before income taxes and cumulative effect of accounting change.

NOTE 14 - BUSINESS SEGMENTS (Continued)

Following is a reconciliation of total segment income to income before income taxes and cumulative effect of accounting change:

	1998	1997	1996
Segment income	$ 214,702	$ 222,057	$ 206,755
Less unallocated corporate costs	28,322	30,417	30,180
Consolidated operating income	186,380	191,640	176,575
Interest expense	(27,013)	(27,171)	(25,813)
Other income (expense) - net	(11,830)	(16,316)	2,659
income before income taxes and cumulative effect of accounting change	$ 147,537	$ 148,153	$ 153,421

Following are net sales by product groupings:

Power and Motion Control	$1,077,866	$1,047,105	$ 933,001
Fluid Connectors	929,022	858,769	824,388
Plastics	142,586	206,419	275,526
	$2,149,474	$2,112,293	$2,032,915

</TABLE>

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - BUSINESS SEGMENTS (Continued)

Following are net sales to external customers and plants and properties by geographic area. Net sales are reported based on the geographic location from which the sales originated. Amounts reported for plants and properties are based on the country where located.

<TABLE>
<CAPTION>

<S>	Net Sales <C>	Plants and Properties <C>
1998		
United States	$1,394,277	$ 410,699
Europe		
United Kingdom	271,660	60,768
Germany	226,786	36,040
Other Europe	140,257	17,977
Total Europe	638,703	114,785
Other	116,494	22,733
Totals	$2,149,474	$ 548,217
1997		
United States	$1,356,334	$ 362,776
Europe		
United Kingdom	245,965	52,653
Germany	252,627	26,859
Other Europe	125,548	12,693
Total Europe	624,140	92,205
Other	131,819	19,161
Totals	$2,112,293	$ 474,142
1996		
United States	$1,291,875	$ 330,368
Europe		
United Kingdom	238,590	47,754
Germany	270,254	33,063
Other Europe	117,567	10,361
Total Europe	626,411	91,178
Other	114,629	15,937
Totals	$2,032,915	$ 437,483

</TABLE>

NOTES TO FINANCIAL STATEMENTS

NOTE 15 - OTHER INFORMATION
<TABLE>

<CAPTION>

	1998	1997
RECEIVABLES		
Receivables	$ 356,664	$ 363,523
Less allowance for doubtful accounts	14,839	14,701
	$ 341,825	$ 348,822
INVENTORIES		
In-process and finished products	$ 231,842	$ 239,800
Raw materials and manufacturing supplies	70,394	54,967
	$ 302,236	$ 294,767
OTHER CURRENT ASSETS		
Deferred income taxes	$ 10,066	$ 3,679
Prepaid expenses and other current assets	42,080	45,644
	$ 52,146	$ 49,323
PLANTS AND PROPERTIES - AT COST		
Land and improvements	$ 22,634	$ 21,458
Buildings	223,405	198,882
Machinery and equipment	801,692	694,572
Construction in progress	71,826	78,090
	$1,119,557	$ 993,002
OTHER ASSETS		
Goodwill, net of accumulated amortization of $17,045 and $13,077 in 1998 and 1997, respectively	$ 124,890	$ 111,905
Deferred income taxes	27,711	30,958
Receivables, deposits and other assets	44,466	47,943
	$ 197,067	$ 190,806
NOTES PAYABLE		
Commercial paper	$ 55,096	$ 36,177
Short-term notes payable to banks	46,733	47,867
	$ 101,829	$ 84,044
OTHER ACCRUED LIABILITIES		
Employees' compensation and amounts withheld therefrom	$ 106,502	$ 117,107
Taxes, other than income taxes	7,309	10,177
Other accrued liabilities	83,915	85,516
	$ 197,726	$ 212,800

</TABLE>

NOTES TO FINANCIAL STATEMENTS

NOTE 16 - SUBSEQUENT EVENT (Unaudited)

On February 1, 1999, Eaton Corporation and Aeroquip-Vickers, Inc. announced that the companies had entered into an "Agreement and Plan of Merger" whereby Eaton Corporation would acquire all of the outstanding shares of Aeroquip-Vickers, Inc. for $58 per share in cash. The Boards of Directors of both companies have approved the transaction, which is subject to normal closing conditions and the approval of Aeroquip-Vickers shareholders. The transaction is expected to be completed in April 1999.

QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 1998 and 1997.

<TABLE>
<CAPTION>

	1998				
	Three Months Ended				Year Ended
	Mar 31	Jun 30	Sep 30	Dec 31	Dec 31
	(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$ 547,055	$ 574,314	$ 508,974	$ 519,131	$2,149,474
Manufacturing income	144,232	151,575	123,821	109,941	529,569
Income before cumulative effect of accounting change	31,173	37,841	23,931	7,392	100,337
Cumulative effect of accounting change	(3,283)	--	--	--	(3,283)
Net income	27,890	37,841	23,931	7,392	97,054
Basic income per share before cumulative effect of accounting change	1.11	1.34	.85	.27	3.58
Cumulative effect of accounting change	(.12)	--	--	--	(.12)
Basic net income per share	.99	1.34	.85	.27	3.46
Diluted income per share before cumulative effect of accounting change	1.10	1.33	.85	.27	3.56
Cumulative effect of accounting change	(.12)	--	--	--	(.12)
Diluted net income per share	.98	1.33	.85	.27	3.44
Average shares outstanding					
Basic	28,119	28,199	28,166	27,669	28,036
Diluted	28,336	28,454	28,302	27,674	28,193

</TABLE>

QUARTERLY RESULTS OF OPERATIONS (Unaudited) (Continued)
<TABLE>
<CAPTION>

	1997				
	Three Months Ended				Year Ended
	Mar 31	Jun 30	Sep 30	Dec 31	Dec 31
	(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$ 538,426	$ 556,278	$ 494,777	$ 522,812	$2,112,293
Manufacturing income	132,475	147,037	134,406	143,707	557,625
Net income	5,694	33,630	30,104	31,425	100,853
Net income per share					
Basic	.20	1.20	1.07	1.12	3.60
Diluted	.20	1.15	1.05	1.11	3.51
Average shares outstanding					
Basic	27,974	27,948	28,153	28,150	28,050
Diluted	28,116	30,020	29,036	28,372	29,369

</TABLE>

(a) The 1998 fourth quarter includes non-recurring charges (principally incurred severance costs) of $5 million, $3.1 million net (diluted net income per share of $.11).

(b) In 1997, the Company redeemed its outstanding 6% convertible debentures, which were common stock equivalents. For purposes of computing diluted net income per share in 1997, the assumed conversion of the convertible debentures was included in average shares outstanding as follows: 1,904,762 shares in the 1997 second quarter, 627,667 shares in the 1997 third quarter and 1,109,298 shares for the year.

(c) The 1997 first quarter included a special charge of $30 million, $18.5 million net (diluted net income per share of $.66 [$.63 for the year]) to exit Aeroquip's automotive interior plastics business.

(d) In the 1997 third quarter, the annual effective income tax rate was reduced. The cumulative year-to-date adjustment increased third-quarter net income by $1.3 million (diluted net income per share of $.05).

(e) The 1997 fourth quarter included income amounting to $4.3 million, $2.6 million net (diluted net income per share of $.09) from recovery of previously incurred development and pre-production costs with a Vickers aerospace customer arising from the termination of a component design and production supply contract, reduced by a charge of $2.6 million, $1.6 million net (diluted net income per share of $.05) to recognize a product liability claim from an Aeroquip industrial customer for a unique product that is no longer manufactured.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

ITEM 10. Directors and Officers of the Registrant.

Following is a list of all of the directors of Aeroquip-Vickers, Inc. including their ages, positions and recent business experience:

DARRYL F. ALLEN (55). An Aeroquip-Vickers director since 1984, Mr. Allen has been Aeroquip-Vickers' Chairman of the Board since 1991 and Aeroquip-Vickers' President and Chief Executive Officer since 1986. He is a director of Milacron Inc. and Fifth Third Bancorp.

VIRGIS W. COLBERT (59). An Aeroquip-Vickers director since 1998, Mr. Colbert is Executive Vice President of the Miller Brewing Company (consumer products) and has held his current position since July 1997. From 1995 to 1997, Mr. Colbert was Senior Vice President - World Wide Operations for Miller Brewing Company. From 1993 to 1995, Mr. Colbert was Senior Vice President - Plant Operations for Miller Brewing Company. He is also a member of the Board of Directors of Miller Brewing Company, a wholly-owned subsidiary of Philip Morris Companies Inc., and Delphi Automotive Systems.

PURDY CRAWFORD (67). An Aeroquip-Vickers director since 1990, Mr. Crawford is Chairman and a director of Imasco Limited (a major Canadian consumer products and services corporation with operations in Canada and the United States) and Chairman and a director of CT Financial Services Inc. and Canada Trustco Mortgage Company (98% owned by Imasco). From 1986 until May 1995, Mr. Crawford was the Chief Executive Officer of Imasco. He is also a director of Avenor Inc.; Camco, Inc.; Canadian National Railway Company; Inco Limited; Maple Leaf Foods Inc.; Nova Scotia Power; Petro-Canada; and Woolworth Corporation.

JOSEPH C. FARRELL (63). An Aeroquip-Vickers director since 1994, Mr. Farrell is the retired Chairman and Chief Executive Officer of The Pittston Company (coal and minerals, security, transportation, air freight services and home security services). Mr. Farrell was Chairman, President and Chief Operating Officer of The Pittston Company from 1991 to 1997. He is also a director of Universal Corp. and ASA Limited.

DAVID R. GOODE (58). An Aeroquip-Vickers director since 1993, Mr. Goode is Chairman of the Board, President and Chief Executive Officer of Norfolk Southern Corporation (transportation holding company). Mr. Goode has been in his current position with Norfolk Southern Corporation since 1992. He is a director of Caterpillar Inc., Georgia-Pacific Corporation and Texas Instruments Incorporated.

PAUL A. ORMOND (49). An Aeroquip-Vickers director since 1992, Mr. Ormond is President and Chief Executive Officer of HCR Manor Care (long-term care, skilled nursing and rehabilitative services). Mr. Ormond was Chairman, President and Chief Executive Officer of HCR Manor Care from October 1991 to September 1998. He is a director of National City Bank, a wholly-owned subsidiary of National City Corp.

JOHN P. REILLY (55). An Aeroquip-Vickers director since 1991, Mr. Reilly has been a Partner of Reilly, Erwin & Company L.L.C. since September 1997. Reilly, Erwin & Company L.L.C. works in partnership with Bessemer Holdings, L.P. to make acquisitions and equity investments. Mr. Reilly held an advisory position with Tomkins PLC (a U.K. based multi-industry company) from April 1997 to September 1997. He was President and Chief Executive Officer of Stant Corporation from

January 1997 to April 1997. Mr. Reilly was Chairman of the Board, President and Chief Executive Officer of Figgie International Inc. from May 1995 to January 1997, was President & Chief Executive Officer of Figgie International Inc. from February 1995 to May 1995, and was Chief Executive Officer of Figgie International Inc. from January 1995 to February 1995. Mr. Reilly was President and Chief Operating Officer of Brunswick Corporation from 1993 to 1994. He is a non-employee director of Figgie International Inc.

WILLIAM R. TIMKEN, JR. (60). An Aeroquip-Vickers director since 1973, Mr. Timken is Chairman, President and Chief Executive Officer of The Timken Company (tapered roller bearings and quality alloy steel). He was Chairman of the Board of The Timken Company from 1975 to November 1997. He is a director of Diebold Incorporated.

Following is a list of each of the Executive Officers of Aeroquip-Vickers, Inc. including their names, ages, positions and recent business experience.

NAME AND POSITION	AGE	BUSINESS EXPERIENCE
Darryl F. Allen, Chairman of the Board, President and Chief Executive Officer	55	Chairman of the Board, President and Chief Executive Officer of Aeroquip-Vickers since 1991. Chairman of the Board and President of Vickers, Incorporated since December 1998.
William R. Ammann, Vice President-Administration and Treasurer	57	Vice President-Administration and Treasurer of Aeroquip-Vickers since 1992.
James E. Kline, Vice President and General Counsel	57	Vice President and General Counsel of Aeroquip-Vickers since 1989.
James M. Oathout, Corporate Secretary and Senior Attorney	54	Corporate Secretary and Senior Attorney of Aeroquip-Vickers since March 1995. Secretary and Associate General Counsel of Aeroquip-Vickers from 1988 to March 1995.
Gregory R. Papp, Corporate Controller	52	Corporate Controller of Aeroquip-Vickers since 1993. Vice President and Controller of Aeroquip Corporation from July 1991 to 1993.
David M. Risley, Vice President - Finance and Chief Financial Officer	54	Vice President - Finance and Chief Financial Officer of Aeroquip-Vickers since 1992. Group Vice President - Administration and Control of Aeroquip Corporation from 1991 to 1992.
Howard M. Selland, Executive Vice President of Aeroquip-Vickers and President Of Aeroquip Corporation	55	Executive Vice President of Aeroquip-Vickers and President of Aeroquip Corporation since 1989.
Philip G. Simonds, Vice President-Taxation	58	Vice President-Taxation of Aeroquip-Vickers since 1983.

There are no family relationships among the persons named above.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

In February 1999, it came to the Company's attention that Purdy Crawford, a director of Aeroquip-Vickers, was the owner of 106 common shares of Aeroquip-Vickers which were not reported as owned by Mr. Crawford in Section 16 filings. These 106 common shares were purchased by a trust for the benefit of Mr. Crawford through the Aeroquip-Vickers Dividend Reinvestment Plan during the period 1991 to 1996. The shares were reported late on Mr. Crawford's Form 5 for 1998.

ITEM 11. Executive Compensation
Summary Compensation

THE FOLLOWING TABLE SETS FORTH THE ANNUAL COMPENSATION, THE LONG-TERM COMPENSATION AND ALL OTHER COMPENSATION OF THE NAMED executive officers for each of the last three completed fiscal years.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY ($)	ANNUAL COMPENSATION BONUS(1) ($)	LONG-TERM COMPENSATION AWARDS(2) SECURITIES UNDERLYING OPTIONS (#)	LONG-TERM COMPENSATION PAYOUTS(3) LTIP PAYOUTS ($)	ALL OTHER COMPENSATION(4) ($)
Darryl F. Allen Chairman of the Board, President and Chief Executive Officer of Aeroquip-Vickers	1998	$ 710,000	$ 267,200	60,000	$ N/A	$227,131
	1997	660,000	773,900	50,000	283,000	208,612
	1996	635,000	450,700	50,000	581,700	206,834
Howard M. Selland Executive Vice President of Aeroquip-Vickers and President of Aeroquip Corporation	1998	$ 442,000	$ 421,400	25,000	$ N/A	$178,964
	1997	423,077	441,400	20,000	131,400	121,171
	1996	405,000	180,300	20,000	269,100	84,157
William R. Ammann Vice President - Administration and Treasurer of Aeroquip-Vickers	1998	$ 316,250	$ 91,200	14,000	$ N/A	$ 87,330
	1997	306,224	265,700	11,000	84,900	84,582
	1996	296,740	155,100	11,000	173,400	85,081

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY ($)	ANNUAL COMPENSATION BONUS(1) ($)	LONG-TERM COMPENSATION AWARDS(2) SECURITIES UNDERLYING OPTIONS (#)	LONG-TERM COMPENSATION PAYOUTS(3) LTIP PAYOUTS ($)	ALL OTHER COMPENSATION(4) ($)
James E. Kline Vice President and General Counsel of Aeroquip-Vickers	1998	$ 296,250	$ 91,200	12,000	$ N/A	$ 84,230
	1997	286,282	265,700	11,000	84,900	80,772
	1996	271,747	155,100	11,000	173,400	82,327
David M. Risley Vice President - Finance and Chief Financial Officer of Aeroquip-Vickers	1998	$ 281,000	$ 91,200	14,000	$ N/A	$ 81,865
	1997	265,000	265,700	11,000	84,900	76,708
	1996	250,000	155,100	11,000	173,400	77,278

(1) The payouts shown in this column were made pursuant to the Annual Executive Incentive Plan.

(2) The awards shown in this column were made pursuant to the Aeroquip-Vickers, Inc. 1994 Stock Incentive Plan and the Aeroquip-Vickers, Inc. 1998 Stock Incentive Plan. Although both stock incentive plans permit grants of stock appreciation rights, no stock appreciation rights were outstanding as of December 31, 1998.

(3) The amounts shown in this column reflect the amount of cash and the value of Common Shares paid out under the Mid-Term Incentive Plan for the Plan periods 1995-1997 and 1994-1996, respectively. The Mid-Term Incentive Plan ended on December 31, 1997.

(4) The amounts shown in this column consist of annual company contributions (including the company match and the company profit-sharing allocation) under Aeroquip-Vickers' savings and profit-sharing plan and the Aeroquip-Vickers, Inc. Supplemental Benefit Plan. (See the table below.)

<TABLE>
<CAPTION>

	Savings and Profit-Sharing Plan		Supplemental Benefit Plan		
	Match	Profit-Sharing	Match	Profit-Sharing	Total
1998					
<S>	<C>	<C>	<C>	<C>	<C>
Allen	$4,800	$15,200	$39,717	$167,414	$227,131
Selland	4,800	15,200	21,702	137,262	178,964
Ammann	4,800	15,200	12,659	54,671	87,330
Kline	4,800	15,200	12,059	52,171	84,230
Risley	4,800	15,200	11,601	50,264	81,865

</TABLE>

The following table contains information concerning grants of stock options made during the last completed fiscal year to each of the named executive officers of Aeroquip-Vickers:

OPTION GRANTS IN LAST FISCAL YEAR

<TABLE>
<CAPTION>

INDIVIDUAL GRANTS					GRANT DATE VALUE
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1) (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE(1) ($/SH)	EXPIRATION DATE	GRANT DATE PRESENT VALUE (2) ($)
<S>	<C>	<C>	<C>	<C>	<C>
Darryl F. Allen	60,000	17.0%	$51.813	7/23/08	$1,011,600

Howard M. Selland	25,000	7.1%	51.813	7/23/08	$ 421,500
William R. Ammann	14,000	4.0%	51.813	7/23/08	$ 236,040
James E. Kline	12,000	3.4%	51.813	7/23/08	$ 202,320
David M. Risley	14,000	4.0%	51.813	7/23/08	$ 236,040

</TABLE>

(1) Options were granted on July 23, 1998, under the Aeroquip-Vickers, Inc. 1998 Stock Incentive Plan. The options become exercisable as follows: one-third become exercisable on July 23, 1999, one-third become exercisable on July 23, 2000, and one-third become exercisable on July 23, 2001. The exercise price of $51.813 was the closing price of Aeroquip-Vickers Common Shares on the New York Stock Exchange - Composite Transactions list on July 22, 1998.

(2) Valuation is based on the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 5.49%, expected annual dividend yield of 1.7%, expected volatility of .33 and expected five-year time to exercise. Aeroquip-Vickers does not advocate or necessarily agree that the Black-Scholes model can properly determine the value of an option. The actual value, if any, a named executive officer may realize will depend on the excess of the stock price over the exercise price on the date the option is exercised so that there is no assurance the value realized by the named executive officer will be at or near the value estimated by the Black-Scholes model.

The following table contains information concerning exercise of stock options during the last completed fiscal year by each of the named executive officers of Aeroquip-Vickers, and the fiscal year-end value of unexercised options held by such executive officers:

AGGREGATED OPTION EXERCISES IN THE LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES(1)

<TABLE>
<CAPTION>

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END ($)	
NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	EXERCISABLE	UNEXERCISABLE(2)	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Darryl F. Allen	30,000	$858,750	150,001	109,999	$ 0	$ 0
Howard M. Selland	0	0	40,001	44,999	0	0
William R. Ammann	10,000	295,000	53,001	24,999	42,500	0
James E. Kline	0	0	7,334	22,999	0	0
David M. Risley	0	0	33,001	24,999	0	0

</TABLE>

(1) The options shown in this table were granted under the Aeroquip-Vickers, Inc. 1987 Stock Option Plan and the Aeroquip-Vickers, Inc. 1994 and 1998 Stock Incentive Plans.

(2) The options become exercisable as follows: One-third of the grant amount becomes exercisable on the first anniversary of the grant date, one-third of the grant becomes exercisable on the second anniversary of the grant date, and the remaining one-third becomes exercisable on the third anniversary of the grant date.

DIRECTOR COMPENSATION

During 1998, each director who was not an employee of the company was paid an annual retainer of $25,000 ($27,500 for committee chairmen), plus a $1,000 fee for each Board or committee meeting attended.

During 1998, the Directors' Retirement Plan was amended to prohibit any further retirement eligibility beyond December 31, 1997, and to convert the present value of accrued retirement benefits for current non-employee directors to a stock unit account. Pursuant to the 1998 amendment, a deferred common stock account was created for each non-employee director. Each director's account is credited with dividend equivalents converted into additional units of Common Stock as dividends on the Common Shares are paid. Upon retirement or at age 70, each non-employee director will receive, as a distribution, a number of Common Shares equal to the number of stock units held in his account.

Under the Aeroquip-Vickers, Inc. Non-Employee Directors' Stock Award Plan, each non-employee director will receive upon election or re-election to the Board at each annual meeting of the company both a stock option grant and an award of deferred Common Shares. The awards made for 1998 for each non-employee director consisted of 200 deferred Common Shares and options to purchase 1,200 Common Shares.

Under the Aeroquip-Vickers, Inc. Plan for Optional Deferment of Directors' Fees, a director may defer his or her annual retainer fees until his or her directorship ceases, at which time the deferred amounts will be paid in cash in a lump sum or installments commencing on a date designated by the director. A director may elect to have all, or a specified percentage, of his or her deferred fees credited to a recordkeeping account either in dollar amounts or in units equal in value to one Common Share of Aeroquip-Vickers. Each recordkeeping account to which fees have been credited in dollar amounts will be credited quarterly with accrued interest at a rate equal to two percentage points in excess of the Moody's Corporate Bond Yield Average. Each recordkeeping account to which fees have been credited in units will be credited with additional units equal in value to the amount of cash dividends paid on Common Shares of Aeroquip-Vickers. Upon the death of a director prior to distribution of the entire balance of his or her account, such balance shall be paid as soon as is administratively feasible in a lump sum to the beneficiary or beneficiaries designated by the director, or, in the absence of such designation, to the estate of the director.

Under the Aeroquip-Vickers, Inc. 1989 Non-Employee Directors' Equity Plan, non-employee directors were entitled to receive awards consisting of such number of Common Shares of Aeroquip-Vickers as have an aggregate fair market value on the date of the grant of $25,000 rounded upward to the nearest 10 shares. Non-employee directors who were directors on the effective date of the plan (April 20, 1989) received an award on that date, and each person who thereafter became a non-employee director was entitled to receive an award on the date of his initial election. Each non-employee director was entitled to receive a second, final award on the date of his re-election which most nearly coincided with the fifth anniversary of his initial award. All Common Shares granted pursuant to the awards are subject to forfeiture for a five-year period. In 1998, the Aeroquip-Vickers, Inc. 1989 Non-Employee Directors' Equity Plan was amended to limit participation to individuals who were elected to the Board prior to April 16, 1998. Only one director, Joseph Farrell, has not received his second award under the plan and will be eligible for his final award if he is re-elected to the Aeroquip-Vickers' Board of Directors at the 1999 annual meeting of shareholders.

The Aeroquip-Vickers, Inc. Directors' Charitable Award Program was established to recognize the interest of Aeroquip-Vickers and its directors in supporting worthy educational institutions and other charitable organizations and to provide an additional method of funding for the Aeroquip-Vickers Foundation. The Program is also intended to assist Aeroquip-Vickers in attracting and retaining directors of outstanding experience and ability. All directors,

including Darryl F. Allen, currently participate in the Program. The Program is administered by the Organization and Compensation Committee of the Board of Directors. Each director may recommend up to nine charitable organizations that qualify under section 501(c)(3) of the Internal Revenue Code. The recommendation of a director who dies or becomes disabled while serving on the Board or after completing five years of Board service will be considered by the Committee after the director's death. If the recommendation is approved, Aeroquip-Vickers will donate an aggregate of $900,000 in nine equal installments to the designated charity or charities. Aeroquip-Vickers will also donate $100,000 to the Aeroquip-Vickers Foundation after the director's death. Aeroquip-Vickers purchased life insurance policies on the lives of its current directors to fund the Program, and the Program provides for establishment of a fully funded trust upon a change in control. The Program also permits self-funding. Aeroquip-Vickers believes that the after-tax cost of the Program over its life will be relatively small compared to the benefits it provides. Directors derive no personal financial or tax benefit from the Program because all insurance proceeds and tax deductions accrue solely to Aeroquip-Vickers.

Change in Control Agreements

Aeroquip-Vickers has entered into agreements with Messrs. Allen, Ammann, Kline, Risley, Selland and each of its other executive officers. These agreements are designed primarily to aid in ensuring continued management in the event of an actual or threatened change in control of Aeroquip-Vickers (as defined in the agreements). The agreements provide that in the event an executive officer is terminated by Aeroquip-Vickers other than upon his death, disability or for cause (as defined in the agreements) within three years after a change in control, he would be entitled to: (i) a lump sum payment equal to two years' (or in the case of Mr. Allen, three years') salary and incentive compensation under the Annual Executive Incentive Compensation Plan (based upon an average of his highest compensation in two of the previous five years); (ii) a contribution by Aeroquip-Vickers to the executive's retirement savings plan account in an amount equal to two times (or, in the case of Mr. Allen, three times) the company's average aggregate contribution to the executive's accounts in the savings plan for the previous three years; and (iii) continued participation in Aeroquip-Vickers' welfare-benefit plans for two years (or, in the case of Mr. Allen, three years). The officer would also be entitled to receive the payments and benefits described above if he resigned within a period between six months and two years following a change in control for reasons set forth in the agreements relating to changed circumstances.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management.

Information with respect to ownership by beneficial owners of more than 5% of any class of Aeroquip-Vickers common shares is set forth below. This information is based upon reports filed by certain beneficial owners with the Securities and Exchange Commission pursuant to Sections 13(d) or 13(g) of the Securities Exchange Act of 1934 as of February 28, 1999.

<TABLE>
<CAPTION>

Name & Address of Beneficial Owner	Amount & Nature of Beneficial Ownership	Percent of Class
<S>	<C>	<C>
Morgan Stanley Dean Witter & Co. and its subsidiaries 1585 Broadway New York, NY 10036	3,856,424 (1)	13.9%
Gabelli Funds, Inc. and its affiliates One Corporate Center Rye, NY 10580	5,350,350 (2)	19.29%

</TABLE>

(1) Morgan Stanley Dean Witter & Co. and its subsidiaries have sole voting power over 0 shares, shared voting power over 3,367,735 shares, sole dispositive power over 0 shares and shared dispositive power over 3,856,424 shares.

(2) Gabelli Funds, Inc. and its related entities have sole voting power over 5,270,250 shares, shared voting power over 0 shares, sole dispositive power over 5,350,350 shares and shared dispositive power over 0 shares.

The following table sets forth, as of February 28, 1999, information known to Aeroquip-Vickers concerning the beneficial ownership of Aeroquip-Vickers common shares by each of its present directors individually, each of the named executive officers individually, and all present directors and executive officers as a group. The totals for each person and for the group include shares held personally; shares held by immediate family members sharing the same household; shares held as of February 28, 1999, under Aeroquip-Vickers' dividend reinvestment plan and savings and profit-sharing plan; and shares that may be acquired within 60 days following February 28, 1999, through the exercise of stock options.

<TABLE>
<CAPTION>

NAME OF BENEFICIAL OWNER	AMOUNT & NATURE OF BENEFICIAL OWNERSHIP(1)(3)	PERCENT OF CLASS(2)
<S>	<C>	<C>
Virgis W. Colbert	1,403	*
Purdy Crawford	6,355	*
Joseph C. Farrell	6,113	*
David R. Goode	2,893	*
Paul A. Ormond	3,013	*
John P. Reilly	4,273	*
William R. Timken, Jr.	5,003	*
Darryl F. Allen(3)	347,477	1%
Chairman of the Board, President and Chief Executive Officer of Aeroquip-Vickers		
William R. Ammann(3)	102,605	*
Vice President - Administration and Treasurer of Aeroquip-Vickers		
James E. Kline(3)	42,821	*
Vice President and General Counsel of Aeroquip-Vickers		
David M. Risley(3)	76,616	*
Vice President - Finance and Chief Financial Officer of Aeroquip-Vickers		
Howard M. Selland(3)	108,679	*
Executive Vice President of Aeroquip-Vickers and President of Aeroquip Corporation		
All Directors and Executive Officers as a Group (18 persons)	858,270	3%(4)

</TABLE>

*Indicates beneficial ownership of less than 1.0%

(1) Each director and named executive officer has sole voting and dispositive power with respect to all Common Shares indicated except that (i) 5,727 shares listed for Darryl F. Allen are held by Mr. Allen's wife, and (ii) 450 shares listed for Darryl F. Allen are held by one of Mr. Allen's children, who resides with Mr. Allen; Mr. Allen has disclaimed beneficial ownership of such shares.

(2) Each director and named executive officer, other than Mr. Allen, owns less than 1% of the outstanding Aeroquip-Vickers common Shares as of February 28, 1999.

(3) A portion of the total for the named executive officers and the group includes Aeroquip-Vickers common shares that could be acquired within 60 days following February 28, 1999 through the exercise of stock options: 260,000 common shares for Darryl F. Allen; 78,000 common shares for William R. Ammann; 30,333 common shares for James E. Kline; 58,000 common shares for David M. Risley; 85,000 common shares for Howard M. Selland; and 628,233 Common Shares for all executive officers included in the group of directors and executive officers. Two hundred three shares of restricted stock issued pursuant to the Non-employee Directors' Stock Award Plan have been included in the total for each director. The restrictions on these shares lapsed upon

the filing of the preliminary proxy statement on February 12, 199. These 1,421 shares are also included in the group total.

(4) For the purpose of computing the percent of class, the Aeroquip-Vickers common shares for which all directors and executive officers as a group may acquire beneficial ownership within 60 days following February 28, 1999, through the exercise of stock options, are deemed to be outstanding.

ITEM 13. Certain Relationships and Related Transactions.

None.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) The following documents are filed as a part of this report.

(1) The following consolidated financial statements of Aeroquip-Vickers and its subsidiaries are filed as part of this report.

Report of Ernst & Young LLP, Independent Auditors

Statement of Income - Years ended December 31, 1998, 1997 and 1996

Statement of Financial Position - December 31, 1998 and 1997

Statement of Cash Flows - Years ended December 31, 1998, 1997 and 1996

Statement of Shareholders' Equity - Years ended December 31, 1998, 1997 and 1996

Notes to Financial Statements - December 31, 1998

(2) The following consolidated financial statement schedule of Aeroquip-Vickers and its subsidiaries is filed under Item 14(d):

SCHEDULE	PAGE(S)
Schedule II - Valuation and qualifying accounts	63-65

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are either not required under the related instructions or are inapplicable, and therefore have been omitted.

(3) The following exhibits are incorporated by reference hereunder, and those exhibits marked with an asterisk (*) are management contracts or compensatory plans or arrangements required to be filed as exhibits pursuant to Item 14(c) of this report:

EXHIBIT NUMBER	
(3)-1	Amended Code of Regulations (amended April 21, 1988), filed as Exhibit (3)-1 to Form 10-K filed on March 19, 1998
(4)-1	Rights Agreement, dated February 7, 1999, between Aeroquip-Vickers, Inc. and First Chicago Trust Company of New York filed as Exhibit 4.1 to Form 8-A filed on December 22, 1998
(4)-2	Indenture, dated as of May 1, 1996, between Aeroquip-Vickers, Inc. and the First National Bank of Chicago (as successor in interest to NBD Bank) filed as Exhibit 4.1 to Form S-3 filed on August 29, 1997
(4)-3	First Supplemental Indenture, dated as of April 17, 1997, between Aeroquip-Vickers, Inc. and the First National Bank of Chicago (as successor in interest to NBD Bank) filed as Exhibit 4.2 to Form S-3 filed on August 29, 1997

(4)-4 Form of 7.875% Debentures due June 1, 2026, filed as Exhibit (4)-1 to Form 8-K filed on June 3, 1996

(4)-5 Form of Fixed Rate Notes, filed as Exhibit (4)-1(b) to Form 8-K filed April 25, 1997

(4)-6 Form of Floating Rate Notes, filed as Exhibit (4)-2(b) to Form 8-K filed April 25, 1997

(4)-7 Form of Fixed Rate Notes, filed as Exhibit (4)-1(a) to Form 8-K filed on October 2, 1997

(4)-8 Form of Floating Rate Notes, filed as Exhibit (4)-1(b) to Form 8-K filed on October 2, 1997

*(10)-1 Aeroquip-Vickers, Inc. 1987 Stock Option Plan, filed as Exhibit (10)-1 to Form 10-K filed on March 19, 1998

*(10)-2 Change in Control Severance Agreement for Chief Executive Officer, filed as Exhibit (10)-1 to Form 10-Q filed on August 11, 1998

*(10)-3 Change in Control Severance Agreement for Executive Officers, filed as Exhibit (10)-2 to Form 10-Q filed on August 11, 1998 (the Agreements executed by the Company and various executive officers of the Company are identical in all respects to the form of Agreement filed as Exhibit (10)-2 except as to differences in the identity of the officers, the dates of execution, the identity of the employer of the executive [operating subsidiary or parent corporation], and as to other variations directly necessitated by said differences)

*(10)-4 Change in Control Severance Agreement for other executives, filed as Exhibit (10)-3 to Form 10-Q filed on August 11, 1998 (the Agreements executed by the Company and various other executives of the Company are identical in all respects to the form of Agreement filed as Exhibit (10)-3 except as to differences in the identity of the executives and the dates of execution, and as to other variations directly necessitated by said differences)

*(10)-5 Aeroquip-Vickers, Inc. 1994 Stock Incentive Plan, filed as Appendix A to the proxy statement for the annual meeting held on April 21, 1994

*(10)-6 Aeroquip-Vickers 1989 Non-Employee Directors' Equity Plan, filed as Exhibit (10)-12 to Form 10-K filed on March 18, 1994

*(10)-7 Aeroquip-Vickers, Inc. Plan for Optional Deferment of Directors' Fees (amended and restated effective April 1, 1995), filed as Exhibit (10)-8 to Form 10-K filed March 20, 1995

*(10)-8 Aeroquip-Vickers, Inc. Directors' Retirement Plan (amended and restated effective January 1, 1998), filed as Exhibit 4(c) to Form S-8 filed May 7, 1998

*(10)-9 Aeroquip-Vickers, Inc. Voluntary Deferred Compensation Plan (effective April 1, 1995), filed as Exhibit (10)-11 to Form 10-K filed March 20, 1995

*(10)-10 Aeroquip-Vickers, Inc. Supplemental Benefit Plan (amended and restated effective January 1, 1995), filed as Exhibit (10)-10 to Form 10-Q filed August 10, 1995

*(10)-11 Aeroquip-Vickers, Inc. 1998 Stock Incentive Plan, filed as Appendix A to the proxy statement for the annual meeting of shareholders held on April 16, 1998

*(10)-12 Aeroquip-Vickers, Inc. Non-Employee Directors' Stock Award Plan, filed as Appendix B to the proxy statement for the annual meeting of shareholders held on April 16, 1998

(99)-1 Aeroquip-Vickers, Inc. Directors' Charitable Award Program, filed as Exhibit (99(i))-2 to Form 10-K filed on March 18, 1994

(99)-2 Credit Agreement, dated as of September 27, 1996, among

Aeroquip-Vickers, Inc. (formerly TRINOVA Corporation) (borrower) and The Bank of Tokyo - Mitsubishi Trust Company; Citibank, N.A.; Dresdner Bank AG, New York and Grand Cayman branches; The First National Bank of Chicago; Morgan Guaranty Trust Company of New York; The Chase Manhattan Bank; and Union Bank of Switzerland, Chicago branch (banks); and Citibank, N.A. (administrative agent), filed as Exhibit (99(i))-2 to Form 10-Q filed November 14, 1996

The following exhibits are filed hereunder:

(3)-2 Amended Articles of Incorporation (amended December 10, 1998)

(12) Statement re: Computation of Ratios

(21) Subsidiaries of the Registrant

(23) Consent of Independent Auditors

(24) Powers of Attorney

(27) Financial Data Schedule

(27)-1 Financial Data Schedule - 1998 Restated

(b) Aeroquip-Vickers filed current reports on Form 8-K on December 22, 1998, February 2, 1999 and February 12, 1999, which are incorporated by reference hereunder.

(c) The exhibits which are listed under Item 14(a)(3) are filed or incorporated by reference hereunder.

(d) The financial statement schedule which is listed under Item 14(a)(2) is filed hereunder.

SIGNATURES

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

AEROQUIP-VICKERS, INC. (Registrant)

By: /s/ DARRYL F. ALLEN

Darryl F. Allen
Director, Chairman of the Board,
President and Chief Executive Officer

Date: March 26, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ DARRYL F. ALLEN	
Darryl F. Allen Director, Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	3/26/99 (Date)
/s/ DAVID M. RISLEY	
David M. Risley Vice President - Finance and Chief Financial Officer (Principal Financial Officer)	3/26/99 (Date)
/s/ GREGORY R. PAPP	
Gregory R. Papp Corporate Controller (Principal Accounting Officer)	3/26/99
VIRGIS W. COLBERT*	

Virgis W. Colbert* 3/26/99
Director (Date)

PURDY CRAWFORD*

Purdy Crawford* 3/26/99
Director (Date)

JOSEPH C. FARRELL*

Joseph C. Farrell* 3/26/99
Director (Date)

DAVID R. GOODE*

David R. Goode* 3/26/99
Director (Date)

PAUL A. ORMOND*

Paul A. Ormond* 3/26/99
Director (Date)

JOHN P. REILLY*

John P. Reilly* 3/26/99
Director (Date)

WILLIAM R. TIMKEN, JR.*

William R. Timken, Jr.* 3/26/99
Director (Date)

*By James E. Kline, Attorney-in-fact

/s/ JAMES E. KLINE

James E. Kline 3/26/99
Vice President and General Counsel (Date)

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

AEROQUIP-VICKERS, INC.

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	(1) CHARGED TO COSTS AND EXPENSES	(2) CHARGED TO OTHER ACCOUNTS-DESCRIBE	DEDUCTIONS DESCRIBE	BALANCE AT END OF PERIOD
	(In Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
YEAR ENDED DECEMBER 31, 1998					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 14,701	$ 4,770	$ -	$ 4,632 -A	$ 14,839

Deferred tax valuation allowance	6,816	7,927	-	(1,810)-B 36 -C	12,969

</TABLE>

Note A - Doubtful accounts charged off, net of recoveries
Note B - Effect of expiration of operating loss carryforward
Note C - Currency translation adjustments

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

AEROQUIP-VICKERS, INC.

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		(In Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>
YEAR ENDED DECEMBER 31, 1997					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 16,032	$ 1,485	$ -	$ (2,816)-A	$ 14,701
Deferred tax valuation allowance	12,589	(1,767)	-	(2,064)-B (1,942)-C	6,816

</TABLE>

Note A - Doubtful accounts charged off, net of recoveries
Note B - Effect of expiration of operating loss carryforward
Note C - Currency translation adjustments

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

AEROQUIP-VICKERS, INC.

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DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	(1) CHARGED TO COSTS AND EXPENSES	(2) CHARGED TO OTHER ACCOUNTS-DESCRIBE	DEDUCTIONS DESCRIBE	BALANCE AT END OF PERIOD
		(In Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>
YEAR ENDED DECEMBER 31, 1996					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 13,241	$ 3,899	$ -	$ (1,108)-A	$ 16,032
Deferred tax valuation allowance	15,953	(3,853)	-	489 -B	12,589

</TABLE>

Note A - Doubtful accounts charged off, net of recoveries
Note B - Currency translation adjustments

EXHIBIT INDEX

EXHIBIT		PAGE(S)
(3)-1	Amended Code of Regulations (amended April 21, 1988) filed as Exhibit (3)-1 to Form 10-K filed on March 19, 1998	Incorporated by Reference
(3)-2	Amended Articles of Incorporation (amended December 10, 1998)	69
(4)-1	Rights Agreement, dated February 7, 1999, between Aeroquip-Vickers, Inc. and First Chicago Trust Company of New York filed as Exhibit 4.1 to Form 8-A filed on December 22, 1998	Incorporated by Reference
(4)-2	Indenture, dated as of May 1, 1996, between Aeroquip-Vickers, Inc. and the First National Bank of Chicago (as successor in interest to NBD Bank) filed as Exhibit 4.1 to Form S-3 filed on August 29, 1997	Incorporated by Reference
(4)-3	First Supplemental Indenture, dated as of April 17, 1997, between Aeroquip-Vickers, Inc. and the First National Bank of Chicago (as successor in interest to NBD Bank) filed as Exhibit 4.2 to Form S-3 filed on August 29, 1997	Incorporated by Reference
(4)-4	Form of 7.875% Debentures due June 1, 2026, filed as Exhibit (4)-1 to Form 8-K filed on June 3, 1996	Incorporated by Reference
(4)-5	Form of Fixed Rate Notes, filed as Exhibit (4)-1(b) to Form 8-K filed April 25, 1997	Incorporated by Reference
(4)-6	Form of Floating Rate Notes, filed as Exhibit (4)-2(b) to Form 8-K filed April 25, 1997	Incorporated by Reference
(4)-7	Form of Fixed Rate Notes, filed as Exhibit (4)-1(a) to Form 8-K filed on October 2, 1997	Incorporated by Reference
(4)-8	Form of Floating Rate Notes, filed as Exhibit (4)-1(b) to Form 8-K filed on October 2, 1997	Incorporated by Reference
(10)-1	Aeroquip-Vickers, Inc. 1987 Stock Option Plan, filed as Exhibit (10)-1 to Form 10-K filed on March 24, 1998	Incorporated by Reference
(10)-2	Change in Control Severance Agreement for Chief Executive Officer, filed as Exhibit (10)-1 to Form 10-Q filed on August 11, 1998	Incorporated by Reference
(10)-3	Change in Control Severance Agreement for Executive Officers, filed as Exhibit (10)-2 to Form 10-Q filed on August 11, 1998 (the Agreements executed by the Company and various executive officers of the Company are identical in all respects to the form of Agreement filed as Exhibit (10)-2 except as to differences in the identity of the officers, the dates of execution, the identity of the employer of the executive [operating subsidiary or parent corporation], and as to other variations directly necessitated by said differences)	Incorporated by Reference

(10)-4	Change in Control Severance Agreement for other executives, filed as Exhibit (10)-3 to Form 10-Q filed on August 11, 1998 (the Agreements executed by the Company and various other executives of the Company are identical in all respects to the form of Agreement filed as Exhibit (10)-3 except as to differences in the identity of the executives and the dates of execution, and as to other variations directly necessitated by said differences)	Incorporated by Reference
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(10)-6	Aeroquip-Vickers 1989 Non-Employee Directors' Equity Plan, filed as Exhibit (10)-12 to Form 10-K filed on March 18, 1994	Incorporated by Reference
(10)-7	Aeroquip-Vickers, Inc. Plan for Optional Deferment of Directors' Fees (amended and restated effective April 1, 1995), filed as Exhibit (10)-8 to Form 10-K filed March 20, 1995	Incorporated by Reference
(10)-8	Aeroquip-Vickers, Inc. Directors' Retirement Plan (amended and restated effective January 1, 1998), filed as Exhibit 4(c) to Form S-8 filed May 7, 1998	Incorporated by Reference
(10)-9	Aeroquip-Vickers, Inc. Voluntary Deferred Compensation Plan (effective April 1, 1995), filed as Exhibit (10)-11 to Form 10-K filed March 20, 1995	Incorporated by Reference
(10)-10	Aeroquip-Vickers, Inc. Supplemental Benefit Plan (amended and restated effective January 1, 1995), filed as Exhibit (10)-10 to Form 10-Q filed August 10, 1995	Incorporated by Reference
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(24)	Power of Attorney	84
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among Aeroquip-Vickers, Inc. (formerly TRINOVA Corporation) (borrower) and The Bank of Tokyo - Mitsubishi Trust Company; Citibank, N.A.; Dresdner Bank AG, New York and Grand Cayman branches; The First National Bank of Chicago; Morgan Guaranty Trust Company of New York; The Chase Manhattan Bank; and Union Bank of Switzerland, Chicago branch (banks); and Citibank, N.A. (administrative agent), filed as Exhibit (99(i))-2 to Form 10-Q filed November 14, 1996	by Reference

</TABLE>

EXHIBIT (3)-2

AMENDED ARTICLES OF INCORPORATION
(AMENDED DECEMBER 10, 1998)

FIRST: The name of the Corporation is Aeroquip-Vickers, Inc.

SECOND: The principal office of the Corporation is located in the City of Maumee, Lucas County, Ohio.

THIRD: The purposes of the Corporation are:

(a) To manufacture, develop, process, produce, fabricate, design, hold, buy, sell, exchange, export, import, lease, transport, store, manage, and deal in and with, and patent, and receive and grant licenses with respect to the use, sale and manufacture of, machinery, equipment, apparatus, devices, transportation, facilities, tools, chemicals, and goods, wares, merchandise, processes, patents, formulae, choses in action and other tangible or intangible personal property of every kind and description;

(b) To acquire, own, construct, rebuild, repair, use, lease, operate, manage, sell, mine, quarry and otherwise dispose of and deal in and with any real estate, natural resources, laboratories, buildings and other structures, or any interests therein;

(c) To acquire, hold, guarantee, sell, assign, exchange and otherwise dispose of or deal in and with shares of stock and other securities of whatever nature issued by other corporations, governments, firms, trusts or individuals;

(d) To carry on any one or more of the activities aforesaid on its own behalf or for others, and to transact any and all business incidental to any of the foregoing purposes.

The purposes of the Corporation may from time to time be changed by amendment of these Articles.

FOURTH: The number of shares which the Corporation is authorized to have outstanding is 104,000,000, consisting of 4,000,000 shares of Serial Preferred Stock without par value (hereinafter called "Serial Preferred Stock") and 100,000,000 Common Shares of the par value of $5 per share (hereinafter called "Common Shares").

The shares of such classes shall have the following express terms:

Paragraph 1. EXPRESS TERMS OF THE SERIAL PREFERRED STOCK

Section 1. The Serial Preferred Stock may be issued from time to time in one or more series. All shares of Serial Preferred Stock shall be of equal rank and shall be identical, except in respect of the matters that may be fixed by the Board of Directors as hereinafter provided and each share of each series shall be identical with all other shares of such series, except as to the date from which dividends are cumulative. Subject to the provisions of Sections 2 to 8, both inclusive, of this Paragraph, which provisions shall apply to all Serial Preferred Stock, the Board of Directors hereby is authorized to cause such shares to be issued in one or more series and with respect to each such series prior to the issuance thereof to fix:

(a) The designation of the series, which may be by distinguishing number, letter or title.

(b) The number of shares of the series, which number the Board of Directors may (except where otherwise provided in the creation of

the series) increase or decrease (but not below the number of shares thereof then outstanding).

(c) The annual dividend rate of the series.

(d) The dates at which dividends, if declared, shall be payable, and the dates from which dividends shall be cumulative.

(e) The redemption rights and price or prices, if any, for shares of the series.

(f) The terms and amount of any sinking fund provided for the purchase or redemption of shares of the series.

(g) The amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation.

(h) Whether the shares of the series shall be convertible into Common Shares and, if so, the conversion rate or rates, any adjustments thereof, and all other terms and conditions upon which such conversion may be made.

(i) Restrictions (in addition to those set forth in Section 6(b) and 6(c) of this Paragraph) on the issuance of shares of the same series or of any other class or series.

The Board of Directors is authorized to adopt, from time to time, amendments to the Articles of Incorporation fixing, with respect to each such series, the matters described in clauses (a) to (i), both inclusive, of this

Section 1.

Section 2. The holders of Serial Preferred Stock of each series, in preference to the holders of Common Shares and of any other class of shares ranking junior to the Serial Preferred Stock, shall be entitled to receive out of any funds legally available and when and as declared by the Board of Directors dividends in cash at the rate for such series fixed in accordance with the provisions of Section 1 of this Paragraph and no more, payable quarterly on the dates fixed for such series. Such dividends shall be cumulative, in the case of shares of each particular series, from and after the date or dates fixed with respect to such series. No dividends may be paid upon or declared or set apart for any of the Serial Preferred Stock for any quarterly dividend period unless at the same time a like proportionate dividend for the same quarterly dividend period, ratably in proportion to the respective annual dividend rates fixed therefor, shall be paid upon or declared or set apart for all Serial Preferred Stock of all series then issued and outstanding and entitled to receive such dividend.

Section 3. In no event so long as any Serial Preferred Stock shall be outstanding shall any dividend, except a dividend payable in Common Shares or other shares ranking junior to the Serial Preferred Stock, be paid or declared or any distribution be made except as aforesaid on the Common Shares or any other shares ranking junior to the Serial Preferred Stock, nor shall any Common Shares or any other shares ranking junior to the Serial Preferred Stock be purchased, retired or otherwise acquired by the Corporation:

(a) Unless all accrued and unpaid dividends on Serial Preferred Stock, including the full dividends for the current quarterly dividend period, shall have been declared and paid or a sum sufficient for payment thereof set apart; and

(b) Unless there shall be no arrearages with respect to the redemption of Serial Preferred Stock of any series from any sinking fund provided for shares of such series in accordance with the provisions of Section 1 of this Paragraph.

Section 4.

(a) Subject to the express terms of each series and to the provisions of Section 6(b)(iii) of this Paragraph 1, the Corporation may from time to time redeem all or any part of the Serial Preferred Stock of any series at the time outstanding (i) at the option of the Board of Directors at the applicable redemption price for such series fixed in accordance with the provisions of Section 1 of this Paragraph, or (ii) in fulfillment of the requirements of any sinking fund provided for shares of such series at the applicable sinking fund redemption price, fixed in accordance with the provisions of Section 1 of this

Paragraph, together in each case with accrued and unpaid dividends to the redemption date.

(b) Notice of every such redemption shall be mailed, postage prepaid, to the holders of record of the Serial Preferred Stock to be redeemed at their respective addresses then appearing on the books of the Corporation, not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for such redemption. At any time before or after notice has been given as above provided, the Corporation may deposit the aggregate redemption price of the shares of Serial Preferred Stock to be redeemed with any bank or trust company in Toledo, Ohio, or New York, New York, having capital and surplus of more than Five Million Dollars ($5,000,000), named in such notice, directed to be paid to the respective holders of the shares of Serial Preferred Stock so to be redeemed, in amounts equal to the redemption price of all shares of Serial Preferred Stock so to be redeemed, on surrender of the stock certificate or certificates held by such holders, and upon the making of such deposit such holders shall cease to be shareholders with respect to such shares, and after such notice shall have been given and such deposit shall have been made such holders shall have no interest in or claim against the Corporation with respect to such shares except only to receive such money from such bank or trust company without interest or the right to exercise, before the redemption date, any unexpired privileges of conversion. In case less than all of the outstanding shares of Serial Preferred Stock are to be redeemed, the Corporation shall select by lot the shares so to be redeemed in such manner as shall be prescribed by its Board of Directors.

If the holders of shares of Serial Preferred Stock which shall have been called for redemption shall not, within ten years after such deposit, claim the amount deposited for the redemption thereof, any such bank or trust company shall, upon demand, pay over to the Corporation such unclaimed amounts and thereupon such bank or trust company and the Corporation shall be relieved of all responsibility in respect thereof and to such holders.

(c) Any shares of Serial Preferred Stock which are redeemed by the Corporation pursuant to the provisions of this Section 4 and any shares of Serial Preferred Stock which are purchased and delivered in satisfaction of any sinking fund requirements provided for shares of such series and any shares of Serial Preferred Stock which are converted in accordance with the express terms thereof shall be cancelled and not reissued. Any shares of Serial Preferred Stock otherwise acquired by the Corporation shall resume the status of authorized and unissued shares of Serial Preferred Stock without serial designation.

Section 5.

(a) The holders of Serial Preferred Stock of any series shall, in case of liquidation, dissolution or winding up of the affairs of the Corporation, be entitled to receive in full out of the assets of the Corporation, including its capital, before any amount shall be paid or distributed among the holders of the Common Shares or any

other shares ranking junior to the Serial Preferred Stock, the amounts fixed with respect to shares of such series in accordance with Section 1 of this Paragraph, plus in either event an amount equal to all dividends accrued and unpaid thereon to the date of payment of the amount due pursuant to such liquidation, dissolution or winding up of the affairs of the Corporation. In case the net assets of the Corporation legally available therefor are insufficient to permit the payment upon all outstanding shares of Serial Preferred Stock of the full preferential amount to which they are respectively entitled, then such net assets shall be distributed ratably upon outstanding shares of Serial Preferred Stock in proportion to the full preferential amount to which each such share is entitled.

After payment to holders of Serial Preferred Stock of the full preferential amounts as aforesaid, holders of Serial Preferred Stock as such shall have no right or claim to any of the remaining assets of the Corporation.

(b) The merger or consolidation of the Corporation into or with any other corporation, or the merger of any other corporation into it, or the sale, lease or conveyance of all or substantially all the property or business of the Corporation, shall not be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 5.

Section 6.

(a) The holders of Serial Preferred Stock shall be entitled to one vote for each share of such stock upon all matters presented to the shareholders; and, except as otherwise provided herein or required by law, the holders of Serial Preferred Stock and the holders of Common Shares shall vote together as one class on all matters.

If, and so often as, the Corporation shall be in default in the payment of six (6) full quarterly dividends (whether or not consecutive) on any series of Serial Preferred Stock at the time outstanding, whether or not earned or declared, the holders of Serial Preferred Stock of all series, voting separately as a class and in addition to all other rights to vote for Directors, shall be entitled to elect, as herein provided, two (2) members of the Board of Directors of the Corporation; provided, however, that the holders of shares of Serial Preferred Stock shall not have or exercise such special class voting rights except at meetings of the shareholders for the election of Directors at which the holders of not less than thirty-five per cent (35%) of the outstanding shares of Serial Preferred Stock of all series then outstanding are present in person or by proxy; and provided further that the special class voting rights provided for herein when the same shall have become vested shall remain so vested until all accrued and unpaid dividends on the Serial Preferred Stock of all series then outstanding shall have been paid, whereupon the holders of Serial Preferred Stock shall be divested of their special class voting rights in respect of subsequent elections of Directors, subject to the revesting of such special class voting rights in the event hereinabove specified in this paragraph.

In the event of default entitling the holders of Serial Preferred Stock to elect two (2) Directors as above specified, a special meeting of the shareholders for the purpose of electing such Directors shall be called by the Secretary of the Corporation upon written request of, or may be called by, the holders of record of at least ten per cent (10%) of the shares of Serial Preferred Stock of all series at the time outstanding, and notice thereof shall be given in the same manner as that required for the annual

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meeting of shareholders; provided, however, that the Corporation shall not be required to call such special meeting if the annual meeting of shareholders shall be held within ninety (90) days after the date of receipt of the foregoing written request from the holders of Serial Preferred Stock. At any meeting at which the holders of Serial Preferred Stock shall be entitled to elect Directors, the holders of thirty-five per cent (35%) of the then outstanding shares of Serial Preferred Stock of all series, present in person or by proxy, shall be sufficient to constitute a quorum, and the vote of the holders of a majority of such shares so present at any such meeting at which there shall be such a quorum shall be sufficient to elect the members of the Board of Directors which the holders of Serial Preferred Stock are entitled to elect as hereinabove provided.

(b) The affirmative vote of the holders of at least two-thirds of the shares of Serial Preferred Stock at the time outstanding, given in person or by proxy at a meeting called for the purpose at which the holders of Serial Preferred Stock shall vote separately as a class, shall be necessary to effect any one or more of the following (but so far as the holders of Serial Preferred Stock are concerned, such action may be effected with such vote):

(i) Any amendment, alteration or repeal of any of the provisions of the Articles of Incorporation or of the Regulations of the

Corporation which affects adversely the voting powers, rights or preferences of the holders of Serial Preferred Stock; provided, however, that, for the purpose of this clause (i) only, neither the amendment of the Articles of Incorporation so as to authorize or create, or to increase the authorized or outstanding amount of, Serial Preferred Stock or of any shares of any class ranking on a parity with or junior to the Serial Preferred Stock, nor the amendment of the provisions of the Regulations so as to increase the number of Directors of the Corporation shall be deemed to affect adversely the voting powers, rights or preferences of the holders of Serial Preferred Stock; and provided further, that if such amendment, alteration or repeal affects adversely the rights or preferences of one or more but not all series of Serial Preferred Stock at the time outstanding, only the affirmative vote of the holders of at least two-thirds of the number of the shares at the time outstanding of the series so affected shall be required;

(ii) The authorization or creation of, or the increase in the authorized amount of, any shares of any class, or any security convertible into shares of any class, ranking prior to the Serial Preferred Stock; or

(iii) The purchase or redemption (for sinking fund purposes or otherwise) of less than all of the Serial Preferred Stock then outstanding except in accordance with a stock purchase offer made to all holders of record of Serial Preferred Stock, unless all dividends upon all Serial Preferred Stock then outstanding for all previous quarterly dividend periods shall have been declared and paid or funds therefor set apart and all accrued sinking fund obligations applicable thereto shall have been complied with.

(c) The affirmative vote of the holders of at least a majority of the shares of Serial Preferred Stock at the time outstanding, given in person or by proxy at a meeting called for the purpose at which the holders of Serial Preferred Stock shall vote separately as a class, shall be necessary to effect any one or more of the following (but so far as the holders of Serial Preferred Stock are concerned, such action may be effected with such vote):

(i) The sale, lease or conveyance by the Corporation of all or substantially all of its property or business, or its consolidation with or merger into any other corporation unless the corporation resulting from such consolidation or merger will have after such consolidation or merger no class of shares either authorized or outstanding ranking prior to or on a parity with the Serial Preferred Stock except the same number of shares ranking prior to or on a parity with the Serial Preferred Stock and having the same rights and preferences as the shares of the Corporation authorized and outstanding immediately preceding such consolidation or merger, and each holder of Serial Preferred Stock immediately preceding such consolidation or merger shall receive the same number of shares, with the same rights and preferences, of the resulting corporation; or

(ii) The authorization of any shares ranking on a parity with the Serial Preferred Stock or an increase in the authorized number of shares of Serial Preferred Stock.

Section 7. The holders of Serial Preferred Stock shall have no pre-emptive right to purchase or have offered to them for purchase any shares or other securities of the Corporation, whether now or hereafter authorized.

Section 8. For the purpose of this Paragraph 1:

Whenever reference is made to shares "ranking prior to the Serial Preferred Stock" or "on a parity with the Serial Preferred Stock," such reference shall mean and include all shares of the Corporation in respect of which the rights of the holders thereof as to the payment of dividends or as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation are given preference over, or rank on an equality with (as the case may be) the rights of the holders of Serial Preferred Stock; and whenever reference is made to shares "ranking junior to the Serial Preferred Stock," such reference shall mean and include all shares of the Corporation in respect of which the rights of the holders thereof as to the payment of dividends and as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation are junior and subordinate to the rights of the holders of Serial Preferred Stock.

Paragraph 1(a). EXPRESS TERMS OF THE $4.75 CUMULATIVE CONVERTIBLE PREFERRED STOCK, SERIES A.

There is hereby established a first series of Serial Preferred Stock to which the following provisions shall be applicable:

Section 1. DESIGNATION OF SERIES. The series shall be designated "$4.75 Cumulative Convertible Preferred Stock, Series A" (hereinafter called "Series A Preferred Stock").

Section 2. NUMBER OF SHARES. The number of shares of Series A Preferred Stock is 1,357,100, which number the Board of Directors may increase or decrease (but not below the number of shares of the series then outstanding).

Section 3. DIVIDEND RATE. The dividend rate for Series A Preferred Stock is $4.75 per share per annum.

Section 4. DIVIDEND PAYMENT DATES; CUMULATION DATES. The dates at which dividends on the Series A Preferred Stock shall be payable are March 10, June 10, September 10 and December 10 of each year. Dividends on Series A Preferred

Stock shall be cumulative from and after the date of issuance thereof.

Section 5. REDEMPTION PRICES. The Series A Preferred Stock shall not be redeemable by the Corporation prior to January 1, 1974. Thereafter the redemption prices for the Series A Preferred Stock shall be as follows:

<TABLE>
<CAPTION>

If the Redemption Date Is During the 12-Month Period Beginning January 1	Redemption Price
<S>	<C>
1974	$104.75
1975	103.75
1976	102.75
1977	101.75
1978	100.75
Thereafter	100.00

</TABLE>

Section 6. LIQUIDATION RIGHTS. The amount payable on Series A Preferred Stock in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation shall be an amount equal to $100.00 per share.

Section 7. CONVERSION RIGHTS.

(a) Subject to the provisions for adjustment hereinafter set forth, shares of the Series A Preferred Stock shall be convertible at any time at the option of the holder thereof, upon surrender to any transfer agent for such series of the certificate or certificates evidencing the shares so to be converted, into fully paid and non-assessable Common Shares of the Corporation at the initial rate of one and one-half (1-1/2) Common Shares for each share of the Series A Preferred Stock so surrendered for conversion. The right to convert shares of the Series A Preferred Stock shall terminate with respect to shares called for redemption on the third business day prior to the date fixed for redemption. Upon conversion, no payment or adjustment shall be made for dividends on the shares of the Series A Preferred Stock so converted.

(b) The number of Common Shares and the number of shares of other classes of the Corporation, if any, into which each share of the Series A Preferred Stock is convertible shall be subject to adjustment from time to time only as follows:

(i) In case the Corporation shall (A) establish a record date for the determination of the holders of its Common Shares who are entitled to receive a dividend declared payable in Common Shares of the Corporation, (B) subdivide its Common Shares, (C) combine its outstanding Common Shares into a smaller number of shares or (D) issue by reclassification of its Common Shares any shares of the Corporation, the holder of each share of the Series A Preferred Stock shall thereafter be entitled to receive upon the conversion of such share the number of shares of the Corporation which he would have owned or have been entitled to receive after the happening of any of the events described above had such share of the Series A Preferred Stock been converted immediately prior to the happening of such event, such adjustment to become effective immediately after the opening of business on the day following such record date or the day upon which such subdivision, combination or reclassification becomes effective.

(ii) In case of any consolidation or merger of the Corporation with or into another corporation, or in case of any sale or conveyance to another corporation of all or substantially all the property of the Corporation, the holder of each share of the Series A Preferred Stock then outstanding shall have the right thereafter, so long as his conversion right

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hereunder shall exist, to convert such share into the kind and amount of shares of stock or other securities or property receivable upon such consolidation, merger, sale or conveyance by a holder of the number of Common Shares of the Corporation into which such share might have been converted immediately prior to such consolidation, merger, sale or conveyance, and shall have no other conversion rights under these provisions; in any such event, effective provision shall be made, in the articles or certificate of incorporation of the resulting or surviving corporation or otherwise, so that the provisions set forth herein for the protection of the conversion rights of the shares of the Series A Preferred Stock shall thereafter be applicable, as nearly as reasonably may be, to any such other shares of stock, other securities or property deliverable upon conversion of the shares of the Series A Preferred Stock remaining outstanding, and any such resulting or surviving corporation shall expressly assume the obligation to deliver, upon the exercise of the conversion privilege, such shares, securities or property as the holders of the shares of the Series A Preferred Stock remaining outstanding shall be entitled to receive pursuant to the provisions hereof, and to make provision for the protection of the conversion right as above provided.

(iii) No fractional Common Share shall be issued upon any conversion but, in lieu thereof, there shall be paid to the holder of the shares of the Series A Preferred Stock surrendered for conversion as soon as practicable after the date such shares are surrendered for conversion an amount in cash equal to the same fraction of the market value of a full Common Share, unless the Board of Directors of the Corporation shall determine to adjust fractional shares by the issue of fractional scrip certificates or in some other manner. For such purpose, the market value of a Common Share shall be the last sales price of 100 shares or more on the day immediately preceding the date upon which such shares are surrendered for conversion, or, in case no such sale takes place on such day, the average of the closing bid and asked prices on such day, in either case as officially quoted by the New York Stock Exchange.

(iv) No adjustment in the number of Common Shares into which each share of the Series A Preferred Stock is convertible shall be required unless such adjustment would require an increase or decrease of at least 1/100th of a share in the number of Common Shares into which such share is then convertible; provided, however, that any adjustments which by reason of this clause (iv) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

(v) Whenever any adjustment is required in the Common Shares into which each share of the Series A Preferred Stock is convertible, the Corporation shall forthwith (A) file with the transfer agent or transfer agents for the shares of the Series A Preferred Stock a statement describing in reasonable detail the adjustment and the method of calculation used and (B) shall instruct the said transfer agent or agents to exhibit the same from time to time to any holder of Series A Preferred Stock desiring an inspection thereof.

(c) The Corporation shall at all times reserve and keep available out of its authorized but unissued Common Shares the full number of shares into which all shares of the Series A Preferred Stock from time to time outstanding are convertible, but Common Shares held

in the treasury of the Corporation may be delivered upon any conversion of shares of the Series A Preferred Stock in the Corporation's discretion.

(d) The Corporation will pay any and all issue and other taxes that may be payable in respect of any issue or delivery of Common Shares on conversion of shares of the Series A Preferred Stock pursuant hereto. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares in a name other than that in which the shares of the Series A Preferred Stock so converted were registered and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

(e) In the event the Corporation shall offer securities of the Corporation or of any other corporation to the holders of its Common Shares, the Corporation shall make the same offer to the holders of shares of the Series A Preferred Stock, giving to each such holder the right to purchase at the offer price the amount of such securities which such holder would have been entitled to purchase had he converted each share of the Series A Preferred Stock held by him immediately prior to the taking of a record of the holders of Common Shares for the purpose of entitling them to receive such offer, such offer to the holders of shares of the Series A Preferred Stock to be made to those holders who are such of record on the books of the Corporation on the same date as is used for the taking of a record of the holders of Common Shares for such offer.

(f) Upon conversion of Series A Preferred Stock, the stated capital of the Common Shares issued upon such conversion shall be the aggregate par value thereof, and the stated capital of the Corporation shall be correspondingly increased or reduced to reflect the difference between the stated capital of the Series A Preferred Stock so converted and the stated capital of the Common Shares issued upon conversion.

Paragraph 1(b). EXPRESS TERMS OF THE CUMULATIVE REDEEMABLE PREFERRED STOCK.

There is hereby established a series of Serial Preferred Stock to which the following provisions shall be applicable:

Section l. DESIGNATION OF SERIES. The series shall be designated "Cumulative Redeemable Serial Preferred Stock" (hereinafter sometimes called this "Series" or the "Cumulative Redeemable Preferred Shares").

Section 2. NUMBER OF SHARES. The number of shares of this Series shall be 1,000,000.

Section 3. DIVIDENDS.

(a) The holders of record of Cumulative Redeemable Preferred Shares shall be entitled to receive, when and as declared by the Board of Directors in accordance with the terms hereof, out of funds legally available for the purpose, cumulative quarterly dividends payable in cash on the first day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a Cumulative Redeemable Preferred Share in an amount per share (rounded to the nearest cent) equal to the lesser of (i) $500 per share or (ii) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in cash) of all non-cash dividends or other distributions

(other than a dividend payable in Common Shares, or a subdivision of the outstanding Common Shares (by reclassification or otherwise)), declared on the Common Shares since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any Cumulative Redeemable Preferred Share or fraction of a Cumulative Redeemable Preferred Share. In the event the Corporation shall at any time declare or pay any dividend on the Common Shares payable in Common Shares, or effect a subdivision or combination or consolidation of the outstanding Common Shares (by reclassification or otherwise than by payment of a dividend in Common Shares) into a greater or lesser number of Common Shares, then in each such case the amount to which holders of Cumulative Redeemable Preferred Shares were entitled immediately prior to such event under clause (ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of Common Shares outstanding immediately after such event and the denominator of which is the number of Common Shares that were outstanding immediately prior to such event.

(b) Dividends shall begin to accrue and be cumulative on outstanding Cumulative Redeemable Preferred Shares from the Quarterly Dividend Payment Date next preceding the date of issue of such Cumulative Redeemable Preferred Shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Cumulative Redeemable Preferred Shares entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. No dividends shall be paid upon or declared and set apart for any Cumulative Redeemable Preferred Shares for any dividend period unless at the same time a dividend for the same dividend period, ratably in proportion to the respective annual dividend rates fixed therefor, shall be paid upon or declared and set apart for all Serial Preferred Stock of all series then outstanding and entitled to receive such dividend. The Board of Directors may fix a record date for the determination of holders of Cumulative Redeemable Preferred Shares entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 40 days prior to the date fixed for the payment thereof.

Section 4. REDEMPTIONS. Subject to the provisions of Section 6(b)(iii) of Paragraph l and in accordance with Section 4 of Paragraph l, the Cumulative Redeemable Preferred Shares shall be redeemable from time to time at the option of the Board of Directors of the Corporation, as a whole or in part, at any time at a redemption price per share equal to one hundred times the then applicable Purchase Price as defined in that certain Rights Agreement, dated as of February 7, 1999, between the Corporation and First Chicago Trust Company of New York (the "Rights Agreement"), as the same may be from time to time amended in accordance with its terms, which Purchase Price is $150.00 as of February 7, 1999, subject to adjustment from time to time as provided in the Rights Agreement. Copies of the Rights Agreement are available from the Corporation upon request. In case less than all of the outstanding Cumulative Redeemable Preferred Shares are to be redeemed, the Corporation shall select by lot the shares so to be redeemed in such manner as shall be prescribed by its Board of Directors.

Section 5. LIQUIDATIONS.

(a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation

(hereinafter referred to as a "Liquidation"), no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon Liquidation) to the Cumulative Redeemable Preferred Shares, unless, prior thereto, the holders of Cumulative Redeemable Preferred Shares shall have received at least an amount per share equal to one hundred times the then applicable Purchase Price as defined in the Rights Agreement, as the same may be from time to time amended in accordance with its terms (which Purchase Price is $150.00 as of February 7, 1999), subject to adjustment from time to time as provided in the Rights Agreement, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not earned or declared, to the date of such payment, provided that the holders of shares Cumulative Redeemable Preferred Shares shall be entitled to receive at least an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Shares (the "Cumulative Redeemable Preferred Shares Liquidation Preference").

(b) In the event, however, that the net assets of the Corporation are not sufficient to pay in full the amount of the Cumulative Redeemable Preferred Shares Liquidation Preference and the liquidation preferences of all other series of Serial Preferred Stock, if any, which rank on a parity with the Cumulative Redeemable Preferred Shares as to distribution of assets in Liquidation, all shares of this Series and of such other series of Serial Preferred Stock shall share ratably in the distribution of assets (or proceeds thereof) in Liquidation in proportion to the full amounts to which they are respectively entitled.

(c) In the event the Corporation shall at any time declare or pay any dividend on the Common Shares payable in Common Shares, or effect a subdivision or combination or consolidation of the outstanding Common Shares (by reclassification or otherwise than by payment of a dividend in Common Shares) into a greater or lesser number of Common Shares, then in each such case the amount to which holders of Cumulative Redeemable Preferred Shares were entitled immediately prior to such event pursuant to the proviso set forth in paragraph (a) above, shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of Common Shares outstanding immediately after such event and the denominator of which is the number of Common Shares that were outstanding immediately prior to such event.

(d) The merger or consolidation of the Corporation into or with any other corporation, or the merger of any other corporation into it, or the sale, lease or conveyance of all or substantially all the property or business of the Corporation, shall not be deemed to be a Liquidation for the purposes of this Section 5.

Section 6. CONVERSIONS. The Cumulative Redeemable Preferred Shares shall not be convertible into Common Shares.

Paragraph 2. EXPRESS TERMS OF THE COMMON SHARES

The Common Shares shall be subject to the express terms of the Serial Preferred Stock and any series thereof. Each Common Share shall be equal to every other Common Shares. The holders of Common Shares shall be entitled to one vote for each share upon all matters presented to the shareholders. The holders of Common Shares shall have no pre-emptive rights to purchase or have offered to them for purchase any Common Shares which the Corporation may from time to time issue and offer for sale for any purpose, and any such rights heretofore existing are hereby terminated.

FIFTH: The Corporation by action of its Board of Directors may purchase any issued shares of the Corporation to the extent not prohibited by law.

SIXTH: Notwithstanding any provision of the Revised Code, as now or hereafter in force, requiring for any purpose the vote, consent, waiver, or release of the holders of a designated proportion (but less than all) of the shares of the Corporation, such vote, consent, waiver, or release, unless otherwise expressly provided by law, may be made or taken by the vote of the holders of shares entitling them to exercise a majority of the voting power of the Corporation.

SEVENTH: These Amended Articles of Incorporation supersede and take the place of the existing Articles.

EXHIBIT (12)

<TABLE>
<CAPTION>

STATEMENT RE: COMPUTATION OF RATIOS

(Dollars in thousands)

	Year Ended December 31				
	1998	1997	1996	1995	1994
RATIO OF EARNINGS TO FIXED CHARGES					
<S>	<C>	<C>	<C>	<C>	<C>
Income before income taxes and cumulative effect of accounting change	$147,537	$148,153	$153,421	$128,196	$101,255
Dividends received, net of equity in earnings (loss) of unconsolidated affiliates	887	1,605	9,961	(3,704)	1,213
Fixed charges	43,552	46,034	41,712	31,762	30,249
Income before cumulative effect of accounting change for computation purposes	$191,976	$195,792	$205,094	$156,254	$132,717
FIXED CHARGES					
Interest expense, including interest related to corporate owned life insurance	$ 33,313	$ 37,971	$ 34,963	$ 24,477	$ 22,582
Portion of rent expense representing interest	7,518	6,819	6,288	6,903	7,303
Amortization of debt expense and debt discount	2,721	1,244	461	382	364
Total fixed charges	$ 43,552	$ 46,034	$ 41,712	$ 31,762	$ 30,249
Ratio of Earnings to Fixed Charges	4.4x	4.3x	4.9x	4.9x	4.4x

</TABLE>

For the purpose of computing the ratio of earnings to fixed charges, "earnings" consist of income before income taxes and cumulative effect of accounting change, plus fixed charges and dividends received, net of equity in earnings (loss) of unconsolidated affiliates. Fixed charges consist of interest expense, the portion of rent expense representing interest and amortization of debt discount.

EXHIBIT (21)

AEROQUIP-VICKERS, INC.
SUBSIDIARIES OF THE REGISTRANT

The assets and business of all subsidiaries listed below are included in the 1998 consolidated financial statements of the Registrant. In addition to those named, 5 U.S. and 19 non-U.S. consolidated subsidiaries and 4 affiliated companies that are accounted for by the cost and/or equity methods are not disclosed. The undisclosed subsidiaries and affiliated companies in the aggregate do not constitute a significant subsidiary.

Company	Incorporated or Organized - State or Country	Percent of Voting Securities Owned
Aeroquip-Vickers, Inc.	Ohio	Registrant
SUBSIDIARIES OF REGISTRANT		
Aeroquip Corporation	Michigan	100
Aeroquip International Inc.	Delaware	100
Vickers, Incorporated	Delaware	100
Vickers International Inc.	Delaware	100
Aeroquip A.G.	Switzerland	100
Aeroquip do Brasil, S.A.	Brazil	99.5
Aeroquip Iberica S.A.	Spain	100
Aeroquip Inoac Company	Michigan	51
Aeroquip-Vickers International GmbH	Germany	100
Aeroquip Ltd.	Barbados	100
A-VIC Ltd.	Barbados	100
Aeroquip-Vickers Export Trading Company	Virgin Islands	100
Aeroquip-Vickers Inc.	Canada	100
Aeroquip-Vickers Limited	United Kingdom	100
Aeroquip-Vickers Pte. Ltd.	Singapore	100
Aeroquip-Vickers Pty. Ltd.	Australia	100
Aeroquip-Vickers S.A.	France	100
Aeroquip-Vickers Sdn. Bhd.	Malaysia	100
Aeroquip-Vickers S.p.A.	Italy	100
Vickers do Brasil Ltda.	Brazil	100
Vickers Systems Asia Pacific Pte. Ltd.	Singapore	100
Vickers Systems International Ltd.	India	51
Vickers Systems Limited	Hong Kong	100

EXHIBIT (23)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement No. 333-34663 on Form S-3 and Post-Effective Amendment No. 1 to Registration Statement No. 333-1709 both dated August 29, 1997, and in the related Prospectus dated September 19, 1997; Registration Statement No. 333-1709 on Form S-3 and Post-Effective Amendment No. 2 to Registration Statement No. 33-9127 on Form S-3 both dated March 14, 1996, and in the related Prospectus dated March 20, 1996; Post-Effective Amendment No. 2 to Registration Statement No. 33-14682 on Form S-8 dated April 28, 1989; Registration Statement No. 33-28638 on Form S-8 dated May 10, 1989; Registration Statement No. 33-54059 on Form S-8 dated June 10, 1994; Registration Statement No. 33-55399 on Form S-8 dated September 8, 1994; Registration Statement No. 333-33047 on Form S-8 dated August 7, 1997; Registration Statement No. 333-52039 on Form S-8 dated May 4, 1998; Registration Statement No. 333-52041 on Form S-8 dated May 4, 1998; and Registration Statement No. 333-52043 on Form S-8 dated May 4, 1998, of our report dated January 27, 1999, with respect to the consolidated financial statements and schedule included in this Annual Report (Form 10-K), for the year ended December 31, 1998 of Aeroquip-Vickers, Inc.

/s/ ERNST & YOUNG LLP

Toledo, Ohio
March 23, 1999

(EXHIBIT 24)

DIRECTORS OF
AEROQUIP-VICKERS, INC.

ANNUAL REPORT ON FORM 10-K

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned directors of Aeroquip-Vickers, Inc., an Ohio corporation ("Aeroquip-Vickers"), do hereby constitute and appoint Darryl F. Allen, James E. Kline and William R. Ammann, and each of them, a true and lawful attorney in their name, place and stead, in any and all capacities, to sign their names to Aeroquip-Vickers' Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments to such Form 10-K, and to cause the same to be filed with the Securities and Exchange Commission, granting unto said attorneys and each of them full power and authority to do and perform any act and thing necessary and proper to be done in the premises, as fully to all intents and purposes as the undersigned could do if personally present, and the undersigned hereby ratify and confirm all that said attorneys or any one of them shall lawfully do or cause to be done by virtue hereof.

This Power of Attorney may be executed in multiple counterparts, each of which shall be deemed an original with respect to the person executing it.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands as of the 28th day of January, 1999.

/S/ PURDY CRAWFORD
Purdy Crawford
Director

/S/ VIRGIS W. COLBERT
Virgis W. Colbert
Director

/S/ JOSEPH C. FARRELL
Joseph C. Farrell
Director

/S/ DAVID R. GOODE
David R. Goode
Director

/S/ PAUL A. ORMOND
Paul A. Ormond
Director

/S/ JOHN P. REILLY
John P. Reilly
Director

/S/ WILLIAM R. TIMKEN, JR.
William R. Timken, Jr.
Director

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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