UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1998
OR

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

For the transition period from to

Commission file number 1-8974

ALLIEDSIGNAL INC.

(Exact name of registrant as specified in its charter)

DELAWARE	22-2640650
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
101 Columbia Road P.O. Box 4000 Morristown, New Jersey	07962-2497
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (973)455-2000

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1 per share*	New York Stock Exchange Chicago Stock Exchange Pacific Exchange
Money Multiplier Notes due 1999-2000	New York Stock Exchange
9 7/8% Debentures due June 1, 2002	New York Stock Exchange
9.20% Debentures due February 15, 2003	New York Stock Exchange
Zero Coupon Serial Bonds due 1999-2009	New York Stock Exchange
9 1/2% Debentures due June 1, 2016	New York Stock Exchange

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* The common stock is also listed for trading on the London stock exchange.

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 (or for such shorter period that the Registrant was required to file such reports), 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 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 [x]

The aggregate market value of the voting stock held by nonaffiliates of the Registrant was approximately $21.7 billion at January 31, 1999.

There were 557,130,797 shares of Common Stock outstanding at January 31, 1999.

Documents Incorporated by Reference

Part I and II: Annual Report to Shareowners for the Year Ended December 31, 1998.

Part III: Proxy Statement for Annual Meeting of Shareowners to be held April 26, 1999.

ALLIEDSIGNAL INC.

CROSS REFERENCE SHEET

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* To be included in a definitive Proxy Statement to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 1998.

NOTE: AlliedSignal Inc. is sometimes referred to in this Report as the Registrant and as the Company, and AlliedSignal Inc. and its consolidated subsidiaries are sometimes referred to as the Company, as the context may require.

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(a) These items are omitted since the Registrant will file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A involving the election of directors not later than 120 days after December 31, 1998. Certain other information relating to the Executive Officers of the Registrant appears at pages 15 and 16 of this Report.

PART I.

ITEM 1. BUSINESS

AlliedSignal Inc. (with its consolidated subsidiaries referred to in this Report as the Company) was organized in the State of Delaware in 1985. The Company is the successor to Allied Corporation, which was organized in the State of New York in 1920.

MAJOR BUSINESSES

AlliedSignal Inc. is an advanced technology and manufacturing company serving customers worldwide with aerospace and automotive products, chemicals, fibers, plastics and advanced materials. The Company's operations are conducted by eleven strategic business units, which have been aggregated under five reportable segments: Aerospace Systems, Specialty Chemicals & Electronic Solutions, Turbine Technologies, Performance Polymers and Transportation Products.

Following is a description of the Company's strategic business units:

STRATEGIC BUSINESS UNITS	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR CUSTOMERS/USES	KEY COMPETITORS
AEROSPACE SYSTEMS				
Aerospace Equipment Systems	Environmental control systems	Air conditioning systems Bleed air control systems Cabin pressure systems Environmental and thermal control for spacecraft Smoke detection systems Repair, overhaul and spare parts	Commercial, regional and general aviation aircraft Military aircraft Spacecraft	Barber Colman Hamilton Standard Liebherr Parker Hannifin Sundstrand TAT
	Engine systems and accessories	Electronic and hydromechanical fuel controls Engine start systems Pressure transducers Repair, overhaul and spare parts	Commercial air transport, regional and general aviation Military aircraft	Chandler-Evans Hamilton Standard Lockheed Martin Lucas Parker
	Power management and generation systems	Electric, hydraulic and pneumatic power generation systems Exterior and interior lighting systems Power distribution and power management systems Pumps, starters, converters, controls, electrical actuation for flight surfaces Repair, overhaul and spare parts	Commercial, military, regional and general aviation aircraft Ground vehicles	Auxilec B.F. Goodrich Hella Lucas Parker Bertea Smiths Sundstrand Teleflex
	Aircraft landing systems	Wheels and brakes Friction products Brake control systems Wheel and brake overhaul services Aircraft landing systems integration	Commercial and military aircraft	Aircraft Braking Systems Dunlop B.F. Goodrich Messier-Bugatti Messier-Dowty

STRATEGIC BUSINESS UNITS	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR CUSTOMERS/USES	KEY COMPETITORS
Electronic & Avionics Systems	Avionics systems	Flight safety systems: Enhanced Ground Proximity Warning Systems (EGPWS); Traffic Alert and Collision Avoidance Systems (TCAS); Windshear detection systems and weather radar; Flight data and cockpit voice recorders; Communication and navigation systems: Flight management systems; Data management and aircraft performance monitoring systems; Air-to-ground telephones; Global positioning systems; Automatic flight control systems; Navigation systems; Identification systems; Integrated systems; Vehicle management systems; Cockpit display systems	Commercial, business and general aviation aircraft; Government aviation	Century; Garmin; B.F. Goodrich; Honeywell; Litton; Lockheed Martin; Narco; Rockwell/Collins; Sextant; Smiths; S-tec; Trimble/Terra; Universal
	Automatic test systems	Computer-controlled automatic test systems; Functional testers and ancillaries; Portable test and diagnostic systems; Advanced battery analyzer/charger	U.S. Government and international logistics centers; Military aviation	GDE Systems; Honeywell; Litton; Lockheed Martin; Northrop Grumman
	Inertial sensor	Inertial sensor systems for guidance, stabilization, navigation and control; Gyroscopes, accelerometers, inertial measurement units and thermal switches	Military and commercial vehicles; Commercial spacecraft and launch vehicles; Energy utility boring; Transportation; Missiles; Munitions	Astronautics-Kearfott; Ball; BEI; GEC; Honeywell; Litton; Rockwell/Collins
	Radar systems	Aircraft precision landing; Ground surveillance; Target detection devices	Global and U.S. airspace agencies; Military aviation; Military missiles	Hughes; Motorola; Raytheon; Rockwell; Thomson-CSF
Aerospace Marketing, Sales & Service(1)	Management and technical services	Maintenance/operation of space systems and facilities; Systems engineering, integration and information technology services	U.S. and foreign government space and communications services; Commercial space ground segment systems and services	Computer Sciences; Dyncorp; Lockheed Martin; Raytheon; SAIC
	Aircraft hardware distribution	Consumable hardware, including fasteners, bearings, bolts and o-rings; Adhesives, sealants, lubricants, cleaners and paints; Value-added services, repair and overhaul kitting and point-of-use replenishment	Commercial and military aviation and space programs	Wesco Aircraft; Tristar Aerospace; M&M Aerospace; Aviall; W.S. Wilson; Jamaica Bearings

(1) Aerospace-related businesses have organized their marketing, sales, service, technical support, repair and overhaul and distribution capabilities into this business unit.

STRATEGIC BUSINESS UNITS	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR CUSTOMERS/USES	KEY COMPETITORS
SPECIALTY CHEMICALS & ELECTRONIC SOLUTIONS				
Specialty Chemicals	Fluorocarbons	Genetron'r' refrigerants, aerosol and insulation foam blowing agents Genesolv'r' solvents Oxyfume sterilant gases	Refrigeration Air conditioning Polyurethane foam Precision cleaning Optical Metalworking Hospitals Medical equipment manufacturers	Atochem DuPont ICI
	Hydrofluoric acid (HF)	Anhydrous and aqueous hydrofluoric acid	Fluorocarbons Steel Oil refining Chemical intermediates	Ashland Atochem DuPont Hashimoto Merck Norfluor Quimaco Fluor
	Fluorine specialties	Sulfur hexafluoride (SF6) Iodine pentafluoride (IF5) Antimony pentafluoride (SbF5)	Electric utilities Magnesium Gear manufacturers	Air Products Asahi Glass Atochem Ausimont Kanto Denko Kogyo Solvay Fluor
	Nuclear services	UF6 conversion services	Nuclear fuel Electric utilities	British Nuclear Fuels Cameco (Canada) Cogema (France) Tennex (Russia)
	Pharmaceutical and agricultural chemicals	Active pharmaceutical ingredients Oxime-based fine chemicals Fluoroaromatics Bromoaromatics	Agrichemicals Pharmaceuticals	Cambrex DSM Lonza Zeneca
	High purity chemicals	Ultra high purity HF Solvents Inorganic acids High purity solvents	Semiconductors	LaPorte Merck Olin
	Industrial specialties Imaging Luminescence and plastic additives Chemical processing Materials and surface treatment Sealants	Hydrofluoric acid (HF) HF derivatives Fluoroaromatics Photodyes Phosphors Catalysts Oxime silanes	Diverse by product type	Varies by product line
	Specialty waxes	Polyethylene waxes Petroleum waxes and blends	Coatings Inks Candles Tire/Rubber Personal care Packaging	BASF Clariant Eastman Exxon IGI Leuna Schumann-Sasol
	Specialty additives	Polyethylene waxes Petroleum waxes and blends PVC lubricant systems Plastic additives	PVC Plastics	Eastman Geon Henkel
	UOP (joint venture)	Processes Catalysts Molecular sieves Adsorbents Design of process plants and equipment Customer catalyst manufacturing	Petroleum, petrochemical, gas processing and chemical industries	ABB Lummus Criterion IFP (France) Mobil Procatalyse (France) Stone & Webster Zeochem

STRATEGIC BUSINESS UNITS	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR CUSTOMERS/USES	KEY COMPETITORS
Electronic Materials	Multilayer circuitry materials	Laminates Prepregs Copper foil	Military Telecommunications Automotive Computers Consumer electronics	ADI/Isola Nanya Nelco Polyclad
	Copper-clad rigid laminates for circuitry	Laminates	Military Telecommunications Automotive Computers Consumer electronics	ADI/Isola General Electric Nanya Nelco Polyclad
	Advanced microelectronic materials	Spin-on dielectrics for semiconductor manufacturing	Semiconductors Microelectronics	Dow Corning Applied Materials Tokyo-Ohka
	Equipment for semiconductor and related electronics manufacturing	Electron beam curing equipment Mini clean room environments	Semiconductor and thin film head manufacturing Seimconductor and related electronics manufacturing	Fusion Systems Asyst
	Engineering design services	Printed circuit board MultiChip fabricators	Semiconductor manufacturing	N/A
	Amorphous metals	Amorphous metal ribbons and components	Electrical distribution transformers High frequency electronics Metal joining Theft deterrent systems	Allegheny-Ludlum Steel Armco Steel Kawasaki Steel Nippon Steel
TURBINE TECHNOLOGIES Engines	Turbine propulsion engines	TFE731 turbofan TPE331 turboprop TFE1042 turbofan F124 turbofan LF502 turbofan LF507 turbofan CFE738 turbofan T53, T55 turboshaft LT101 turboshaft T800 turboshaft TF40 turboshaft AGT1500 turboshaft Repair, overhaul and spare parts	Business, regional and military trainer aircraft Commercial and military helicopters Military vehicles Commercial and military marine craft	Pratt & Whitney Canada Rolls-Royce/ Allison Engine Company Turbomeca
	Auxiliary power units (APUs)	Airborne auxiliary power units Jet fuel starters Secondary power systems Ground power units Repair, overhaul and spare parts	Commercial and military aircraft Ground power	Pratt & Whitney Canada Sundstrand Power Systems
	Industrial power	ASE 8 turboshaft ASE 40/50 turboshaft ASE 120 turboshaft	Ground based utilities, industrial or mechanical drives	Solar Rolls-Royce/ Allison Engine Company European Gas Turbines

STRATEGIC BUSINESS UNITS	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR CUSTOMERS/USES	KEY COMPETITORS
Turbocharging Systems	Charge-air systems Thermal systems	Turbochargers Charge-air coolers Aluminum radiators Aluminum cooling modules Superchargers Remanufactured components	Passenger car, truck and off-highway original equipment manufacturers (OEMs) Engine manufacturers Aftermarket distributors and dealers	Aisin Seiki Behr/McCord GE/Elliott General Motors Hitachi Holset IHI KKK Mitsubishi/MHI Modine Schwitzer Valeo Williams International
	Power generation	Turbogenerators	Users of electricity	Capstone Turbine Electric Utilities
PERFORMANCE POLYMERS				
Polymers	Carpet fibers	Nylon filament and staple yarns Bulk continuous filament Nylon polymer	Commercial, residential and specialty carpet markets	BASF DuPont Solutia Rhodia
	Performance fibers	Industrial nylon and polyester yarns Extended-chain polyethylene composites Fine denier nylon yarns	Passenger car and truck tires Passenger car and light truck seatbelts and airbags Broad woven fabrics Ropes and mechanical rubber goods Luggage Sports gear Bullet resistant vests, helmets and heavy armor Cut-resistant industrial gloves Sailcloth	Akra Akzo BASF DSM DuPont Hoechst/Celanese Hyosung Kolon Nylstar Rhodia
	Engineering plastics	Thermoplastic nylon Thermoplastic alloys and blends Post-consumer recycled PET resins Recycled nylon resins	Food and pharmaceutical packaging Housings (e.g., electric hand tools, chain saws) Automotive components Office furniture Electrical and electronics	BASF Bayer DuPont Hoechst/Celanese Monsanto
	Specialty films	Cast nylon Biaxially oriented nylon film Fluoropolymer film	Food Pharmaceuticals Packaging and industrial applications	DuPont of Canada Kolon Rexam Custom Toyobo
	Chemical intermediates	Caprolactam Ammonium sulfate Hydroxylamine Cyclohexanol Cyclohexanone Adipic acid	Nylon for fibers, engineered resins and film Fertilizer ingredients Specialty chemicals Vitamins	BASF DSM DuPont Enichem Solutia Rhodia Ube

STRATEGIC BUSINESS UNITS	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR CUSTOMERS/USES	KEY COMPETITORS
TRANSPORTATION PRODUCTS				
Consumer Products Group	Aftermarket filters, electronic components and car care products	Oil, air, fuel, transmission and coolant filters PCV valves Spark plugs Wire and cable Antifreeze/coolant Ice-fighter products Windshield washer fluids Waxes, washes and specialty cleaners	Automotive and heavy vehicle aftermarket channels and original equipment service (OES) Mass merchandisers	AC Delco/Delphi/GM ArmorAll/STP/Clorox Autoglym Baldwin Bosch Champion Labs Champion/Cooper Ind. Cummings Diesel Donaldson Gold Eagle Gonher Havoline/Texaco Labinal Mac Quair Mann & Hummel NGK Peak Pennzoil/Quaker State Purolator/Arvin Ind Pyroil/Valvoline Turtle Wax Various Prival Label Wix/Dana Zerex/Valvoline
Friction Materials	Friction materials Aftermarket brake hard parts	Disc brake pads Drum brake linings Brake blocks Disc and drum brake components Brake hydraulic components Brake fluid Aircraft brake linings Railway linings	Automotive and heavy vehicle OEMs, OES, brake manufacturers and aftermarket channels Mass merchandisers Installers Railway and commercial/ military aircraft OEMs and brake manufacturers	Akebono BBA Group Dana Delphi Federal-Mogul ITT/Galfer JBI Nisshinbo Pagid Sumitomo
Truck Brake Systems (joint venture)	Air brake systems	Anti-lock brake systems (ABS) Air disc brakes Air compressors Air valves Air dryers Actuators Truck electronics Competitive remanufactured products	On-highway medium and heavy truck, bus and trailer OEMs Off-highway equipment OEMs Aftermarket distributors and dealers/OES	Eaton Midland-Haldex Meritor WABCO

RECENT DEVELOPMENTS

Activity in Aerospace Systems included the acquisition, in January 1998, of substantially all the assets of Banner Aerospace, distributors of FAA-certified aircraft hardware, for common stock valued at approximately $350 million. The acquired operations have annual sales of about $250 million, principally to commercial air transport and general aviation customers. In June 1998, the Company acquired a controlling interest in the Normalair-Garrett Ltd environmental controls joint venture. The acquired operations have annual sales of approximately $240 million. Several smaller acquisitions were also completed. In the first quarter of 1998, the Company sold its underwater detection systems business to L-3 Communications Corporation for approximately $70 million in cash and, in September 1998, the Company sold its communications systems business to Raytheon Company for approximately $60 million in cash. The divested businesses had annual sales of about $190 million. Aerospace Systems also strengthened its leadership in flight safety products by winning several major contracts for its new FAA-approved Enhanced Ground Proximity Warning System which gives pilots advance warning time of a collision with terrain.

In June 1998, the Company acquired Pharmaceutical Fine Chemicals S.A. (PFC) of Lugano, Switzerland, for approximately $390 million, including assumed liabilities, as part of the Specialty Chemicals & Electronic Solutions segment. PFC manufactures and distributes active and intermediate

pharmaceutical chemicals and had sales of about $110 million in 1997. Several other smaller acquisitions were also completed during the year. In April 1998, the European laminates business of Electronic Materials was sold.

Turbine Technologies began development of the AS900, its first new turbofan engine platform in more than 20 years, for the rapidly growing general and regional aviation market. It is scheduled for FAA certification in the first quarter of 2001. Turbocharging Systems is entering the small-scale power generation business to serve a growing demand for low cost, highly reliable and efficient independent power units. International distribution alliances for the power systems were formed in 1998. Initial product shipments are scheduled for mid-1999.

Performance Polymers formed a joint venture with DSM Chemicals North America to construct and operate an $80 million recycling facility to convert nylon carpet into caprolactam, the raw material used in carpeting and automobile parts. Performance Polymers exited its European carpet fibers business and a portion of the North American textile business in 1998. Performance Polymers also sold its phenol facility to Sun Company, Inc. in 1998, and as part of the sale the Company retained a phenol supply arrangement for its nylon business.

In Transportation Products, Truck Brake Systems and its partner, Knorr-Bremse AG, established a joint venture company with Robert Bosch GmbH (Bosch) combining their European commercial heavy-duty brake systems businesses. Bosch contributed its commercial vehicle brake product division to the European joint venture, in exchange for a 20% interest in the joint venture. The Company will also have a 20% ownership interest in the European joint venture. Knorr-Bremse, AlliedSignal's joint venture partner since 1993, will have the remaining 60% interest.

In June 1998, the Company sold its interest in its automotive catalyst business to a unit of General Motors Corporation for approximately $50 million in cash. This business had annual sales of about $250 million.

In 1998, the Company was unsuccessful in its $10 billion unsolicited offer for AMP Incorporated (AMP), a manufacturer of electrical connection devices. In connection with this transaction, the Company acquired approximately a 9% interest in AMP for $890 million. The fair market value of the investment at December 31, 1998 was $1,041 million.

In January 1999, the Company announced that it will commence realignment of its aerospace businesses in the first quarter to strengthen their market and customer focus, simplify the business structure and reduce costs.

U.S. GOVERNMENT SALES

Sales to the U.S. Government (primarily aerospace-related), acting through its various departments and agencies and through prime contractors, amounted to $1,891 million for 1998 and $1,851 million for 1997, which includes sales to the U.S. Department of Defense (DoD) of $1,366 million in 1998 and $1,338 million in 1997. Approximately 58% and 59% of sales to the U.S. Government in 1998 and 1997, respectively, were made under fixed-price contracts in which the Company agrees to perform a contract for a fixed price, retaining any benefits of cost savings and absorbing any cost overruns. The Company is affected by U.S. Government budget restraints for defense and space programs. After years of decline, U.S. defense spending increased slightly in 1998 and is expected to increase over the next several years.

In addition to normal business risks, companies engaged in supplying military and other equipment to the U.S. Government are subject to unusual risks, including dependence on Congressional appropriations and administrative allotment of funds, changes in governmental procurement legislation and regulations and other policies that may reflect military and political developments, significant changes in contract scheduling, complexity of designs and the rapidity with which they become obsolete, necessity for constant design improvements, intense competition for U.S. Government business necessitating increases in time and investment for design and development, difficulty of forecasting costs and schedules when bidding on developmental and highly sophisticated technical work and other factors characteristic of the industry. Changes are customary over the life of U.S. Government contracts, particularly development contracts, and generally result in adjustments of contract prices.

The Company, like other government contractors, is subject to government investigations of business practices and compliance with government procurement regulations. Although such regulations provide that a contractor may be suspended or debarred from government contracts under certain circumstances, and the outcome of pending government investigations cannot be predicted with certainty, management is not currently aware of any such investigations that it expects, individually or in the aggregate, will have a material adverse effect on the Company. In addition, the Company has a proactive business compliance program designed to ensure compliance and sound business practices.

BACKLOG

Orders for certain aerospace-related products sold to general and commercial aviation customers mainly consist of relatively short-term and frequently renewed commitments. Government procurement agencies generally issue contracts covering relatively long periods of time. Total backlog (principally for aerospace-related products and services) for both government and commercial contracts was $5,012 million at December 31, 1998 and $5,087 million at December 31, 1997 of which U.S. and foreign government orders were $1,511 million and $1,908 million for the respective years. The Company anticipates that approximately $3,553 million of the total 1998 backlog will be filled during 1999.

Backlog information may not be an accurate indicator of future sales. Government contracts and, in general, subcontracts thereunder are terminable, in whole or in part, for default or for convenience by the government or the higher level contractor if deemed in their best interest. Upon termination for convenience, the contractor is normally entitled to reimbursement for allowable costs and to an allowance for profit. However, if the contract is terminated because of the contractor's default, the contractor may not recover all of its costs and may be liable for any excess costs incurred by the government in procuring undelivered items from another source.

In addition to the right of the government to terminate, government contracts are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds on a fiscal-year basis even though contract performance may extend over many years. Consequently, at the outset of a program, the prime contract is usually partially funded and additional funds are normally only appropriated to the contract by Congress in future years. Fixed-price subcontracts are normally fully funded, but are subject to convenience termination if the prime contract is not funded.

SEGMENT FINANCIAL DATA

Note 23 (Segment Financial Data) of Notes to Financial Statements in the Company's 1998 Annual Report to shareowners is incorporated herein by reference.

DOMESTIC AND FOREIGN FINANCIAL DATA

Note 24 (Geographic Areas -- Financial Data) of Notes to Financial Statements in the Company's 1998 Annual Report to shareowners is incorporated herein by reference.

COMPETITION

The Company encounters substantial competition, in each of its product areas, from businesses producing the same or similar products and businesses producing different products designed for the same uses. Such competition is expected to continue in all geographic markets. Depending on the particular market involved, the Company's businesses compete on a variety of factors, such as price, quality, delivery, customer service, performance, product innovation and product recognition. Other competitive factors for certain products include breadth of product line, research and development efforts and technical and managerial capability. While the Company's competitive position varies among its products, the Company believes it is a significant factor in each of its major product classes.

Certain products and services of the Company are sold in competition with those of a large number of other companies, some of which have substantial financial resources and significant technological capabilities. Other products compete with independent suppliers or with the captive

component divisions of the vehicle manufacturers. Still other businesses are aligned around markets, customers and common technologies. Brand identity, service to customers and quality are important competitive factors in the market and there is considerable price competition.

INTERNATIONAL OPERATIONS

The Company is engaged in manufacturing, sales and/or research and development mainly in the U.S., Europe, Canada, Asia and Latin America. U.S. exports and foreign manufactured products are significant to the Company's operations. U.S. exports comprised 17% of total Company net sales in both 1998 and 1997. Foreign manufactured products and services, mainly in Europe, were 21% and 22% of total Company net sales in 1998 and 1997, respectively.

The Company's international operations, including U.S. exports, are potentially subject to a number of unique risks and limitations, including: fluctuations in currency value; exchange control regulations; wage and price controls; employment regulations; foreign investment laws; import and trade restrictions, including embargoes; and governmental instability.

Approximately 25% of total sales of aerospace-related products and services were exports of U.S. manufactured products and systems, performance of services such as aircraft repair and overhaul, and licensing activities. Exports were principally made to Europe, Asia and Canada. The principal manufacturing facilities outside of the U.S. are in Europe and Canada. Foreign manufactured products comprised 11% of total sales of aerospace-related products and services.

Exports of U.S. manufactured automotive products comprised 5% of total sales of automotive products. The principal manufacturing facilities outside the U.S. are in Europe, with less significant operations in Asia, Latin America and Canada. Foreign manufactured products accounted for 47% of total sales of automotive products.

Approximately 13% of total sales of chemicals, fibers, plastics and advanced materials were exports of U.S. manufactured products. Exports were principally made to Asia, Europe, Latin America and Canada. The principal manufacturing facilities outside the U.S. are in Europe, with less significant operations in Asia and Canada. Foreign manufactured products comprised 19% of total sales of chemicals, fibers, plastics and advanced materials.

RAW MATERIALS

The principal raw materials used to produce the Company's products include: aerospace products -- carbon fiber; electronic, optical and mechanical component parts and assemblies; electronic and electromechanical devices and metallic products; automotive products -- castings, forgings, steel and bar stock, copper, aluminum, platinum and titanium and chemicals, fibers, plastics and advanced materials -- cumene, natural gas, sulfur, terephthalic acid, ethylene and ethylene glycol, fluorspar, HF, carbon tetrachloride, chloroform, nylon resins, fiberglass, copper foil, platinum, rhodium, polyester chips, lubricating oil by-products and butylrubber. The Company is producing virtually all of its HF and nylon resin requirements. The principal raw materials used in the Company's operations are generally readily available. Major requirements for key raw materials and fuels are typically purchased pursuant to multi-year contracts. The Company is not dependent on any one supplier for a material amount of its raw material or fuel requirements. However, the Company is highly dependent on its suppliers and subcontractors in order to meet commitments to its customers. In addition, many major components and product equipment items are procured or subcontracted on a sole-source basis with a number of domestic and foreign companies. The Company maintains a qualification and performance surveillance process to control risk associated with such reliance on third parties. The Company believes that sources of supply for raw materials and components are generally adequate, although, temporary shortages may occur from time to time.

PATENTS AND TRADEMARKS

The Company owns approximately 9,000 patents or patent applications and is licensed under other patents covering certain of its products and processes. It believes that, in the aggregate, the rights under such patents and licenses are generally important to its operations, but does not consider

that any patent or patent license agreement or group of them related to a specific process or product is of material importance in relation to the Company's total business.

The Company also has registered trademarks for a number of its products. Some of the more significant trademarks include: AiResearch, Anso, Autolite, Bendix, Bendix/King, Capron, Fram, Garrett, Genetron, Holts, Prestone and Redex.

RESEARCH AND DEVELOPMENT

The Company's research activities are directed toward the discovery and development of new products and processes, improvements in existing products and processes, and the development of new uses of existing products.

Research and development expense totaled $394, $349 and $345 million in 1998, 1997 and 1996, respectively. Customer-sponsored (principally the U.S. Government) research and development activities amounted to an additional $418, $527 and $536 million in 1998, 1997 and 1996, respectively.

ENVIRONMENT

The Company is subject to various federal, state and local requirements regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. It is the Company's policy to comply with these requirements and the Company believes that, as a general matter, its policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage, and of resulting financial liability, in connection with its business. Some risk of environmental damage is, however, inherent in certain operations and products of the Company, as it is with other companies engaged in similar businesses.

The Company is and has been engaged in the handling, manufacture, use or disposal of many substances classified as hazardous or toxic by one or more regulatory agencies. The Company believes that, as a general matter, its handling, manufacture, use and disposal of such substances are in accord with environmental laws and regulations. It is possible, however, that future knowledge or other developments, such as improved capability to detect substances in the environment or increasingly strict environmental laws and standards and enforcement policies thereunder, could bring into question the Company's handling, manufacture, use or disposal of such substances.

Among other environmental requirements, the Company is subject to the federal superfund law, and similar state laws, under which the Company has been designated as a potentially responsible party that may be liable for cleanup costs associated with various hazardous waste sites, some of which are on the U.S. Environmental Protection Agency's superfund priority list. Although, under some court interpretations of these laws, there is a possibility that a responsible party might have to bear more than its proportional share of the cleanup costs if it is unable to obtain appropriate contribution from other responsible parties, the Company has not had to bear significantly more than its proportional share in multi-party situations taken as a whole.

Capital expenditures for environmental control facilities at existing operations were $52 million in 1998. The Company estimates that during each of the years 1999 and 2000 such capital expenditures will be in the $60 to $65 million range. In addition to capital expenditures, the Company has incurred and will continue to incur operating costs in connection with such facilities.

Reference is made to Management's Discussion and Analysis at page 22 of the Company's 1998 Annual Report to shareowners, incorporated herein by reference, for further information regarding environmental matters.

EMPLOYEES

The Company had an aggregate of 70,400 employees at December 31, 1998. Approximately 49,900 were located in the United States, and, of these employees, about 23% were unionized employees represented by various local or national unions.

ITEM 2. PROPERTIES

The Company has approximately 340 locations consisting of plants, research laboratories, sales offices and other facilities. The plants are generally located to serve large marketing areas and to provide accessibility to raw materials and labor pools. The properties are generally maintained in good operating condition. Utilization of these plants may vary with government spending and other business conditions; however, no major operating facility is significantly idle. The facilities, together with planned expansions, are expected to meet the Company's needs for the foreseeable future. The Company owns or leases warehouses, railroad cars, barges, automobiles, trucks, airplanes and materials handling and data processing equipment. It also leases space for administrative and sales staffs. The Company's headquarters and administrative complex is located at Morris Township, New Jersey.

The principal plants, which are owned in fee unless otherwise indicated, are as follows:

AEROSPACE SYSTEMS

Anniston, AL	Olathe, KS (leased)	Mississauga, Ontario Canada
Tempe, AZ	Columbia, MD	Yeovil, Somerset United Kingdom
Torrance, CA (partially leased)	Teterboro, NJ	
Tucson, AZ	Rocky Mount, NC	
South Bend, IN	Urbana, OH	
	Redmond, WA	

SPECIALTY CHEMICALS & ELECTRONIC SOLUTIONS

Baton Rouge, LA	Orange, TX	Seelze, Germany
Geismar, LA		

TURBINE TECHNOLOGIES

Phoenix, AZ (4 plants, 1 owned, 3 partially leased)	Torrance, CA	Singapore
	Thaon-Les-Vosges, France	Skelmersdale, United Kingdom
	Raunheim, Germany	

PERFORMANCE POLYMERS

Moncure, NC	Chesterfield, VA	Longlaville, France
Pottsville, PA	Churchill, VA	Rudolstadt, Germany
Columbia, SC	Hopewell, VA	
Sparta, TN		

TRANSPORTATION PRODUCTS

Huntington, IN	Greenville, OH	Glinde, Germany
Fostoria, OH		

ITEM 3. LEGAL PROCEEDINGS

The first four paragraphs of Note 20 (Commitments and Contingencies) of Notes to Financial Statements at page 39 of the Company's 1998 Annual Report to shareowners are incorporated herein by reference.

The Indiana Department of Environmental Management issued a Notice of Violation (NOV) to the Company on August 18, 1997 alleging, principally, that the Company had failed to obtain certain air emissions permits required for the construction and operation of various equipment at its South Bend, Indiana plant. The Company could be subject to monetary sanctions which may exceed $100,000. Management does not believe that any such monetary sanctions, if imposed, will have a material adverse effect on the consolidated results of operations or financial position of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Registrant, listed as follows, are elected annually in April. There are no family relationships among them.

NAME, AGE, DATE FIRST ELECTED AN OFFICER	BUSINESS EXPERIENCE
Lawrence A. Bossidy (a), 63 1991	Chairman of the Board since January 1992. Chief Executive Officer of the Company since July 1991.
Frederic M. Poses (a), 56 1988	President and Chief Operating Officer since June 1998. Vice Chairman from October 1997 to May 1998. Executive Vice President and President, AlliedSignal Engineered Materials from April 1988 to September 1997.
Larry E. Kittelberger, 50 1996	Senior Vice President and Chief Information Officer since February 1999. Vice President and Chief Information Officer from August 1995 to January 1999. Corporate Chairman -- Information Officer Leadership Committee of Tenneco Inc. (diversified industrial concern) from June 1989 to July 1995.
Peter M. Kreindler, 53 1992	Senior Vice President, General Counsel and Secretary since December 1994. Senior Vice President and General Counsel from March 1992 to November 1994.
Donald J. Redlinger, 54 1991	Senior Vice President -- Human Resources and Communications since February 1995. Senior Vice President -- Human Resources from January 1991 to January 1995.
Richard F. Wallman, 47 1995	Senior Vice President and Chief Financial Officer since March 1995. Vice President and Controller of International Business Machines Corp. (IBM) from April 1994 to February 1995. General Assistant Controller of IBM from October 1993 to March 1994.
William J. Amelio, 41 1998	President -- Turbocharging Systems since April 1997. Vice President, Re-Engineering and Information Systems of IBM Personal Computer Company from 1996 to 1997. Vice President, Operations, IBM Personal Computer Company from 1994 to 1995.
David E. Berges, 49 1998	President -- Consumer Products Group since January 1998. President, Bendix/Jurid unit of Friction Materials from November 1997 to December 1997. Vice President and General Manager, Engine Systems and Accessories unit of Aerospace Equipment Systems from July 1994 to October 1997.
Mark H. Breedlove, 42 1998	President -- Friction Materials since October 1998. President, Bendix/Jurid unit of Friction Materials from February 1998 to September 1998. President, Asia Operations, Automotive from June 1996 to January 1998. President, Braking Systems -- Asia, from July 1995 to May 1996. Vice President, Product Management, Braking Systems -- Americas from August 1994 to June 1995. Vice President, Finance, Braking Systems North America from June 1993 to July 1994.
Gary A. Cappeline, 49 1998	President -- Specialty Chemicals since December 1998. Group Vice President, Pigments and Additives, Engelhard Corporation (chemical manufacturer) from January 1997 to November 1998; Group Vice President, Specialty Chemicals of Ashland Chemical from January 1993 to December 1996.

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(a) Also a director.

(list continued on next page)

(list continued from previous page)

NAME, AGE, DATE FIRST ELECTED AN OFFICER	BUSINESS EXPERIENCE
Karen K. Clegg, 50 1998	President -- Federal Manufacturing & Technologies (FM&T) since May 1995. Vice President of FM&T from February 1995 to April 1995. Vice President, Field Services and New Markets, AlliedSignal Technical Services Corporation from January 1994 to January 1995.
Robert D. Johnson, 51 1998	President -- Aerospace Marketing, Sales and Service since January 1999. President -- Electronic & Avionics Systems from October 1997 to December 1998. Vice President and General Manager, Aerospace Services from 1994 to 1997. Group Vice President, Manufacturing and Services of AAR Corp. from 1993 to 1994.
Steven R. Loranger, 47 1998	President -- Engines since July 1997. President -- Truck Brake Systems from February 1995 to June 1997. Vice President, Air Transport unit of Engines from May 1993 to January 1995.
Jeffrey I. Sinclair, 49 1998	President -- Truck Brake Systems since October 1997. Vice President, Global Sales and Marketing, Friction Materials from September 1996 to September 1997. Principal of A.T. Kearney (management consulting company) from September 1995 to August 1996. President of St. James Group (marketing consulting company) from March 1991 to August 1995.
David N. Weidman, 43 1998	President -- Polymers since March 1998. President -- Fluorine Products unit of Specialty Chemicals from May 1995 to February 1998. Vice President and General Manager, Performance Additives unit of Specialty Chemicals from May 1994 to April 1995. Vice President and General Manager of American Cyanamid's Fibers business from 1990 to 1994.
Geoffrey Wild, 42 1998	President -- Electronic Materials since February 1997. President of Electronic Materials of Johnson Matthey plc from August 1992 to January 1997.

PART II.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market and dividend information for the Registrant's common stock is contained in Note 25 (Unaudited Quarterly Financial Information) of Notes to Financial Statements at page 42 of the Company's 1998 Annual Report to shareowners, and such information is incorporated herein by reference.

The number of record holders of the Registrant's common stock is contained in the statement 'Selected Financial Data' at page 18 of the Company's 1998 Annual Report to shareowners, and such information is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information included under the captions 'For the Year' and 'At Year-End' in the statement 'Selected Financial Data' at page 18 of the Company's 1998 Annual Report to shareowners is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

'Management's Discussion and Analysis' on pages 19 through 27 of the Company's 1998 Annual Report to shareowners is incorporated herein by reference.

This Report contains, or incorporates by reference, certain statements that may be deemed 'forward-looking statements' within the meaning of Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical fact, that address activities, events or developments that the Company or management intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by management of the Company in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes to be appropriate. The forward-looking statements included in this Report are also subject to a number of material risks and uncertainties, including but not limited to economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices. Such forward-looking statements are not guarantees of future performance and actual results, developments and business decisions may differ from those envisaged by such forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Information relating to market risk is included under the caption 'Financial Instruments' in 'Management's Discussion and Analysis' on pages 22 and 23 of the Company's 1998 Annual Report to shareowners, and such information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 1, 1999 appearing on pages 27 through 42 of the Company's 1998 Annual Report to shareowners, are incorporated herein by reference. With the exception of the aforementioned information and the information incorporated by reference in Items 1, 3, 5, 6, 7 and 7A, the 1998 Annual Report to shareowners is not to be deemed filed as part of this Form 10-K Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to directors of the Registrant, as well as information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, will be contained in a definitive Proxy Statement involving the election of directors which the Registrant will file with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after December 31, 1998, and such information is incorporated herein by reference. Certain other information relating to Executive Officers of the Registrant appears at pages 15 and 16 of this Form 10-K Annual Report.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation is contained in the Proxy Statement referred to above in 'Item 10. Directors and Executive Officers of the Registrant,' and such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information relating to security ownership of certain beneficial owners and management is contained in the Proxy Statement referred to above in 'Item 10. Directors and Executive Officers of the Registrant,' and such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not Applicable

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(2.) Consolidated Financial Statement Schedules

The two financial statement schedules applicable to the Company have been omitted because of the absence of the conditions under which they are required.

(a)(3.) Exhibits

See the Exhibit Index to this Form 10-K Annual Report. The following exhibits listed on the Exhibit Index are filed with this Form 10-K Annual Report:

EXHIBIT NO.	DESCRIPTION
13	Pages 18 through 42 (except for the data included under the captions 'Financial Statistics' on page 18) of the Company's 1998 Annual Report to shareowners
21	Subsidiaries of the Registrant
23	Consent of Independent Accountants
24	Powers of Attorney
27	Financial Data Schedule

(b) Reports on Form 8-K

During the three months ended December 31, 1998, a report on Form 8-K was filed on October 21, 1998 disclosing certain earnings data, updated Year 2000 information and certain new credit facilities.

SIGNATURES

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

AlliedSignal Inc.

March 4, 1999

By: /s/ RICHARD J. DIEMER, JR.

Richard J. Diemer, Jr.
Vice President and Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

NAME	NAME
* Lawrence A. Bossidy Chairman of the Board and Chief Executive Officer and Director	* Russell E. Palmer Director
* Frederic M. Poses Director	* Ivan G. Seidenberg Director
* Hans W. Becherer Director	* Andrew C. Sigler Director
Marshall N. Carter Director (Joined Board of Directors March 1, 1999)	* John R. Stafford Director
* Ann M. Fudge Director	* Thomas P. Stafford Director
* Paul X. Kelley Director	* Robert C. Winters Director
* Robert P. Luciano Director	* Henry T. Yang Director
* Robert B. Palmer Director	/s/ RICHARD J. DIEMER, JR. Richard J. Diemer, Jr. Vice President and Controller (Principal Accounting Officer)
/s/ RICHARD F. WALLMAN Richard F. Wallman Senior Vice President and Chief Financial Officer (Principal Financial Officer)	

*By: /s/ RICHARD F. WALLMAN

(Richard F. Wallman
Attorney-in-fact)

March 4, 1999

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
2	Omitted (Inapplicable)
3(i)	Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3(i) to the Company's Form 10-Q for the quarter ended March 31, 1997)
3(ii)	By-laws of the Company, as amended (incorporated by reference to Exhibit 3(ii) to the Company's Form 10-Q for the quarter ended March 31, 1996)
4	The Company is a party to several long-term debt instruments under which, in each case, the total amount of securities authorized does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. Pursuant to paragraph 4(iii)(A) of Item 601(b) of Regulation S-K, the Company agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.
9	Omitted (Inapplicable)
10.1	Master Support Agreement, dated February 26, 1986, as amended and restated January 27, 1987, as further amended July 1, 1987 and as again amended and restated December 7, 1988, by and among the Company, Wheelabrator Technologies Inc., certain subsidiaries of Wheelabrator Technologies Inc., The Henley Group, Inc. and Henley Newco Inc. (incorporated by reference to Exhibit 10.1 to the Company's Form 10-K for the year ended December 31, 1988)
10.2*	Deferred Compensation Plan for Non-Employee Directors of AlliedSignal Inc., as amended (incorporated by reference to Exhibit 10.2 to the Company's Form 10-K for the year ended December 31, 1996)
10.3*	Stock Plan for Non-Employee Directors of AlliedSignal Inc., as amended (incorporated by reference to Exhibit C to the Company's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934)
10.4*	1985 Stock Plan for Employees of Allied-Signal Inc. and its Subsidiaries, as amended (incorporated by reference to Exhibit 19.3 to the Company's Form 10-Q for the quarter ended September 30, 1991)
10.5*	AlliedSignal Inc. Incentive Compensation Plan for Executive Employees, as amended (incorporated by reference to Exhibit B to the Company's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934)
10.6*	Supplemental Non-Qualified Savings Plan for Highly Compensated Employees of AlliedSignal Inc. and its Subsidiaries, as amended (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 1995)
10.7*	AlliedSignal Inc. Severance Plan for Senior Executives, as amended (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 1994)
10.8*	Salary Deferral Plan for Selected Employees of AlliedSignal Inc. and its Affiliates, as amended (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 1995)
10.9*	1993 Stock Plan for Employees of AlliedSignal Inc. and its Affiliates (incorporated by reference to Exhibit A to the Company's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934)

EXHIBIT NO.	DESCRIPTION
10.10*	Amended and restated Agreement, dated May 6, 1994, as amended May 12, 1997 between the Company and Lawrence A. Bossidy (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended June 30, 1994 and to Exhibit 10.15 to the Company's Form 10-Q for the quarter ended June 30, 1997)
10.11	Five-Year Credit Agreement dated as of June 30, 1995 as amended by and between AlliedSignal Inc., a Delaware corporation, the banks, financial institutions and other institutional lenders listed on the signature pages thereof (the 'Lenders'), Citibank, N.A., as agent, and ABN Amro Bank N.V. and Morgan Guaranty Trust Company of New York, as co-agents, for the Lenders (incorporated by reference to Exhibit 10.1 to the Company's Forms 10-Q for the quarters ended June 30, 1995 and June 30, 1996 and to Exhibit 10.13 to the Company's Form 10-Q for the quarter ended June 30, 1997)
10.12	364 Day Backstop Credit Agreement dated as of October 9, 1998 by and among AlliedSignal Inc., Bank of America NT&SA, Citibank, N.A., as Agent, Banque Nationale de Paris, Barclays Bank PLC, Citibank, N.A., Deutsche Bank AG and Morgan Guaranty Trust Company of New York, as Lenders, and Citibank, N.A., as Agent (incorporated by reference to Exhibit 99.1 to the Company's Form 8-K filed October 21, 1998)
10.13*	AlliedSignal Inc. Supplemental Pension Plan, as amended (incorporated by reference to Exhibit 10.13 to the Company's Form 10-K for the year ended December 31, 1997)
11	Omitted (Inapplicable)
12	Omitted (Inapplicable)
13	Pages 18 through 42 (except for the data included under the captions 'Financial Statistics' on page 18) of the Company's 1998 Annual Report to shareowners (filed herewith)
16	Omitted (Inapplicable)
18	Omitted (Inapplicable)
21	Subsidiaries of the Registrant (filed herewith)
22	Omitted (Inapplicable)
23	Consent of Independent Accountants (filed herewith)
24	Powers of Attorney (filed herewith)
27	Financial Data Schedule (filed herewith)
28	Omitted (Inapplicable)
99	Omitted (Inapplicable)

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The Exhibits identified above with an asterisk(*) are management contracts or compensatory plans or arrangements.

STATEMENT OF DIFFERENCES

The registered trademark symbol shall be expressed as.................. 'r'

SELECTED FINANCIAL DATA
AlliedSignal Inc. (dollars in millions except per share amounts)

YEARS ENDED DECEMBER 31	1998	1997	1996	1995	1994	1993	1992
FOR THE YEAR							
Net sales	$15,128	$14,472	$13,971	$14,346	$12,817	$11,827	$12,042
Income (loss) from continuing operations (1)	1,331	1,170	1,020	875	759	656	535
Net income (loss) (2)	1,331	1,170	1,020	875	759	411	(712)
Per share of common stock:							
Earnings (loss) from continuing operations-- basic	2.37	2.07	1.80	1.54	1.34	1.16	.95
Net earnings (loss)-- basic	2.37	2.07	1.80	1.54	1.34	.73	(1.26)
Earnings (loss) from continuing operations -- assuming dilution	2.32	2.02	1.76	1.52	1.32	1.14	.93
Net earnings (loss)-- assuming dilution	2.32	2.02	1.76	1.52	1.32	.71	(1.24)
Dividends	.60	.52	.45	.39	.3238	.29	.25
AT YEAR-END							
Net working capital	$ 408	$ 1,137	$ 2,143	$ 1,086	$ 1,194	$ 1,078	$ 1,414
Property, plant and equipment-- net	4,397	4,251	4,219	4,742	4,260	4,094	3,897
Total assets	15,560	13,707	12,829	12,465	11,321	10,829	10,756
Long-term debt	1,476	1,215	1,317	1,366	1,424	1,602	1,777
Shareowners' equity	5,297	4,386	4,180	3,592	2,982	2,390	2,251
Book value per share of common stock	9.49	7.86	7.39	6.35	5.27	4.21	3.97
Average investment (3)	8,021	6,935	6,468	5,598	4,848	4,506	4,939
Common shares outstanding (in millions)	558.4	558.3	565.6	565.6	566.2	567.6	567.6
Common shareowners of record	76,246	78,793	77,856	79,046	82,095	84,248	84,254
Employees (4)	70,400	70,500	76,600	88,500	87,500	86,400	89,300
FINANCIAL STATISTICS (5)							
Return on net sales (income from operations)	13.0	11.3	10.8	8.8	9.0	8.1	3.4
Return on net sales (after-tax)	8.8	8.1	7.3	6.1	5.9	5.5	4.4
Return on average investment (after-tax)	17.8	18.4	17.5	17.4	17.5	16.6	13.8
Return on average shareowners' equity (after-tax)	27.8	27.5	26.6	26.7	28.9	30.6	26.4
Interest coverage ratio	10.4	8.7	7.6	6.5	6.8	5.1	3.3
Long-term debt as a percent of total capital	19.7	19.7	22.2	25.6	30.4	37.9	40.5
Total debt as a percent of total capital	36.7	31.7	29.5	33.7	34.1	42.7	44.7
FINANCIAL STATISTICS (5)(6)							
Return on net sales (income from operations)	13.0	11.4	10.7	9.1	9.0	7.9	6.5
Return on net sales (after-tax)	8.8	8.1	7.2	6.1	5.9	5.5	4.5
Return on average investment (after-tax)	17.8	18.3	17.4	17.4	17.5	16.6	13.9
Return on average shareowners' equity (after-tax)	27.8	27.4	26.3	26.7	28.9	30.5	26.7
Interest coverage ratio	10.4	8.8	7.5	6.8	6.8	5.0	3.3
Long-term debt as a percent of total capital	19.7	19.7	22.2	25.6	30.4	37.9	40.5
Total debt as a percent of total capital	36.7	31.7	29.5	33.7	34.1	42.7	44.7

YEARS ENDED DECEMBER 31	1991	1990	1989	1988
FOR THE YEAR				
Net sales	$11,831	$12,343	$11,942	$11,909
Income (loss) from continuing operations (1)	(273)	462	528	463
Net income (loss) (2)	(273)	462	528	463
Per share of common stock:				
Earnings (loss) from continuing operations-- basic	(.50)	.84	.89	.78
Net earnings (loss)-- basic	(.50)	.84	.89	.78
Earnings (loss) from continuing operations -- assuming dilution	(.50)	.84	.89	.78
Net earnings (loss)-- assuming dilution	(.50)	.84	.89	.78
Dividends	.40	.45	.45	.45
AT YEAR-END				
Net working capital	$ 526	$ 892	$ 1,065	$ 1,040
Property, plant and equipment-- net	3,638	3,584	3,321	3,214
Total assets	10,382	10,456	10,342	10,069
Long-term debt	1,914	2,051	1,903	2,044
Shareowners' equity	2,983	3,380	3,412	3,268
Book value per share of common stock	5.40	6.28	5.89	5.53
Average investment (3)	6,771	6,723	6,520	6,629
Common shares outstanding (in millions)	552.6	538.8	580.0	591.8
Common shareowners of record	91,492	97,210	102,042	111,402

Employees (4)	98,300	105,800	107,100	109,550
FINANCIAL STATISTICS (5)				
Return on net sales (income from operations)	(2.5)	5.9	8.0	5.7
Return on net sales (after-tax)	(2.3)	3.7	4.4	3.9
Return on average investment (after-tax)	(1.3)	9.6	11.0	10.3
Return on average shareowners' equity (after-tax)	(8.4)	13.9	15.6	14.5
Interest coverage ratio	(.9)	2.6	3.0	2.8
Long-term debt as a percent of total capital	34.9	33.6	30.8	33.2
Total debt as a percent of total capital	43.9	40.4	35.7	35.9
FINANCIAL STATISTICS (5)(6)				
Return on net sales (income from operations)	4.7	5.9	8.0	7.4
Return on net sales (after-tax)	2.9	3.7	4.4	4.3
Return on average investment (after-tax)	7.8	9.6	11.0	10.9
Return on average shareowners' equity (after-tax)	10.5	13.9	15.6	15.9
Interest coverage ratio	2.1	2.6	3.0	2.9
Long-term debt as a percent of total capital	34.9	33.6	30.8	33.2
Total debt as a percent of total capital	43.9	40.4	35.7	35.9

(1) In 1997, includes a provision for repositioning and other charges, a gain on the sale of the safety restraints business and a charge related to the 1996 sale of the braking business, resulting in a net after-tax gain of $4 million, or $0.01 per share. In 1996, includes a provision for repositioning and other charges and a gain on the sale of the braking business resulting in a net after-tax gain of $9 million, or $0.01 per share. In 1992, includes a provision for repositioning charges and a gain on the sale of common stock of Union Texas Petroleum Holdings, Inc. (Union Texas) resulting in a net after-tax charge of $6 million, or $0.01 per share. In 1991, includes a provision for repositioning charges and gains on asset sales by Union Texas resulting in a net after-tax charge of $615 million, or $1.13 per share. In 1988, includes an after-tax charge of $125 million, or $0.21 per share, for repositioning charges, an after-tax gain of $36 million, or $0.06 per share, from the sale of the Company's investment in Akebono Brake Industry Company Ltd. and an after-tax gain of $81 million, or $0.14 per share, from nonrecurring items.

(2) Includes in 1993 the cumulative after-tax provision for the adoption of FASB No. 112 of $245 million, or $0.43 per share. Includes in 1992 the cumulative after-tax provision for the adoption of FASB Nos. 106 and 109 of $1,247 million, or $2.17 per share.

(3) Investment is defined as shareowners' equity and non-current deferred taxes-net plus total debt.

(4) Includes employees at facilities operated for the U.S. Department of Energy.

(5) The returns and interest coverage ratios exclude the impact on income of the cumulative effect of changes in accounting principles.

(6) The returns and interest coverage ratios exclude the impact of provisions for repositioning charges in 1997, 1996, 1995, 1992, 1991 and 1988, gain on the sale of the safety restraints business and a charge related to the 1996 sale of the braking business in 1997, gain on the sale of the braking business in 1996, gain on the transfer of the HDPE business to Exxon in 1995, nonrecurring items in 1993, gain on the sale of common stock of Union Texas in 1992, gains on asset sales by Union Texas in 1991 and nonrecurring income in 1988.

1998 COMPARED WITH 1997

RESULTS OF OPERATIONS

Net sales in 1998 were $15,128 million, an increase of $656 million, or 5%, compared with 1997. Of this increase, $1,103 million was due to volume gains and $1,083 million was from acquisitions, offset in part by a $1,188 million reduction for divested businesses, mainly the automotive safety restraints business. Selling prices were lower by $274 million and the impact of foreign exchange also reduced net sales by $68 million.

Cost of goods sold as a percent of net sales was 75.8% in 1998 compared with 79.3% in 1997. Included in 1997 are repositioning and other charges (special charges) totaling $237 million. See Note 3 of Notes to Financial Statements for further information. Excluding these special charges, 1997 cost of goods sold as a percent of net sales was 77.7%. The decrease in 1998 in cost of goods sold as a percent of net sales reflects results of the Company's Six Sigma programs to improve productivity and lower manufacturing and material costs and the net gains from divestitures of non-strategic lines of business. Six Sigma refers to efforts to reach defect-free performance in manufacturing and other business processes.

Selling, general and administrative expenses as a percent of net sales increased to 11.2% in 1998 from 10.9% in 1997. Expenses increased by $109 million, or 7%, reflecting in part the impact of acquisitions and costs associated with the Company's unsuccessful effort to acquire AMP Incorporated (AMP).

Gain on sale of strategic business units reflects the 1997 pretax gain of $226 million, comprised of a $277 million gain on the sale of the safety restraints business, partially offset by a charge of $51 million related to the settlement of the 1996 sale of the automotive braking business. See Note 4 of Notes to Financial Statements for further information.

Income from operations of $1,962 million in 1998 improved by $326 million, or 20%, compared with 1997. Income from operations in 1997 includes the net pretax gain on the sale of strategic business units and special charges (special items). Excluding the impact of these special items, income from operations in 1998 improved by $315 million, or 19%. The Company's operating margin was 13.0% in 1998, compared with 11.4% in 1997. Income from operations is discussed in detail by segment in the Review of Business Segments section below.

Equity in income of affiliated companies of $150 million decreased by $28 million, or 16%, compared with 1997, mainly due to lower earnings from the UOP process technology joint venture (UOP), partially offset by a gain on the sale of a portion of the Company's interest in its European Truck Brake Systems joint venture.

Other income (expense), a $7 million loss in 1998, was unfavorable by $84 million, compared with 1997, reflecting lower investment income and reduced benefits from foreign exchange hedging.

Interest and other financial charges of $162 million in 1998 decreased by $13 million, or 7%, compared with 1997. The decrease results from lower tax interest expense due to favorable settlements of worldwide tax audits, offset in part by higher debt-related interest expense reflecting higher levels of debt.

The effective tax rate in 1998 decreased to 31.5% compared with 33.0% in 1997 adjusted for special items, primarily due to an increase in energy and research and development tax credits.

Net income in 1998 of $1,331 million, or $2.32 per share, was 14% higher than 1997 net income of $1,170 million, or $2.02 per share. Net income in 1998 was also 14% higher than 1997 net income of $1,166 million, or $2.01 per share, as adjusted for special items. The higher net income in 1998 was the result of substantially improved earnings for Aerospace Systems, Performance Polymers and Turbine Technologies. Transportation Products and Specialty Chemicals & Electronic Solutions had significantly lower earnings.

REVIEW OF BUSINESS SEGMENTS

Income from operations for the business segments (see tables below) excludes the impact of the 1997 special items. (dollars in millions)

AEROSPACE SYSTEMS

	NET SALES	INCOME FROM OPERATIONS
1998	$4,871	$920
1997	4,117	608
Increase	$ 754	$312

Aerospace Systems sales of $4,871 million in 1998 increased by $754 million, or 18%, compared with 1997. The sales increase reflects continued strong demand for Electronic & Avionics Systems flight safety products, particularly the enhanced ground proximity warning system and the traffic alert and collision avoidance system, and increased sales of communication and navigation products such as the Quantum radio. Aerospace Equipment Systems aftermarket sales also increased significantly, particularly for environmental control systems, aircraft landing systems and engine fuel systems. The acquisitions of the Grimes Aerospace (Grimes) lighting systems business in July 1997, the Banner Aerospace (Banner) FAA-certified hardware parts business in January 1998, and a controlling interest in the Normalair-Garrett Ltd. (NGL) environmental controls joint venture in June 1998 also contributed to higher sales. The divestitures of the communications and ocean systems businesses in 1998 were a partial offset.

Aerospace Systems income from operations of $920 million in 1998 improved by $312 million, or 51%, from the 1997 income from operations. Electronic & Avionics Systems income from operations was substantially higher due to increased sales, improved factory performance and the divestitures of the communications and ocean systems businesses. Aerospace Equipment Systems income from operations was significantly higher due principally to increased sales of more profitable aftermarket products. The acquisitions of Grimes, Banner and NGL also contributed to higher income from operations.

SPECIALTY CHEMICALS & ELECTRONIC SOLUTIONS

	NET SALES	INCOME FROM OPERATIONS
1998	$2,241	$327
1997	2,218	326
Increase	$ 23	$ 1

Specialty Chemicals & Electronic Solutions sales of $2,241 million in 1998 were $23 million, or 1% higher, compared with 1997. Specialty Chemicals sales were higher primarily reflecting the acquisitions of the Astor Holdings (Astor) wax business in October 1997 and the Pharmaceutical Fine Chemicals S.A. (PFC) pharmaceutical chemicals business in June 1998. The sales increase was partially offset by lower sales for Electronic Materials due to continued softness in the semiconductor and electronics markets and the divestiture of the European laminates business in April 1998. The divestiture of the environmental catalyst business in June 1998 also tempered the sales increase.

Specialty Chemicals & Electronic Solutions income from operations of $327 million in 1998 increased by $1 million from the 1997 income from operations. Specialty Chemicals income from operations was flat reflecting the negative impact of pricing pressures, offset by lower raw material costs, acquisitions and cost structure improvements from census reductions. Electronic Materials income from operations decreased due to lower sales which was offset by the divestiture of the environmental catalyst business.

TURBINE TECHNOLOGIES

	NET SALES	INCOME FROM OPERATIONS
1998	$3,638	$458
1997	3,111	401
Increase	$ 527	$ 57

Turbine Technologies sales of $3,638 million in 1998 increased by $527 million, or 17%, compared with 1997. Engines sales increased significantly due to higher sales of propulsion engines in the regional and business jet markets and auxiliary power units in the commercial air transport market. Turbocharging Systems sales also increased substantially, benefiting from increased penetration of the turbocharged diesel passenger car market in Europe and the light truck market in North America.

Turbine Technologies income from operations of $458 million in 1998 improved by $57 million, or 14%, from the 1997 income from operations. Both Engines and Turbocharging Systems income from operations was substantially higher due principally to increased sales and productivity improvements.

PERFORMANCE POLYMERS

	NET SALES	INCOME FROM OPERATIONS
1998	$1,928	$307
1997	2,030	215
(Decrease) Increase	$ (102)	$ 92

Performance Polymers sales of $1,928 million in 1998 decreased by $102 million, or 5%, compared with 1997. The sales decrease reflects the loss of sales resulting from the divestiture of the phenol business and the exiting of the European carpet fibers business and a portion of the North American textile business. Sales increases for specialty films and engineering plastics were a partial offset.

Performance Polymers income from operations of $307 million in 1998 increased by $92 million, or 43%, from the 1997 income from operations. The improvement in income from operations was primarily driven by a more favorable price-cost relationship in nylon and polyester, improved productivity at the caprolactam facility and the divestiture of the phenol business.

TRANSPORTATION PRODUCTS

	NET SALES	INCOME FROM OPERATIONS
1998	$2,441	$106
1997	2,983	194
(Decrease)	$ (542)	$(88)

Transportation Products sales of $2,441 million in 1998 were $542 million, or 18%, lower compared with 1997 reflecting the disposition of the safety restraints business. Excluding the divested safety restraints business, Transportation Products sales increased 8%. The increase in sales reflects the acquisitions of Prestone Products (Prestone) in June 1997 and the Holt Lloyd Group Ltd. (Holt Lloyd) in November 1997 in the Consumers Products Group. Sales for Truck Brake Systems also improved significantly, as strong original-equipment sales were driven by an improvement in truck builds and increased market penetration for anti-lock brake systems (ABS). Sales for Friction Materials were moderately lower.

Transportation Products income from operations of $106 million in 1998 declined by $88 million, or 45%, from the 1997 income from operations. The decrease reflects the absence of income from operations from the divested safety restraints business. Income from operations from the Consumer Products Group also decreased substantially due in part to the initial costs of new distribution facilities, higher advertising expense to increase brand awareness and other expenses to improve future operations. Friction Materials income from operations was lower due primarily to decreased sales. Income from operations from Truck Brake Systems was substantially higher due to strong sales growth and plant cost reductions.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Total assets at December 31, 1998 were $15,560 million, an increase of $1,853 million, or 14%, from December 31, 1997. The increase mainly reflects acquisitions and the Company's investment in AMP.

[GRAPHIC REPRESENTATION of Net Sales (Dollars in billions), expressed numerically below.]

1996	1997	1998
14.0	14.5	15.1

[GRAPHIC REPRESENTATION of Earnings per Share (Dollars), expressed numerically below.]

1996	1997	1998
1.76	2.02	2.32

[GRAPHIC REPRESENTATION of Income From Operations (Dollars in millions), expressed numerically below.]

1996	1997	1998
1,509	1,636	1,962

[GRAPHIC REPRESENTATION of Long-term Debt as a Percent of Total Capital (Percent), expressed numerically below.]

1996	1997	1998
22.2	19.7	19.7

Cash provided by operating activities of $1,195 million during 1998 decreased by $111 million compared with 1997 as higher net income was more than offset by the increase in net taxes paid on sales of businesses, primarily related to prior year divestitures.

Cash used for investing activities was $1,079 million during 1998 compared with $1,283 million during 1997. The Company spent $322 million for acquisitions in 1998, a decrease of $896 million compared with 1997. The significant acquisitions are discussed in detail in Note 2 of Notes to Financial Statements. In 1998, the Company was unsuccessful in its effort to acquire AMP, a manufacturer of electrical connection devices. In connection with this transaction, the Company acquired approximately a 9% interest in AMP for $890 million. The fair market value of this investment at December 31, 1998 was $1,041 million. In 1998, the Company received proceeds of $306 million from the sales of certain non-strategic businesses and other assets. In 1997, the Company disposed of its safety restraints business for $710 million in cash. See Note 4 of Notes to Financial Statements for further information. In 1998, the Company also liquidated short-term investments of $430 million principally to fund acquisitions and repurchases of the Company's common stock.

The Company continuously assesses the relative strength of each business in its portfolio as to strategic fit, market position and profit contribution in order to upgrade its combined portfolio and identify operating units that will most benefit from increased investment. The Company identifies acquisition candidates that will further its strategic plan and strengthen its existing core businesses. The Company also identifies operating units that do not fit into its long-term strategic plan based on their market position, relative profitability or growth potential. These operating units are considered for potential divestiture, restructuring or other repositioning actions.

Capital expenditures during 1998 were $684 million, a decrease of $33 million from the $717 million spent in 1997, primarily due to the divestiture of the safety restraints business. Spending by the segments and Corporate since 1996 is shown in Note 23 of Notes to Financial Statements. The Company's total capital expenditures in 1999 are currently projected at approximately $670 million. These expenditures are expected to be financed principally by internally generated funds. Approximately 56% of the projected 1999 expenditures are planned for expansion and cost reduction, 35% for replacement and maintenance and 9% for environmental projects.

Cash used for financing activities was $15 million during 1998 compared with $877 million during 1997. Total debt at year-end 1998 of $3,487 million increased by $1,180 million. Long-term debt increased by $261 million during 1998. The increase in total debt resulted principally from acquisitions, common stock repurchases and the investment in AMP. The Company's total debt as a percent of capital was 36.7% at year-end 1998, up from 31.7% at year-end 1997. Long-term debt as a percent of capital was 19.7% at both December 31, 1998 and 1997.

The Company maintains two bank revolving credit facilities: (a) a $750 million Five-Year Credit Agreement and (b) a $900 million 364-Day Backstop Credit Agreement. The $750 million Five-Year Credit Agreement supports the issuance of commercial paper for normal working capital purposes and the $900 million 364-Day Backstop Credit Agreement was established in 1998 to support the issuance of commercial paper used to finance the investment in AMP and for any other general corporate purpose. There was $1,773 and $821 million of commercial paper outstanding at year-end 1998 and 1997, respectively. Commercial paper borrowing reached a high of $2,059 million during 1998. See Note 15 of Notes to Financial Statements for details of long-term debt and the credit agreements.

Shares of the Company's common stock are repurchased under a program to offset the dilution created by shares issued under employee benefit plans, a shareowner dividend reinvestment plan and for acquisitions. In May 1998, the Company announced a new program to repurchase up to $2.2 billion of its common stock over the next two years, including share repurchases under the program to offset dilution. In 1998, the Company repurchased 22.0 million shares of its common stock under both of these programs for $942 million. At December 31, 1998, the Company was authorized to repurchase 57.6 million additional shares of its common stock.

The Board of Directors approved a quarterly dividend increase of 13.3%, from $0.15 to $0.17 per share. The dividend increase will be effective with the first quarter of 1999.

[GRAPHIC REPRESENTATION of Capital Expenditures/R&D (Dollars in millions), expressed numerically below.]

	1996	1997	1998
Company-funded R&D	345	349	394
Capital Expenditures	755	717	684
Total	1,100	1,066	1,078

[GRAPHIC REPRESENTATION of Return on Average Shareowners' Equity (After-tax percent), expressed numerically below.]

1996	1997	1998
26.6	27.5	27.8

ENVIRONMENTAL MATTERS

The Company is subject to various federal, state and local government requirements relating to the protection of the environment. The Company believes that, as a general matter, its policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage and that its handling, manufacture, use and disposal of hazardous or toxic substances are in accord with environmental laws and regulations. However, mainly because of past operations and operations of predecessor companies, the Company, like other companies engaged in similar businesses, is a party to lawsuits and claims and has incurred remedial response and voluntary cleanup costs associated with environmental matters. Additional lawsuits, claims and costs involving environmental matters are likely to continue to arise in the future. The Company continually conducts studies, individually at Company-owned sites, and jointly as a member of industry groups at non-owned sites, to determine the feasibility of various remedial techniques to address environmental matters. It is the Company's policy to record appropriate liabilities for such matters when environmental assessments are made or remedial efforts are probable and the costs can be reasonably estimated. The timing of these accruals is generally no later than the completion of feasibility studies.

Remedial response and voluntary cleanup expenditures were $74 and $90 million in 1998 and 1997, respectively, and are currently estimated to be approximately $75 million in 1999. The Company expects it will be able to fund such future expenditures from operating cash flow. The timing of expenditures depends on a number of factors, including regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties.

At December 31, 1998, the recorded liability for environmental matters was $372 million. In addition, in 1998 the Company incurred operating costs for ongoing businesses of approximately $70 million and capital expenditures of $52 million relating to compliance with environmental regulations.

Although the Company does not currently possess sufficient information to reasonably estimate the amounts of liabilities to be recorded upon future completion of studies or settlements, and neither the timing nor the amount of the ultimate costs associated with environmental matters can be determined, they may be significant to the Company's consolidated results of operations. Management does not expect that environmental matters will have a material adverse effect on the consolidated financial position of the Company.

See Note 20 of Notes to Financial Statements for a discussion of the Company's commitments and contingencies, including those related to environmental matters.

FINANCIAL INSTRUMENTS

The Company, as a result of its global operating and financing activities, is exposed to market risk from changes in interest rates and foreign currency exchange rates which may adversely affect its results of operations and financial position. The Company seeks to minimize the risks from these interest rate and foreign currency exchange rate fluctuations through its normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company does not use financial instruments for trading or other speculative purposes and does not use leveraged derivative financial instruments. A discussion of the Company's accounting policies for derivative financial instruments is included in Note 1 of Notes to Financial Statements.

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's long-term debt obligations. As described in Notes 15 and 17 of Notes to the Financial Statements, the Company issues both fixed and variable rate debt and uses interest rate swaps to manage the Company's exposure to interest rate movements and reduce borrowing costs.

The Company's exposure to market risk for changes in foreign currency exchange rates arises from intercompany loans utilized to finance foreign subsidiaries, receivables, payables, and firm commitments arising from international transactions. The Company attempts to have all such transaction exposures hedged with internal natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through derivative financial instruments with third parties using forward or option agreements. The Company also uses derivative financial instruments to hedge the Company's exposure to changes in exchange rates for the translated U.S. dollar value of the net income of a number of foreign subsidiaries. Forward and option agreements used to hedge net income are marked to market, with gains or losses recognized immediately in income. The Company's principal foreign currency exposures relate to the French franc, the German mark, the British pound and the U.S. dollar. At December 31, 1998, the Company held or had written foreign currency forward and option agreements, maturing through 2002. The Company writes foreign currency options only in combination with purchased options as an integral transaction and economic alternative to using forward agreements.

Financial instruments expose the Company to counterparty credit risk for nonperformance and to market risk for changes in interest and currency rates. The Company manages exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties and procedures to monitor concentrations of credit risk. The Company's derivative instrument counterparties are substantial investment and commercial banks with significant experience using such derivative instruments. The Company monitors the impact of market risk on the fair value and cash flows of its derivative and other instruments considering reasonably possible changes in interest and currency rates. The

Company manages market risk by restricting the use of derivative financial instruments to hedging activities and by limiting potential interest and currency rate exposures to amounts that are not material to the Company's consolidated results of operations and cash flows.

The Company owns approximately 9% of the outstanding common shares of AMP and classifies this investment as an available-for-sale security, which is carried at its quoted market value. At December 31, 1998, the carrying and fair value of this investment was $1,041 million. A 10% decrease in the value of AMP common stock at December 31, 1998 would result in a $104 million decrease in fair value.

The following table illustrates the potential change in fair value for interest rate sensitive instruments based on a hypothetical immediate one percentage point increase in interest rates across all maturities and the potential change in fair value for foreign exchange rate sensitive instruments based on a 10% increase in U.S. dollar per local currency exchange rates across all maturities at December 31, 1998 and 1997: (dollars in millions)

	FACE OR NOTIONAL AMOUNT	CARRYING VALUE (1)	FAIR VALUE (1)	ESTIMATED INCREASE (DECREASE) IN FAIR VALUE
December 31, 1998				
INTEREST RATE SENSITIVE INSTRUMENTS				
Long-term debt (including current maturities) (2)	$1,609	$(1,593)	$(1,767)	$ (78)
Interest rate swaps	450	3	--	3
FOREIGN EXCHANGE RATE SENSITIVE INSTRUMENTS				
Foreign currency forward agreements held (3)	264	(1)	(1)	(17)
Foreign currency forward agreements written (3)	573	2	1	49
Foreign currency options held	89	2	2	7
Foreign currency options written	89	(2)	(2)	--
December 31, 1997				
INTEREST RATE SENSITIVE INSTRUMENTS				
Short-term debt investments	$ 143	$ 152	$ 152	$ (6)
Long-term debt (including current maturities) (2)	1,429	(1,396)	(1,584)	(51)
Interest rate swaps	358	--	3	(3)
FOREIGN EXCHANGE RATE SENSITIVE INSTRUMENTS				
Foreign currency forward agreements held (3)	708	1	1	(64)
Foreign currency forward agreements written (3)	649	22	23	51
Foreign currency options held	150	4	4	9

(1) Asset or (liability)

(2) Excludes capitalized leases.

(3) Increases and decreases in the fair value of foreign currency forward agreements are approximately offset by changes in the fair value of net underlying foreign currency transaction exposures.

The above discussion of the Company's procedures to monitor market risk and the estimated changes in fair value resulting from the Company's sensitivity analyses are forward-looking statements of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from these estimated results due to actual developments in the global financial markets. The methods used by the Company to assess and mitigate risk discussed above should not be considered projections of future events.

OTHER MATTERS

YEAR 2000

Computer programs and embedded computer chips that are not Year 2000 compliant are unable to distinguish between the calendar year 1900 and the calendar year 2000. The Company recognizes the need to ensure that its business operations will not be adversely affected by the upcoming calendar year 2000 and is cognizant of the time sensitive nature of the Year 2000 problem.

The Company assessed how it may be impacted by the Year 2000 problem and is implementing a comprehensive plan to address all known aspects of the Year 2000 problem: information systems (both critical information systems, the failure of which could have a material effect on the Company's operations and noncritical information systems), production and facilities equipment, products, customers and suppliers (both high-impact suppliers, suppliers who would materially impact the Company's operations if they were unable to provide supplies or services on a timely basis, and other suppliers).

The Company completed an inventory of and assessed the impact of the Year 2000 problem with respect to its information systems, production and facilities equipment, products, customers and suppliers. Based on the results of the assessment, the Company prioritized the various projects to remedy potential Year 2000 problems. The Company is developing and implementing plans to remediate known Year 2000 problems. Testing to ensure that the remediation is successfully completed is part of the remediation process. The Company expects to develop in the first quarter of 1999 contingency plans and trained specialist teams to implement such contingency plans to address any Year 2000 problems which are unexpected or are not remedied in a timely manner under the Company's remediation plans.

The following table sets forth the estimated dates for substantially completing assessment, development of remediation plans and remediation with respect to the various aspects of the Year 2000 problem:

	ASSESSMENT	DEVELOPMENT OF REMEDIATION PLAN	REMEDIATION
Critical Information Systems	SC	SC	SC
Other Information Systems	SC	SC	3/31/99
Production and Facilities Equipment	SC	SC	3/31/99
Products	SC	SC	3/31/99
Customers	SC	SC	3/31/99
High Impact Suppliers	SC	SC	3/31/99
Other Suppliers	SC	3/31/99	6/30/99

SC = Substantially Complete

The remediation plans for information systems involve a combination of software modifications, upgrades and replacements. The remediation plans for production and facilities equipment involve a combination of software or hardware modifications, upgrades and replacements, or changes to operating procedures to circumvent equipment failures caused by the Year 2000 problem. The remediation plans for products involve modifying software and/or hardware contained in products, or issuing service letters or other industry standard communications providing customers with

instructions on correcting Year 2000 issues in the Company's products. The remediation plans for suppliers (including financial institutions, governmental agencies and public utilities) and customers involve obtaining information about their Year 2000 programs through surveys, meetings and other communication, the evaluation of the information received and the development of appropriate responses. While the Company expects that development of remediation plans and remediation with respect to suppliers and customers will be completed by the dates set forth in the table above, the Company can provide no assurance that the Year 2000 problem will be successfully corrected by suppliers and customers in a timely manner.

The Company's estimate of the total cost for Year 2000 compliance is approximately $150 million, of which approximately $95 million has been incurred through December 31, 1998. The estimated cost of $150 million includes an estimated $130 million for assessment, planning and remediation activities which are expected to be substantially completed in the first half of 1999 and an estimated $20 million for monitoring of remediation which has been completed and the development of and preparation for contingency plans which will be expended primarily during 1999. These estimates do not include the Company's potential share of costs for Year 2000 issues by partnerships and joint ventures in which the Company participates but is not the operator. Incremental spending has not been and is not expected to be material because most Year 2000 compliance costs will be met with amounts that are normally budgeted for procurement and maintenance of the Company's information systems and production and facilities equipment. The redirection of spending from procurement of information systems and production and facilities equipment to implementation of Year 2000 compliance plans may in some instances delay productivity improvements.

The Company believes that the Year 2000 issue will not cause material operational problems for the Company. However, if the Company is not successful in identifying all material Year 2000 problems, or the assessment and remediation of identified Year 2000 problems is not completed in a timely manner, there may be an interruption in, or failure of, certain normal business activities or operations. Such interruptions or failures could have a material adverse impact on the Company's consolidated results of operations and financial position or on its relationships with customers, suppliers or others.

EURO CONVERSION

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (Euro). The transition period for the introduction of the Euro is between January 1, 1999 and January 1, 2002. The Company is presently identifying and ensuring that all Euro conversion compliance issues are addressed. Although the Company cannot predict the overall impact of the Euro conversion at this time, the Company does not expect that the Euro conversion will have a material adverse effect on its consolidated results of operations.

SALES TO THE U.S. GOVERNMENT

Sales to the U.S. Government, acting through its various departments and agencies and through prime contractors, amounted to $1,891 and $1,851 million in 1998 and 1997, respectively. This included sales to the Department of Defense (DoD), as a prime contractor and subcontractor, of $1,366 and $1,338 million in 1998 and 1997, respectively. Sales to the DoD accounted for 9% of the Company's total net sales in both 1998 and 1997. The Company is affected by U.S. Government budget constraints for defense and space programs. After years of decline, however, total U.S. defense spending increased slightly in 1998 and is expected to increase over the next several years.

BACKLOG

At December 31, 1998 and 1997, the Company had firm orders for its aerospace products from the U.S. and foreign governments of $1,511 and $1,908 million, respectively. Total backlog, including commercial contracts, at year-end 1998 and 1997 was $5,012 and $5,087 million, respectively. The Company anticipates that approximately $3,553 million of the 1998 backlog will be filled in 1999.

INFLATION

Inflation has not been a significant factor for the Company for a number of years. Cost increases for labor and material have generally been low, and any impact has been offset by Six Sigma productivity enhancement programs.

NEW ACCOUNTING PRONOUNCEMENT

In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), effective for fiscal years beginning after June 15, 1999. SFAS No. 133 requires derivatives to be recorded on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in values of derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company is completing an analysis of SFAS No. 133, which is not expected to have a material impact on the Company's results of operations or financial position.

1997 COMPARED WITH 1996

RESULTS OF OPERATIONS

Net sales in 1997 were $14,472 million, an increase of $501 million, or 4%, compared with 1996. Of this increase, $1,178 million was due to volume gains and $482 million was from acquisitions, offset in part by a $744 million reduction for divested businesses, mainly the safety restraints and braking businesses. The impact of foreign exchange reduced net sales by $238 million and selling prices were lower by $177 million.

Cost of goods sold as a percent of net sales was 79.3% in 1997 compared with 83.1% in 1996. Included in 1997 and 1996 are repositioning and other charges (special charges) totaling $237 and $637 million, respectively. See Note 3 of Notes to Financial Statements for further information. Excluding these special charges, 1997 cost of goods sold as a percent of net sales was 77.7%, a decrease compared with 78.5% in 1996 due in part to Six Sigma programs to lower

manufacturing and material costs and the improved mix of higher-margin businesses.

Gain on sale of strategic business units reflects the 1997 pretax gain of $226 million, comprised of a $277 million gain on the sale of the safety restraints business, partially offset by a charge of $51 million related to the settlement of the 1996 sale of the braking business. The 1996 pretax gain of $655 million resulted from the sale of the braking business. See Note 4 of Notes to Financial Statements for further information.

Income from operations of $1,636 million in 1997 improved by $127 million, or 8%, compared with 1996. Income from operations in both 1997 and 1996 includes pretax gains on the sales of strategic business units as well as special charges (special items). Excluding the impact of these special items, income from operations improved by $156 million, or 10%. The Company's operating margin was 11.4% in 1997, compared with 10.7% in 1996. Income from operations is discussed in detail by segment in the Review of Business Segments section below.

Equity in income of affiliated companies of $178 million increased by $35 million, or 24%, compared with 1996, mainly due to higher earnings from UOP, partially offset by the writedown of an equity investment as part of the 1997 repositioning and other charges.

Other income (expense), $77 million income in 1997, decreased by $10 million, or 11%, compared with 1996 mainly due to increased minority interest, offset in part by increased benefits from foreign exchange hedging.

Interest and other financial charges of $175 million in 1997 decreased by $11 million, or 6%, compared with 1996. This decrease results from lower tax interest expense due to favorable settlements of worldwide tax audits, offset in part by higher debt-related interest expense reflecting higher levels of debt.

The effective tax rate in 1997 was 31.8% compared with 34.3% in 1996. Adjusted for special items in both years, the effective tax rate in 1997 was 33.0% compared with 33.5% in 1996.

Net income in 1997 of $1,170 million, or $2.02 per share, was 15% higher than 1996 net income of $1,020 million, or $1.76 per share. Adjusted for special items in both years, net income for 1997 was $1,166 million, or $2.01 per share, an increase of 15% over 1996. The higher adjusted net income in 1997 was the result of a substantial improvement in operating performance by Turbine Technologies and Aerospace Systems and moderately higher earnings by Specialty Chemicals & Electronic Solutions and Performance Polymers. Transportation Products had significantly lower earnings.

REVIEW OF BUSINESS SEGMENTS

Income from operations for the business segments (see tables below) excludes the impact of the 1997 and 1996 special items. (dollars in millions)

AEROSPACE SYSTEMS

	NET SALES	INCOME FROM OPERATIONS
1997	$4,117	$608
1996	3,635	469
Increase	$ 482	$139

Aerospace Systems sales of $4,117 million in 1997 increased by $482 million, or 13%, compared with 1996. Aerospace Equipment Systems sales were substantially higher, driven by continued aftermarket strength and higher original-equipment shipments of engine fuel systems, environmental control systems and aircraft landing systems. The acquisition of Grimes also contributed to the sales increase. Sales of Electronic & Avionics Systems were moderately higher reflecting strong demand for flight management and safety avionics systems, including strong shipments of enhanced ground proximity warning systems. Electronic systems sales to the U.S. and foreign governments, however, were lower, mainly at the communications and ocean systems businesses. Sales of management and technical services to the U.S. Government were moderately higher.

Aerospace Systems income from operations of $608 million in 1997 improved by $139 million, or 30%, from the 1996 income from operations. Aerospace Equipment Systems income from operations was substantially higher due principally to higher sales and productivity improvements. Electronic & Avionics Systems income from operations was moderately higher reflecting increased demand, improved manufacturing operations and material cost savings for flight safety avionics. However, electronic systems had lower income from operations on reduced sales to the U.S. and foreign governments at the communications and ocean systems businesses.

SPECIALTY CHEMICALS & ELECTRONIC SOLUTIONS

	NET SALES	INCOME FROM OPERATIONS
1997	$2,218	$326
1996	2,117	355
Increase (decrease)	$ 101	$(29)

Specialty Chemicals & Electronic Solutions sales of $2,218 million in 1997 were $101 million, or 5%, higher compared with 1996. Specialty Chemicals sales increased moderately due to acquisitions and volume gains for chlorofluorocarbon (CFC) replacement products, hydrofluoric acid, pharmaceuticals and industrial specialties products. Pricing pressures and the strong U.S. dollar were partial offsets. Sales for Electronic Materials improved slightly reflecting increased demand for advanced microelectronic materials and improvement in the printed circuit board industry. Sales of amorphous metals, however, were lower.

Specialty Chemicals & Electronic Solutions income from operations of $326 million in 1997 decreased by $29 million, or 8%, from the 1996 income from operations. Specialty Chemicals had lower income from operations driven

principally by pricing pressures in the fluorines business. Electronic Materials also had lower income from operations due principally to pricing pressures and poor results in the European laminates business. This was partially offset by an increase in income from operations for advanced microelectronic materials and the absence of operating losses from the micro-optic devices business.

TURBINE TECHNOLOGIES

	NET SALES	INCOME FROM OPERATIONS
1997	$3,111	$401
1996	2,775	264
Increase	$ 336	$137

Turbine Technologies sales of $3,111 million in 1997 increased by $336 million, or 12%, compared with 1996. Engines had significantly higher shipments of auxiliary power units and commercial propulsion end units and spares. Turbocharging Systems sales were also significantly higher, primarily reflecting the flow of new products and the increasing popularity of turbocharged vehicles in Europe.

Turbine Technologies income from operations of $401 million in 1997 improved by $137 million, or 52%, from the 1996 income from operations. Both Engines and Turbocharging Systems income from operations were substantially higher due principally to increased sales and productivity improvements.

PERFORMANCE POLYMERS

	NET SALES	INCOME FROM OPERATIONS
1997	$2,030	$215
1996	1,888	211
Increase	$ 142	$ 4

Performance Polymers sales of $2,030 million in 1997 were $142 million, or 8%, higher compared with 1996. Sales were higher due mainly to significant growth for engineering plastics, chemical intermediates and specialty films. Lower sales of carpet fibers and industrial polyester, mainly as a result of reduced selling prices and the strong U.S. dollar, were partial offsets.

Performance Polymers income from operations of $215 million in 1997 increased by $4 million, or 2%, from the 1996 income from operations. Income from operations from chemical intermediates, engineering plastics and specialty films was higher due to increased sales. This was largely offset by lower income from operations from carpet fibers, industrial polyester and industrial nylon due to higher raw material costs and lower selling prices.

TRANSPORTATION PRODUCTS

	NET SALES	INCOME FROM OPERATIONS
1997	$2,983	$194
1996	3,539	280
Decrease	$ (556)	$(86)

Transportation Products sales of $2,983 million in 1997 were $556 million, or 16%, lower compared with 1996 reflecting the disposition of the braking and safety restraints businesses. Excluding these businesses, Transportation Products sales increased 9%. Truck Brake Systems improved significantly, benefiting from an upturn in truck builds and increased installation rates of ABS. The Consumer Products Group sales were moderately higher reflecting the acquisitions of Prestone and Holt Lloyd, both suppliers of car care products. Lower sales of other aftermarket products, reflecting in part unfavorable market conditions, were a partial offset. Friction Materials sales were also lower.

Transportation Products income from operations of $194 million in 1997 declined by $86 million, or 31%, from the 1996 income from operations. The decrease reflects the absence of income from operations from the divested braking and safety restraints businesses. Income from operations from the Consumer Products Group decreased substantially, primarily in the North American aftermarket business. Income from operations from Truck Brake Systems was substantially higher due principally to strong sales volume.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Total assets at December 31, 1997 were $13,707 million, an increase of $878 million, or 7%, from December 31, 1996. The increase mainly results from acquisitions.

Cash provided by operating activities of $1,306 million during 1997 increased by $110 million compared with 1996 principally due to the increase in net income.

Cash used for investing activities was $1,283 million during 1997 compared with cash provided by investing activities of $273 million during 1996. During 1997, the Company spent $1.2 billion on acquisitions, an increase of $1.1 billion compared with 1996. The significant acquisitions are discussed in detail in Note 2 of Notes to Financial Statements. During 1997 the Company also disposed of its safety restraints business for $710 million in cash. In 1996, the Company sold its braking business for $1.5 billion in cash, subject to certain post closing adjustments which were finalized in 1997. See Note 4 of Notes to Financial Statements for further information. During 1997, the Company also sold certain non-strategic businesses and other assets.

Capital expenditures during 1997 were $717 million, a decrease of $38 million from the $755 million spent in 1996. Spending by the segments and Corporate since 1996 is shown in Note 23 of Notes to Financial Statements.

Cash used for financing activities was $877 million during 1997 compared with $544 million during 1996. Total debt at year-end 1997 of $2,307 million increased $376 million. The increase resulted principally from debt assumed in the Astor, Grimes and Prestone acquisitions and to fund common stock repurchases during the year. Long-term debt was reduced by $102 million during 1997. The Company's total debt as a percent of capital was 31.7% at December 31, 1997, up from 29.5% at year-end 1996. Long-term debt as a percent of capital was 19.7% at year-end 1997, down from 22.2% at year-end 1996.

The maximum amount of borrowing available under the Company's revolving credit agreement was $750 million. The Credit Agreement supports the issuance of commercial paper. There was $821 and $470 million of commercial paper outstanding at year-end 1997 and 1996, respectively. Commercial paper borrowing reached a high of $1,546 million during 1997. See Note 15 of Notes to Financial Statements for details of long-term debt and a discussion of the Credit Agreement.

Shares of the Company's common stock are repurchased under a program to offset the dilution created by shares issued under employee benefit plans, a shareowner dividend reinvestment plan and for acquisitions. In 1997, the Company repurchased 21.0 million shares of its common stock under this program for $814 million.

ENVIRONMENTAL MATTERS

Remedial response and voluntary cleanup expenditures were $90 and $87 million in 1997 and 1996, respectively. At December 31, 1997, the recorded liability for environmental matters was $414 million. In addition, in 1997 the Company incurred operating costs for ongoing businesses of approximately $70 million and capital expenditures of $69 million relating to compliance with environmental regulations.

OTHER MATTERS

SALES TO THE U.S. GOVERNMENT

Sales to the U.S. Government, acting through its various departments and agencies and through prime contractors, amounted to $1,851 and $1,833 million in 1997 and 1996, respectively. This included sales to the DoD, as a prime contractor and subcontractor, of $1,338 and $1,237 million in 1997 and 1996, respectively. Sales to the DoD accounted for 9% of the Company's total net sales in both 1997 and 1996.

- - ---

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: All statements in this annual report, other than statements of historical fact, that address activities, events or developments that the Company or management intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by management of the Company in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes to be appropriate. The forward-looking statements included in this report are also subject to a number of risks and uncertainties, including but not limited to economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices. Such forward-looking statements are not guarantees of future performance and actual results, developments and business decisions may differ from those envisaged by such forward-looking statements.

REPORT OF INDEPENDENT ACCOUNTANTS

[LOGO]

February 1, 1999

To the Shareowners and Directors of AlliedSignal Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of shareowners' equity and of cash flows present fairly, in all material respects, the financial position of AlliedSignal Inc. and its subsidiaries at December 31, 1998 and 1997 and the 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. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/S/ PricewaterhouseCoopers LLP

Florham Park, NJ

CONSOLIDATED STATEMENT OF INCOME
AlliedSignal Inc.

Years ended December 31 (dollars in millions except per share amounts)	1998	1997	1996
Net sales	$15,128	$14,472	$13,971
Cost of goods sold	11,476	11,481	11,606
Selling, general and administrative expenses	1,690	1,581	1,511
Gain on sale of strategic business units	--	(226)	(655)
Total costs and expenses	13,166	12,836	12,462
Income from operations	1,962	1,636	1,509
Equity in income of affiliated companies	150	178	143
Other income (expense)	(7)	77	87
Interest and other financial charges	(162)	(175)	(186)
Income before taxes on income	1,943	1,716	1,553
Taxes on income	612	546	533
Net income	$1,331	$ 1,170	$ 1,020
Earnings per share of common stock -- basic	$ 2.37	$ 2.07	$ 1.80
Earnings per share of common stock -- assuming dilution	$ 2.32	$ 2.02	$ 1.76

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

CONSOLIDATED BALANCE SHEET
AlliedSignal Inc.

December 31 (dollars in millions)	1998	1997
Assets		
Current assets:		
Cash and cash equivalents	$ 712	$ 611
Short-term investments	--	430
Accounts and notes receivable	1,993	1,886
Inventories	2,332	2,093
Other current assets	556	553
Total current assets	5,593	5,573
Investments and long-term receivables	1,488	480
Property, plant and equipment -- net	4,397	4,251
Cost in excess of net assets of acquired companies -- net	2,999	2,426
Other assets	1,083	977
Total assets	$15,560	$13,707
Liabilities		
Current liabilities:		
Accounts payable	$ 1,423	$ 1,345
Short-term borrowings	80	47
Commercial paper	1,773	821
Current maturities of long-term debt	158	224
Accrued liabilities	1,751	1,999
Total current liabilities	5,185	4,436
Long-term debt	1,476	1,215
Deferred income taxes	795	694
Postretirement benefit obligations other than pensions	1,732	1,775
Other liabilities	1,075	1,201
Shareowners' equity		
Capital -- common stock -- Authorized 1,000,000,000 shares (par value $1 per share):		
-- issued 716,457,484 shares	716	716
-- additional paid-in capital	2,982	2,425
Common stock held in treasury, at cost: 1998 -- 157,991,553 shares 1997 -- 158,114,964 shares	(3,413)	(2,665)
Accumulated other nonowner changes	(70)	(179)
Retained earnings	5,082	4,089
Total shareowners' equity	5,297	4,386
Total liabilities and shareowners' equity	$15,560	$13,707

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

CONSOLIDATED STATEMENT OF CASH FLOWS
AlliedSignal Inc.

Years ended December 31 (dollars in millions)	1998	1997	1996
Cash flows from operating activities			
Net income	$ 1,331	$ 1,170	$ 1,020
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of strategic business units	--	(226)	(655)
Repositioning and other charges	--	250	622
Depreciation and amortization	609	609	602
Undistributed earnings of equity affiliates	(14)	(55)	(33)
Deferred income taxes	233	138	213
(Increase) in accounts and notes receivable	(143)	(104)	(163)
(Increase) in inventories	(57)	(92)	(87)
Decrease (increase) in other current assets	3	(88)	134
Increase in accounts payable	37	226	117
(Decrease) in accrued liabilities	(366)	(188)	(77)
Net taxes paid on sale of businesses	(300)	(21)	(49)
Other	(138)	(313)	(448)
Net cash provided by operating activities	1,195	1,306	1,196
Cash flows from investing activities			
Expenditures for property, plant and equipment	(684)	(717)	(755)
Proceeds from disposals of property, plant and equipment	82	67	77
Decrease in investments	--	25	20
(Increase) in investments	(1)	(6)	(12)
Purchase of investment in AMP Incorporated	(890)	--	--
Cash paid for acquisitions	(322)	(1,218)	(114)
Proceeds from sales of businesses	306	695	1,358
Decrease (increase) in short-term investments	430	(129)	(301)
Net cash (used for) provided by investing activities	(1,079)	(1,283)	273
Cash flows from financing activities			
Net increase in commercial paper	952	351	412
Net increase (decrease) in short-term borrowings	5	18	(356)
Proceeds from issuance of preferred stock of subsidiary	--	112	--
Proceeds from issuance of common stock	156	151	147
Proceeds from issuance of long-term debt	435	33	48
Payments of long-term debt	(295)	(307)	(124)
Repurchase of preferred stock of subsidiary	--	(112)	--
Repurchases of common stock	(930)	(786)	(409)
Cash dividends on common stock	(338)	(295)	(262)
Other	--	(42)	--
Net cash (used for) financing activities	(15)	(877)	(544)
Net increase (decrease) in cash and cash equivalents	101	(854)	925
Cash and cash equivalents at beginning of year	611	1,465	540
Cash and cash equivalents at end of year	$ 712	$ 611	$ 1,465

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

CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY
AlliedSignal Inc.

(in millions except per share amounts)	COMMON STOCK ISSUED SHARES	COMMON STOCK ISSUED AMOUNT	ADDITIONAL PAID-IN CAPITAL	COMMON STOCK HELD IN TREASURY SHARES	COMMON STOCK HELD IN TREASURY AMOUNT	ACCUMULATED OTHER NON-OWNER CHANGES	RETAINED EARNINGS	TOTAL SHAREOWNERS' EQUITY
Balance at December 31, 1995	716.4	$716	$2,131	(150.8)	$(1,658)	$ 88	$2,315	$3,592
Net income							1,020	1,020
Foreign currency translation adjustments (net of tax benefit of $39)						(59)		(59)
Unrealized holding loss on marketable securities (net of tax benefit of $8)						(15)		(15)
Nonowner changes in shareowners' equity								946
Common stock issued for acquisitions				.4	3			3
Common stock issued for employee benefit plans (including related tax benefits)			58	13.6	111			169
Repurchases of common stock				(14.0)	(409)			(409)
Cash dividends on common stock ($.45 per share)							(262)	(262)
Other							141	141
Balance at December 31, 1996	716.4	716	2,189	(150.8)	(1,953)	14	3,214	4,180
Net income							1,170	1,170
Foreign currency translation adjustments (net of tax benefit of $120)						(183)		(183)
Unrealized holding loss on marketable securities (net of tax benefit of $8)						(10)		(10)
Nonowner changes in shareowners' equity								977
Common stock issued for acquisitions			32	1.0	8			40
Common stock issued for employee benefit plans (including related tax benefits)			240	12.7	94			334
Repurchases of common stock				(21.0)	(814)			(814)
Cash dividends on common stock ($.52 per share)							(295)	(295)
Other			(36)					(36)
Balance at December 31, 1997	716.4	716	2,425	(158.1)	(2,665)	(179)	4,089	4,386
Net income							1,331	1,331
Foreign currency translation adjustments (net of taxes of $7)						19		19
Unrealized holding gain on marketable securities (net of taxes of $59)						90		90
Nonowner changes in shareowners' equity								1,440
Common stock issued for acquisitions			322	11.1	98			420
Common stock issued for employee benefit plans (including related tax benefits)			234	11.0	96			330
Repurchases of common stock				(22.0)	(942)			(942)
Cash dividends on common stock ($.60 per share)							(338)	(338)
Other			1					1
Balance at December 31, 1998	716.4	$716	$2,982	(158.0)	$(3,413)	$(70)	$5,082	$5,297

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

NOTES TO FINANCIAL STATEMENTS
AlliedSignal Inc. (dollars in millions except per share amounts)

NOTE 1
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION AND USE OF ESTIMATES -- The consolidated financial statements include the accounts of AlliedSignal Inc. and its majority-owned subsidiaries. The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and related disclosures in the accompanying notes. Actual results could differ from those estimates. Certain reclassifications were made to prior year amounts to conform with the 1998 presentation.

INVENTORIES -- Inventories are valued at the lower of cost or market using the last-in, first-out (LIFO) method for certain qualifying domestic inventories and the first-in, first-out (FIFO) or the average cost method for all other inventories.

INVESTMENTS -- Investments are carried at market value, if readily determinable, or cost. Investments in affiliates over which significant influence is exercised are accounted for using the equity method of accounting.

PROPERTY, PLANT AND EQUIPMENT -- Property, plant and equipment are carried at cost and are generally depreciated using estimated service lives, which range from 3 to 40 years. For the financial statements, depreciation is computed principally on the straight-line method.

COST IN EXCESS OF NET ASSETS OF ACQUIRED COMPANIES -- Cost in excess of net assets of acquired companies (goodwill) is amortized on a straight-line basis over appropriate periods up to 40 years. Goodwill is periodically reviewed to determine recoverability based on expected future cash flows. The cumulative amount of goodwill amortized at December 31, 1998 and 1997 is $559 and $476 million, respectively.

REVENUE RECOGNITION -- Recognition of contract revenues relates primarily to the Aerospace Systems and Turbine Technologies segments. Under fixed-price contracts, sales and related costs are recorded as deliveries are made. Sales and related costs under cost-reimbursable contracts are recorded as costs are incurred. Anticipated losses on contracts are charged to income when identified. Contracts that are part of a program are evaluated on an overall program basis.

ENVIRONMENTAL EXPENDITURES --Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and that do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments are made or remedial efforts are probable and the costs can be reasonably estimated. The timing of these accruals is generally no later than the completion of feasibility studies. The liabilities for environmental costs recorded in Accrued Liabilities and Other Liabilities at December 31, 1998 and 1997 were $111 and $261 million and $110 and $304 million, respectively.

FINANCIAL INSTRUMENTS -- Interest rate swap, foreign currency forward and option agreements are accounted for as a hedge of the related asset, liability, firm commitment or anticipated transaction when designated and effective as a hedge of such items. Agreements qualifying for hedge accounting are accounted for as follows:

> Changes in the amount to be received or paid under interest rate swap agreements are recognized in Interest and Other Financial Charges.

> Gains and losses on foreign currency forward agreements and combination options (options purchased and written as a unit) used to hedge assets and liabilities, or net investments in foreign subsidiaries, are recognized in Other Income (Expense) and cumulative foreign exchange translation adjustment, respectively.

> Gains and losses on foreign currency forward agreements used to hedge firm foreign currency commitments, and purchased foreign currency options used to hedge anticipated foreign currency transactions, are recognized in the measurement of the hedged transaction when the transaction occurs.

Changes in the fair value of agreements not qualifying for hedge accounting are recognized in Other Income (Expense).

The carrying value of each agreement is reported in Accounts and Notes Receivable, Other Current Assets, Accounts Payable or Accrued Liabilities, as appropriate.

INCOME TAXES -- Deferred tax liabilities or assets reflect temporary differences between amounts of assets and liabilities for financial and tax reporting. Such amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is established for any deferred tax asset for which realization is not likely.

EARNINGS PER SHARE -- Effective December 31, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS No. 128), which requires the Company to report both basic earnings per share (based on the weighted-average number of common shares outstanding) and diluted earnings per share (based on the weighted-average number of common shares outstanding and all dilutive potential common shares outstanding). All earnings per share data in this report reflect earnings per share -- assuming dilution, unless otherwise indicated.

RECENT ACCOUNTING PRONOUNCEMENTS -- Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130), which establishes standards for the reporting and presentation of changes in equity from nonowner sources in the financial statements. Nonowner changes in shareowners' equity consists of net income, foreign currency translation adjustments and unrealized holding gains and losses on marketable securities and, as permitted under the provisions of SFAS No. 130, are presented in the Consolidated Statement of Shareowners' Equity. Prior year

financial statements have been reclassified to conform to the SFAS No. 130 requirements. The components of Accumulated Other Nonowner Changes are as follows:

	1998	1997	1996
Cumulative foreign exchange translation adjustment	$(162)	$(181)	$ 2
Unrealized holding gains on marketable securities	92	2	12
	$(70)	$(179)	$14

Reclassification adjustments are as follows:

	1998	1997	1996
Unrealized holding gains (losses) arising during period	$ 90	$ (3)	$(12)
Less-reclassification adjustment for gains previously included in other nonowner changes	--	7	3
Net unrealized holding gains (losses) on marketable securities	$ 90	$(10)	$(15)

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131), which establishes standards for reporting information about operating segments in annual financial statements and requires that selected information about operating segments be reported in interim financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 increased the number and changed the composition of the Company's reportable operating segments. Prior year financial statements have been reclassified to conform to the SFAS No. 131 requirements. See Notes 23 and 24.

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132), which standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practical, requires additional information on changes in the benefit obligations and fair values of plan assets and eliminates certain disclosures. Prior year financial statements have been reclassified to conform to the SFAS No. 132 requirements. See Note 21.

NOTE 2
ACQUISITIONS

In 1998, the Company acquired substantially all the assets of Banner Aerospace (Banner), distributors of FAA-certified aircraft hardware, for common stock valued at approximately $350 million. Banner has annual sales of approximately $250 million, principally to commercial air transport and general aviation customers. The Company also acquired Pharmaceutical Fine Chemicals S.A. (PFC) for approximately $390 million, including assumed liabilities. PFC manufactures and distributes active and intermediate pharmaceutical chemicals and had sales of approximately $110 million in 1997.

In 1997, the Company acquired Prestone Products Corporation (Prestone) for approximately $400 million, including assumed liabilities. Prestone is a supplier of car care products and had annual sales of approximately $300 million. The Company also acquired Grimes Aerospace Company (Grimes), a manufacturer of exterior and interior aircraft lighting systems, for approximately $475 million, including assumed liabilities. Grimes, which had annual sales of approximately $230 million, also manufactures aircraft engine components such as valves and heat exchangers, as well as electronic systems, including flight warning computers and active matrix liquid crystal displays. In addition, the Company acquired Astor Holdings, Inc. (Astor) for approximately $370 million, including assumed liabilities. Astor, a producer of value-added, wax-based processing aids, sealants and adhesives, had annual sales of approximately $300 million. The Company also acquired Holt Lloyd Group Ltd. for approximately $150 million. Holt Lloyd is a supplier of car care products primarily in Europe and Asia and had annual sales of approximately $150 million.

The Company also made other smaller acquisitions in 1998, 1997 and 1996.

NOTE 3
REPOSITIONING AND OTHER CHARGES

In the fourth quarter of 1997, the Company recorded a pretax charge of $124 million related to the costs to eliminate its three sector offices, consolidate its Consumer Products Group and reposition some of its businesses. These actions enhanced the Company's competitiveness and productivity. The components of this charge included severance costs of $59 million, asset writedowns of $34 million and other exit costs of $31 million. All of the actions were substantially completed in 1998. The Company also recorded other charges in the fourth quarter of 1997, including $40 million related to the write-off of capitalized business process reengineering costs associated with information technology projects as required by Emerging Issues Task Force Issue No. 97-13 and other items consisting of asset impairments, customer claims and legal settlements.

Repositioning and other charges totaling $237 million were included as part of Cost of Goods Sold for 1997. Equity in Income of Affiliated Companies included a charge of $13 million related to the writedown of an equity investment. The total pretax impact of the repositioning and other charges for 1997 was $250 million (after-tax $159 million, or $0.27 per share).

In the second quarter of 1996, the Company recorded a pretax charge of $277 million related to the costs of actions to reposition some of its businesses. The repositioning actions enhanced the Company's competitiveness and productivity and included consolidating production facilities, rationalizing manufacturing capacity and optimizing operational capabilities. The components of the repositioning charge included asset writedowns of $136 million, severance costs of $127 million and other exit costs of $14 million. The repositioning actions were completed in 1998.

Also, in the second quarter of 1996, the Company adopted the provisions of the American Institute of Certified Public Accountants' Statement of Position 96-1, "Environmental Remediation Liabilities" (SOP 96-1). SOP 96-1 provides additional guidance regarding the manner in which existing authoritative accounting literature is to be applied to the specific circumstances of recognizing, measuring and disclosing environmental remediation liabilities. The adoption of SOP 96-1 resulted in a pretax charge of $175 million and was accounted for as a change in estimate. The Company also

recorded other charges primarily related to changes made in employee benefit programs and in connection with customer and former employee claims.

Repositioning and other charges totaling $637 million were included as part of Cost of Goods Sold for 1996. Other Income (Expense) for 1996 included a $15 million credit for repositioning and other charges representing the minority interest share of such charges. The total pretax impact of the repositioning and other charges for 1996 was $622 million (after-tax $359 million, or $0.62 per share).

NOTE 4
GAIN ON SALE OF STRATEGIC BUSINESS UNITS

In October 1997, the Company sold its automotive safety restraints business to Breed Technologies for $710 million in cash. The safety restraints business had 1996 net sales and income from operations of $940 and $70 million, respectively. The sale of the safety restraints business resulted in a pretax gain of $277 million (after-tax $196 million, including the benefit of capital losses, or $0.34 per share). In addition, in 1997 the Company recorded a charge of $51 million (after-tax $33 million, or $0.06 per share) related to the settlement of the 1996 sale of the automotive braking business.

In April 1996, the Company sold its braking business to Robert Bosch GmbH, a privately-held German company. The braking business had 1995 net sales and income from operations of $2.0 billion and $154 million, respectively. The sale of the braking business resulted in a pretax gain of $655 million (after-tax $368 million, or $0.63 per share). The Company received consideration of $1.5 billion, subject to certain post-closing adjustments which were finalized in 1997.

NOTE 5
OTHER INCOME (EXPENSE)

Years ended December 31	1998	1997	1996
Interest income and other	$ 47	$ 95	$ 94
Minority interests	(37)	(45)	(18)
Foreign exchange gain (loss)	(17)	27	11
	$ (7)	$ 77	$ 87

NOTE 6
INTEREST AND OTHER FINANCIAL CHARGES

Years ended December 31	1998	1997	1996
Total interest and other financial charges	$ 187	$ 196	$209
Less -- capitalized interest	(25)	(21)	(23)
	$ 162	$ 175	$186

NOTE 7
TAXES ON INCOME

INCOME BEFORE TAXES ON INCOME

Years ended December 31	1998	1997	1996
United States	$1,600	$1,526	$1,099
Foreign	343	190	454
	$1,943	$1,716	$1,553

TAXES ON INCOME

Years ended December 31	1998	1997	1996
United States	$ 478	$ 466	$ 359
Foreign	134	80	174
	$ 612	$ 546	$ 533

Years ended December 31	1998	1997	1996
Taxes on income consist of:			
Current:			
United States	$ 298	$ 292	$ 190
State	16	54	41
Foreign	65	62	89
	379	408	320
Deferred:			
United States	100	98	133
State	64	22	(5)
Foreign	69	18	85
	233	138	213
	$ 612	$ 546	$ 533

Years ended December 31	1998	1997	1996
The U.S. statutory federal income tax rate is reconciled to the Company's overall effective income tax rate as follows:			
U.S. statutory federal income tax rate	35.0%	35.0%	35.0%
Taxes on foreign earnings over U.S. tax rate	.8	.2	.4
Asset basis differences	(1.9)	(2.4)	(.1)
Nondeductible amortization	1.3	1.4	2.1
State income taxes	2.5	2.6	1.3
Tax benefits of Foreign Sales Corporation	(2.6)	(3.0)	(1.9)
Dividends received deduction	--	(.3)	(.2)
ESOP dividend tax benefit	(.6)	(.7)	(.7)
Tax credits	(1.5)	(.2)	--
All other items -- net	(1.5)	(.8)	(1.6)
	31.5%	31.8%	34.3%

DEFERRED INCOME TAXES

December 31	1998	1997
Included in the following balance sheet accounts:		
Other current assets	$ 408	$ 394
Other assets	84	117
Accrued liabilities	(8)	--
Deferred income taxes	(795)	(694)
	$ (311)	$ (183)

DEFERRED TAX ASSETS (LIABILITIES)

December 31	1998	1997
The principal components of deferred tax assets and (liabilities) are as follows:		
Property, plant and equipment basis differences	$ (660)	$ (690)
Postretirement benefits other than pensions and postemployment benefits	786	795
Investment and other asset basis differences	(508)	(567)
Other accrued items	406	561
Net operating losses	209	218
Deferred foreign gain	(39)	(48)
Undistributed earnings of subsidiaries	(55)	(45)
All other items -- net	(420)	(381)
	(281)	(157)
Valuation allowance	(30)	(26)
	$ (311)	$ (183)

The amount of federal tax net operating loss carryforwards available for 1998 is $197 million. These loss carryforwards were generated by certain subsidiaries prior to their acquisition in 1997 and have expiration dates through the year 2011. The use of pre-acquisition operating losses is subject to limitations imposed by the Internal Revenue Code. The Company does not anticipate that these limitations will affect utilization of the carryforwards prior to their expiration. The Company also has foreign net operating losses of $429 million which are available to reduce future income tax payments in several countries, subject to varying expiration rules.

Deferred income taxes have not been provided on approximately $552 million of undistributed earnings of foreign affiliated companies, which are considered to be permanently reinvested. Any U.S. taxes payable on foreign earnings which may be remitted, however, will be substantially offset by foreign tax credits.

NOTE 8
EARNINGS PER SHARE

The following table sets forth the computations of basic and diluted earnings per share:

	INCOME	AVERAGE SHARES	PER SHARE AMOUNT
1998			
Earnings per share of common stock -- basic	$1,331	561,979,359	$2.37
Dilutive securities:			
Stock options		12,107,890	
Restricted stock units		289,300	
Earnings per share of common stock -- assuming dilution	$1,331	574,376,549	$2.32
1997			
Earnings per share of common stock -- basic	$1,170	564,807,801	$2.07
Dilutive securities:			
Stock options		14,372,032	
Restricted stock units		688,917	
Earnings per share of common stock -- assuming dilution	$1,170	579,868,750	$2.02

	INCOME	AVERAGE SHARES	PER SHARE AMOUNT
1996			
Earnings per share of common stock -- basic	$1,020	565,660,128	$1.80
Dilutive securities:			
Stock options		13,529,590	
Restricted stock units		1,273,198	
Earnings per share of common stock -- assuming dilution	$1,020	580,462,916	$1.76

The diluted earnings per share calculation excludes the effect of stock options when the options' exercise prices exceed the average market price of the common shares during the period. In 1998, 1997 and 1996, the number of stock options not included in the computations was 1,438,074, 1,201,900 and 35,000, respectively. These stock options were outstanding at the end of each of the respective years.

NOTE 9
SHORT-TERM INVESTMENTS

Short-term Investments consist of marketable debt and equity securities classified as available-for-sale and carried at their quoted market value. There were no short-term investments at December 31, 1998. The fair values of marketable debt and equity securities at December 31, 1997 were $152 million ($152 million at cost) and $214 million ($206 million at cost), respectively. The Company also had other short-term investments held for sale of $64 million at December 31, 1997, carried at cost, which approximates market value.

NOTE 10
ACCOUNTS AND NOTES RECEIVABLE

December 31	1998	1997
Trade	$1,554	$1,466
Other	476	457
	2,030	1,923
Less -- allowance for doubtful accounts and refunds	(37)	(37)
	$1,993	$1,886

The Company is a party to agreements under which it can sell undivided interests in designated pools of trade accounts receivable. At both December 31, 1998 and 1997, trade accounts receivable on the Consolidated Balance Sheet have been reduced by $500 million reflecting such sales. The Company acts as an agent for the purchasers in the collection and administration of the receivables.

NOTE 11
INVENTORIES

December 31	1998	1997
Raw materials	$ 568	$ 605
Work in process	655	722
Finished products	1,174	905
Supplies and containers	96	89
	2,493	2,321
Less --		
Progress payments	(54)	(88)
Reduction to LIFO cost basis	(107)	(140)
	$2,332	$2,093

Inventories valued at LIFO amounted to $214 and $191 million at December 31, 1998 and December 31, 1997, respectively, which amounts were below estimated replacement cost by $107 and $140 million, respectively.

NOTE 12
INVESTMENTS AND LONG-TERM RECEIVABLES

December 31	1998	1997
Investment in AMP Incorporated (1)	$1,041	$ --
Investments (2)	370	403
Long-term receivables	77	77
	$1,488	$480

(1) Includes unrealized holding gain of $151 million at December 31, 1998.

(2) Includes unrealized holding gains of $1 and $3 million at December 31, 1998 and 1997, respectively, on equity securities classified as available-for-sale. The cost basis of the equity securities was $7 million at December 31, 1998 and 1997.

NOTE 13
PROPERTY, PLANT AND EQUIPMENT

December 31	1998	1997
Land and land improvements	$ 336	$ 330
Machinery and equipment	5,999	6,017
Buildings	1,571	1,455
Office furniture and equipment	846	851
Transportation equipment	119	126
Construction in progress	487	410
	9,358	9,189
Less -- accumulated depreciation and amortization	(4,961)	(4,938)
	$4,397	$4,251

NOTE 14
ACCRUED LIABILITIES

December 31	1998	1997
Wages	$ 168	$ 246
Customer advance payments/deposits	126	126
Insurance	137	110
Other	1,320	1,517
	$1,751	$1,999

NOTE 15
LONG-TERM DEBT AND CREDIT AGREEMENTS

December 31	1998	1997
Employee stock ownership plan floating rate notes, 4.12% - 4.72%, due 1999	$ --	$ 85
6.75% notes due August 15, 2000	100	100
9-7/8% debentures due June 1, 2002	171	250
9.20% debentures due February 15, 2003	62	100
6-1/8% notes due July 1, 2005	117	--
Medium term notes, 8.93% - 9.28%, due 1999 - 2001	25	69
6.20% notes due February 1, 2008	200	--
Zero coupon bonds and money multiplier notes, 13.0% - 14.26%, due 1999 - 2009	174	157
5-3/4% dealer remarketable securities due March 15, 2011	200	--
9-1/2% debentures due June 1, 2016	49	100
Industrial development bond obligations, 2.8% - 6.75%, maturing at various dates through 2027	99	105
9.065% debentures due June 1, 2033	51	--
Other (including capitalized leases), 1.54% - 15.0%, maturing at various dates through 2016	228	249
	$1,476	$1,215

During 1998, the Company issued $200 million of 6.20% notes due February 1, 2008, and $200 million of 5-3/4% dealer remarketable securities due March 15, 2011. During 1998, the Company also made two exchange offers to holders of certain of its outstanding debt securities. In the first debt exchange offer, holders of approximately $51 million principal amount of the Company's 9-1/2% debentures due June 1, 2016 tendered debentures for a like principal amount of the Company's 9.065% debentures due June 1, 2033. In the second debt exchange offer, holders of approximately $79 million principal amount of the Company's 9-7/8% debentures due June 1, 2002 and approximately $38 million principal amount of the Company's 9.20% debentures due February 15, 2003 tendered debentures for approximately $133 million principal amount of the Company's 6-1/8% notes due July 1, 2005. The debt exchange did not result in a substantial modification of the original debt terms for financial reporting purposes.

The schedule of principal payments on long-term debt is as follows:

At December 31, 1998	LONG-TERM DEBT
1999	$ 158
2000	206
2001	55
2002	197
2003	89
Thereafter	929
	1,634
Less -- current portion	158
	$1,476

The Company maintains two bank revolving credit facilities: (a) a $750 million Five-Year Credit Agreement (Credit Agreement) with a group of 18 banks, dated as of June 30, 1995, as amended June 28, 1996 and June 13, 1997 and (b) a $900 million 364-Day Backstop Credit Agreement (364-Day Credit Agreement) with a group of 6 banks, dated as of October 7, 1998. The Credit Agreement was established to

support the issuance of commercial paper for normal working capital purposes and the 364-Day Credit Agreement was established to support the issuance of commercial paper used to finance the acquisition of 20 million shares of common stock of AMP Incorporated (AMP) and for any other general corporate purpose. The Company had no balance outstanding under either agreement at December 31, 1998.

Both of the credit agreements do not restrict the Company's ability to pay dividends; however, they do require the Company to maintain a minimum net worth of $3.1 billion. The failure to comply with customary conditions or the occurrence of customary events of default, contained in the credit agreements, would prevent any further borrowings and would generally require the repayment of any outstanding borrowings under such credit agreements. Such events of default include (a) non-payment of credit agreement debt and interest thereon, (b) non-compliance with the terms of the credit agreement covenants, (c) cross-default with other debt in certain circumstances, (d) bankruptcy and (e) defaults upon obligations under the Employee Retirement Income Security Act. Additionally, each of the banks has the right to terminate its commitment to lend under the credit agreements if any person or group acquires beneficial ownership of 30% or more of the Company's voting stock or, during any 12-month period, individuals who were directors of the Company at the beginning of the period cease to constitute a majority of the Board of Directors (the Board).

Loans under the Credit Agreement are required to be repaid no later than June 30, 2002. The Company has agreed to pay a facility fee of 0.065% per annum on the aggregate commitment for the Credit Agreement, subject to increase or decrease in the event of changes in the Company's long-term debt ratings.

Interest on borrowings under the Credit Agreement would be determined, at the Company's option, by (a) an auction bidding procedure; (b) the highest of the floating base rate of the agent bank, 0.5% above the average CD rate, or 0.5% above the Federal funds rate or (c) the average Eurocurrency rate of three reference banks plus 0.135% (applicable margin). The applicable margin over the Eurocurrency rate on the Credit Agreement is subject to increase or decrease if the Company's long-term debt ratings change.

The commitments under the 364-Day Credit Agreement terminate on October 6, 1999. Annually, prior to the Agreement's anniversary date, the Company may request that the termination date of the 364-Day Credit Agreement be extended by another year. Upon the termination date, the Company may request that any outstanding loans be converted into a term loan maturing no later than the first anniversary of the commitment termination date. The Company has agreed to pay a facility fee of 0.055% per annum on the aggregate commitment for the 364-Day Credit Agreement, subject to increase or decrease in the event of changes in the Company's long-term debt ratings.

Interest on borrowings under the 364-Day Credit Agreement would be determined, at the Company's option, by (a) an auction bidding procedure; (b) the highest of the floating base rate of the agent bank, 0.5% above the average CD rate, or 0.5% above the Federal funds rate or (c) the average Eurocurrency rate of the three reference banks plus 0.170% (applicable margin). Upon conversion of the 364-Day Credit Agreement to a term loan the applicable margin increases to

0.225% (the facility fee is discontinued at the conversion date). The 364-Day Credit Agreement is subject to utilization fees of up to 0.025% of borrowings. The applicable margin over the Eurocurrency rate and the utilization fee on the 364-Day Credit Agreement are subject to increase or decrease if the Company's long-term debt ratings change.

NOTE 16
LEASE COMMITMENTS

Future minimum lease payments under operating leases having initial or remaining noncancellable lease terms in excess of one year are as follows:

At December 31, 1998	LEASE PAYMENTS
1999	$ 96
2000	87
2001	67
2002	49
2003	40
Thereafter	127
Total	$466

Rent expense of $120, $109 and $98 million was included in costs and expenses for 1998, 1997 and 1996, respectively.

NOTE 17
FINANCIAL INSTRUMENTS

The Company, as a result of its global operating and financing activities, is exposed to changes in interest rates and foreign currency exchange rates which may adversely affect its results of operations and financial position. In seeking to minimize these market risks, the Company manages exposure to changes in interest rates and foreign currency exchange rates through its normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The instruments utilized include forward, option and swap agreements. The Company does not use financial instruments for trading or other speculative purposes and does not use leveraged derivative financial instruments.

At December 31, 1998 and 1997, interest rate swap agreements effectively changed $300 million of fixed-rate debt at an average rate of 7.13% and 9.53%, respectively, to U.S. commercial paper and London Interbank Offer Rate (LIBOR) based floating rate debt with an average effective rate of 6.53% and 8.04%, respectively. Based on its terms, one of these agreements will be terminated by the counterparty if short-term interest rates drop below a predetermined level. Other interest rate swaps at December 31, 1998 and 1997 effectively changed $150 and $58 million, respectively, of U.S. commercial paper and LIBOR based floating rate debt at an average rate of 5.18% and 4.80%, respectively, to fixed rate debt with an average effective rate of 6.25% and 6.81%, respectively. The Company's interest rate swaps mature through the year 2008.

The Company's exposure to changes in foreign currency exchange rates arises from intercompany loans utilized to finance foreign subsidiaries, receivables, payables and firm commitments arising from international transactions. The Company attempts to have all such transaction exposures hedged with internal natural offsets to the fullest extent possible and, once these opportunities have been exhausted,

through derivative financial instruments with third parties using forward or option agreements. The Company also uses derivative financial instruments to hedge the Company's exposure to changes in foreign currency exchange rates for the translated U.S. dollar value of the net income of a number of foreign subsidiaries. Forward and option agreements used to hedge net income are marked to market, with gains or losses recognized immediately in income. The Company's principal foreign currency exposures relate to the French franc, the German mark, the British pound and the U.S. dollar. At December 31, 1998, the Company held or had written foreign currency forward and option agreements maturing through 2002. The Company writes foreign currency options only in combination with purchased options as an integral transaction and economic alternative to using forward agreements.

Financial instruments expose the Company to counterparty credit risk for nonperformance and to market risk for changes in interest and currency rates. The Company manages exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties and procedures to monitor concentrations of credit risk. The Company's derivative instrument counterparties are substantial investment or commercial banks with significant experience using such derivative instruments. The Company monitors the impact of market risk on the fair value and cash flows of its derivative and other instruments considering reasonably possible changes in interest and currency rates. The Company manages market risk by restricting the use of derivative financial instruments to hedging activities and by limiting potential interest and currency rate exposures to amounts that are not material to the Company's consolidated results of operations and cash flows.

The values of the Company's outstanding derivative financial instruments at December 31, 1998 and 1997 are as follows:

	NOTIONAL PRINCIPAL AMOUNT	CARRYING VALUE	FAIR VALUE(1)
December 31, 1998			
Interest rate swap agreements held	$450	$ 3	$ --
Foreign currency forward agreements held	264	(1)	(1)
Foreign currency forward agreements written	573	2	1
Foreign currency options held	89	2	2
Foreign currency options written	89	(2)	(2)
December 31, 1997			
Interest rate swap agreements held	$358	$ --	$ 3
Foreign currency forward agreements held	708	1	1
Foreign currency forward agreements written	649	22	23
Foreign currency options held	150	4	4

(1) Fair values for forward, option and interest rate swap contracts are based on market quotes.

Other financial instruments that are not carried on the Consolidated Balance Sheet at amounts which approximate fair values are certain debt instruments. The carrying values of long-term debt and related current maturities (excluding capitalized leases of $41 and $43 million at December 31, 1998 and 1997, respectively) are $1,593 and $1,396 million and the fair values are $1,767 and $1,584 million at December 31, 1998 and 1997, respectively. The fair values are estimated based on the quoted market price for the issues (if traded) or based on current rates offered to the Company for debt of the same remaining maturity and characteristics.

NOTE 18
CAPITAL STOCK

The Company is authorized to issue up to 20,000,000 shares of preferred stock without par value and may establish series of preferred stock having such number of shares and such terms as it may determine.

The Company is authorized to issue up to 1,000,000,000 shares of common stock, with a par value of one dollar. Common shareowners are entitled to receive such dividends as may be declared by the Board, are entitled to one vote per share, and are entitled, in the event of liquidation, to share ratably in all the assets of the Company which are available for distribution to the common shareowners. Common shareowners do not have preemptive or conversion rights. Shares of common stock issued and outstanding or held in the treasury are not liable to further calls or assessments. There is no restriction on dividends or the repurchase or redemption of common stock by the Company. As of December 31, 1998, the Company has remaining authority to repurchase from time to time up to 57.6 million shares of common stock.

NOTE 19
STOCK OPTIONS AND AWARDS

The Company has a 1993 Stock Plan and a 1985 Stock Plan available to grant incentive and non-qualified stock options, stock appreciation rights (SARs), restricted shares and restricted units (Units) to officers and other employees. The 1993 Stock Plan provides for the annual grant of awards in an amount not in excess of 1.5% of the total shares issued (including shares held in treasury) as of December 31 of the year preceding the year of the award. Any shares that are available for awards that are not utilized in a given year will be available for use in subsequent years. There were 11,181,184 and 10,468,811 shares available for future grants under the terms of the Company's stock option plans at December 31, 1998 and 1997, respectively. Incentive stock options have a term determined by the Management Development and Compensation Committee of the Board (Committee), but not in excess of ten years from the date of grant. Non-qualified stock options have been granted with terms of up to ten years and one day. An option becomes exercisable at such times and in such installments as set by the Committee. Options generally become exercisable over a three-year period. SARs entitle an optionee to surrender unexercised stock options for cash or stock equal to the excess of the fair market value of the surrendered shares over the option value of such shares. Units have been granted to certain employees, which entitle the holder to receive shares of common stock. At December 31, 1998, there were 1,491,547 Units outstanding, including 277,471 Units granted in 1998, the restrictions on which generally lapse over periods not exceeding ten years from date of grant. Compensation expense is recognized over the restricted period.

The following table summarizes information about stock option activity for the three years ended December 31, 1998:

	Number of Options	Average Exercise Price
Outstanding at December 31, 1995	52,426,654	15.76
Granted	9,436,540	25.60
Exercised	(10,003,554)	14.08
Lapsed or canceled	(738,014)	21.01
Outstanding at December 31, 1996	51,121,626	17.83
Granted	8,408,454	36.92
Exercised	(9,299,671)	15.19
Lapsed or canceled	(548,254)	23.67
Outstanding at December 31, 1997	49,682,155	21.49
Granted	5,904,362	37.99
Exercised	(8,169,444)	17.96
Lapsed or canceled	(4,115,892)	25.88
Outstanding at December 31, 1998	43,301,181	23.99

The following table summarizes information about stock options outstanding at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Average Life(1)	Average Exercise Price	Number Exercisable	Average Exercise Price
$ 7.18 - $17.18	8,848,427	3.2	$13.54	8,848,427	$13.54
$17.19 - $19.54	14,515,480	5.6	18.20	12,815,480	18.25
$21.25 - $35.44	9,119,628	7.3	27.02	4,253,701	25.16
$35.79 - $45.41	10,817,646	8.7	37.75	486,316	43.54
	43,301,181	6.2	23.99	26,403,924	18.25

(1) Average remaining contractual life in years.

There were 29,850,357 and 28,365,464 options exercisable at average exercise prices of $17.08 and $15.14 at December 31, 1997 and 1996, respectively.

The Company accounts for stock compensation costs in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost has been recognized for its fixed stock option plans. The following table sets forth pro forma information as if compensation cost for its fixed stock option plans had been determined based on the fair value at the grant date for awards under the Company's stock plans consistent with the requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

	1998	1997	1996
Weighted-average fair value per share of options granted during the year (1)	$9.24	$9.15	$6.22
Reduction of:			
Net income	$27	$33	$24
Earnings per share of common stock--basic	$.05	$.06	$.04
Earnings per share of common stock--assuming dilution	$.05	$.06	$.04
Assumptions:			
Historical dividend yield	1.6%	1.8%	1.8%
Historical volatility	20.7%	19.1%	21.1%
Risk-free rate of return	5.3%	6.4%	5.5%
Expected life (years)	5.0	5.0	5.0

(1) Estimated on date of grant using Black-Scholes option-pricing model.

The Company also has a Stock Plan for Non-Employee Directors (Directors' Plan) under which restricted shares and options are granted. New directors receive grants of 3,000 shares of common stock, subject to certain restrictions. In addition, each director will be granted an option to purchase 2,000 shares of common stock each year on the date of the annual meeting of shareowners. The Company has set aside 450,000 shares for issuance under the Directors' Plan. Options generally become exercisable over a three-year period and have a term of ten years from the date of grant.

All options were granted at not less than fair market value at dates of grant.

Treasury shares of common stock have been used upon exercise of stock options. Differences between the cost of treasury stock used and the total option price of shares exercised have been reflected in Additional Paid-in Capital during 1998 and 1997 and in Retained Earnings in prior years.

NOTE 20
COMMITMENTS AND CONTINGENCIES

The Company is subject to a number of lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of its business.

In accordance with the Company's accounting policy (see Note 1), liabilities are recorded for environmental matters generally no later than the completion of feasibility studies. Although the Company does not currently possess sufficient information to reasonably estimate the amounts of the liabilities to be recorded upon future completion of studies, they may be significant to the consolidated results of operations, but management does not expect that they will have a material adverse effect on the consolidated financial position of the Company.

The Company holds an investment of 20 million shares of common stock of AMP which was acquired in a cash tender offer in October 1998 at a price of $44.50 per share. Under Subchapter H of the Pennsylvania Business Corporation Law, if the Company realizes a profit on disposition of AMP stock prior to February 2000, such profit may be recovered by AMP. The Company intends to hold the AMP stock for investment purposes. Tyco Industries Ltd. (Tyco) and AMP have signed a merger agreement pursuant to which AMP is to merge into a subsidiary of Tyco. AMP shareholders will be entitled to receive Tyco common stock under the terms of the merger. The Company believes that the merger, if effected, would not constitute a disposition of the Company's AMP stock for purposes of Subchapter H.

With respect to all other matters, including those relating to commercial transactions, government contracts, product liability and nonenvironmental health and safety matters, while the ultimate results of these lawsuits, investigations and claims cannot be determined, management does not expect that these matters will have a material adverse effect on the consolidated results of operations or financial position of the Company.

The Company has issued or is a party to various direct and indirect guarantees, bank letters of credit and customer guarantees. Management does not expect these guarantees will have a material adverse effect on the consolidated results of operations or financial position of the Company.

NOTE 21
PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company's pension plans, most of which are defined benefit plans and almost all of which are noncontributory, cover substantially all employees. The Company's U.S. retiree medical plans cover employees who retire with pension eligibility for hospital, professional and other medical services. The following table summarizes the balance sheet impact, including the benefit obligations, assets, funded status and rate assumptions associated with the Company's significant pension and retiree medical benefit plans.

	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997
Change in benefit obligation				
Benefit obligation at January 1	$ 5,941	$ 5,419	$ 1,634	$ 1,533
Service cost	139	124	21	21
Interest cost	422	412	103	111
Plan amendments	20	--	5	(121)
Actuarial (gains) losses	352	470	(27)	188
Acquisitions	91	--	--	16
Benefits paid	(447)	(454)	(127)	(114)
Settlements and curtailments	(65)	(8)	(32)	--
Translation effect	2	(22)	--	--
Benefit obligation at December 31	6,455	5,941	1,577	1,634
Change in plan assets				
Fair value of plan assets at January 1	6,428	5,843	--	--
Actual return on plan assets	853	1,018	--	--
Company contributions	46	40	--	--
Participants' contributions	--	1	--	--
Acquisitions	63	--	--	--
Settlements	(48)	(9)	--	--
Benefits paid	(447)	(454)	--	--
Translation effect	(10)	(11)	--	--
Fair value of plan assets at December 31	6,885	6,428	--	--
Funded status of plans	430	487	(1,577)	(1,634)
Unrecognized transition (asset)	(22)	(26)	--	--
Unrecognized net (gain) loss	(569)	(659)	(99)	(77)
Unrecognized prior service cost	102	93	(188)	(221)
(Accrued) benefit cost	$ (59)	$ (105)	$(1,864)	$(1,932)
Assumptions as of December 31				
Discount rate	6.75%	7.25%	6.75%	7.25%
Assumed rate of return on plan assets	10.00%	10.00%	--	--
Assumed annual rate of compensation increase	5.00%	5.00%	--	--

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of the fair value of plan assets were $328, $281 and $43 million, respectively, as of December 31, 1998 and $285, $246 and $31 million, respectively, as of December 31, 1997.

Net periodic pension and other postretirement benefit costs include the following components.

	Pension Benefits			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Service cost	$139	$124	$133	$21	$21	$ 24
Interest cost	422	412	398	103	111	111
Assumed return on plan assets	(580)	(519)	(458)	--	--	--
Amortization of transition asset	(4)	(7)	(7)	--	--	--
Amortization of prior service cost	12	11	11	(19)	(15)	(10)
Recognition of actuarial (gains) losses	1	1	1	(2)	(9)	(4)
Benefit cost (credit)	$(10)	$22	$78	$103	$108	$121

Most of the U.S. retiree medical plans require deductibles and copayments and virtually all are integrated with Medicare. Retiree contributions are generally required based on coverage type, plan and Medicare eligibility. The retiree medical plans are not funded. Claims and expenses are paid from the general assets of the Company.

For most non-union employees retiring after July 1, 1992, the Company implemented an approach which bases the Company's contribution to retiree medical premiums on years of service and also establishes a maximum Company contribution in the future at approximately twice the current level at the date of implementation. Effective July 1, 1997, the Company adopted a plan amendment that will encourage Medicare eligible non-union retirees to join Company sponsored Medicare managed care programs.

For measurement purposes, the assumed annual rates of increase in the per capita cost of covered health care benefits for 1998 were 6.50% for indemnity programs and 6% to 8% for managed care programs, which reduce to 6% for all programs in the year 2000 and remain at that level thereafter (except for Medicare managed care programs which continue at 8%).

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

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	$11	$(10)
Effect on postretirement benefit obligation	$122	$(109)

NOTE 22
SUPPLEMENTAL CASH FLOW
AND OTHER INFORMATION

Cash and Cash Equivalents includes cash on hand and on deposit as well as highly liquid debt instruments with maturities generally of three months or less. Cash payments during the years 1998, 1997 and 1996 included interest of $267, $191 and $178 million and income taxes of $391, $269 and $221 million, respectively.

The weighted-average interest rate on short-term borrowings and commercial paper outstanding at December 31, 1998 and 1997 was 5.8% and 6.0%, respectively.

NOTE 23
SEGMENT FINANCIAL DATA

The Company operates globally through eleven strategic business units (SBUs) that offer products and services which are sold principally in the following markets: commercial and military aviation, defense, space, automotive and heavy vehicle, electronics, carpeting, refrigeration, construction, computers, utilities, pharmaceutical and agriculture. The Company's SBUs have been aggregated into five reportable segments. The SBUs and their major classes of products included in each reportable segment follows:

> AEROSPACE SYSTEMS includes Aerospace Equipment Systems (environmental control systems; engine and fuel controls; power systems; aircraft lighting; and aircraft wheels and brakes); Electronic & Avionics Systems (flight safety communications, navigation, radar and surveillance systems; and advanced systems and instruments); and Aerospace Marketing, Sales & Service (repair and overhaul services; hardware; logistics; and management and technical services).

> SPECIALTY CHEMICALS & ELECTRONIC SOLUTIONS includes Specialty Chemicals (fluorine-based products; pharmaceutical and agricultural chemicals; specialty waxes, adhesives and sealants; and process technology); and Electronic Materials (insulation materials for integrated circuitry; copper-clad laminates for printed circuit boards; advanced chip packaging; and amorphous metals).

> TURBINE TECHNOLOGIES includes Engines (auxiliary power units; and propulsion engines); and Turbocharging Systems (turbochargers; charge-air coolers; and portable power systems).

> PERFORMANCE POLYMERS includes the Polymers unit (fibers; plastic resins; specialty films; and intermediate chemicals).

> TRANSPORTATION PRODUCTS includes the Consumer Products Group (car care products including anti-freeze, filters, spark plugs, cleaners, waxes and additives); Friction Materials (friction material and related brake system components); and Truck Brake Systems (air brake and anti-lock braking systems).

The Company's sales are not materially dependent on a single customer or small group of customers.

		Aerospace Systems	Specialty Chemicals & Electronic Solutions	Turbine Technologies	Performance Polymers	Transportation Products	Corporate and Un-allocated (1)	Other(2)	Total
Net sales	1998	$4,871	$2,241	$3,638	$1,928	$2,441	$9	$--	$15,128
	1997	4,117	2,218	3,111	2,030	2,983	13	--	14,472
	1996	3,635	2,117	2,775	1,888	3,539	17	--	13,971
Depreciation and amortization	1998	159	109	114	103	81	43	--	609
	1997	128	110	110	130	96	35	--	609
	1996	129	94	107	123	108	41	--	602
Income from operations	1998	920	327	458	307	106	(156)	--	1,962
	1997	608	326	401	215	194	(97)	(11)	1,636
	1996	469	355	264	211	280	(88)	18	1,509
Capital expenditures	1998	146	158	125	150	77	28	--	684
	1997	132	135	111	174	115	50	--	717
	1996	83	111	103	220	163	75	--	755
Investment in equity affiliates	1998	--	260	--	2	85	3	--	350
	1997	41	233	--	1	103	6	--	384
	1996	43	181	--	2	98	4	--	328
Total assets	1998	4,510	2,975	3,049	1,498	1,994	1,534	--	15,560
	1997	3,734	2,528	2,653	1,541	2,137	1,114	--	13,707
	1996	2,972	1,975	2,611	1,469	1,779	2,023	--	12,829

Intersegment sales approximate market and are not significant.

(1) The Corporate and Unallocated column includes amounts for Corporate items and businesses sold.

(2) The Other column includes in 1997 a provision for repositioning and other charges of $237 million, a gain on the sale of the safety restraints business of $277 million and a charge related to the settlement of the 1996 braking business sale of $51 million. Includes in 1996 a provision for repositioning and other charges of $637 million and a gain on the sale of the braking business of $655 million.

NOTE 24
GEOGRAPHIC AREAS -- FINANCIAL DATA

		United States	Europe	Other International	Total
Net sales (1)	1998	$11,880	$2,264	$984	$15,128
	1997	11,319	2,171	982	14,472
	1996	10,774	2,397	800	13,971
Long-lived assets	1998	3,057	827	513	4,397
	1997	3,249	691	311	4,251
	1996	3,207	739	273	4,219

Sales between geographic areas approximate market and are not significant.
(1) Net sales are classified according to their country of origin. Included in United States net sales are export sales of $2,613, $2,467 and $2,399 million for each of the respective years.

NOTE 25
UNAUDITED QUARTERLY FINANCIAL INFORMATION

	1998					1997				
	Mar. 31	June 30	Sept. 30	Dec. 31	Year	Mar. 31	June 30	Sept. 30	Dec. 31	Year
Net sales	$3,646	$3,869	$3,741	$3,872	$15,128	$3,327	$3,578	$ 3,657	$3,910	$14,472
Gross profit	837	920	903	992	3,652	722	814	817	638(1)	2,991
Net income	300	350	329	352	1,331	259	305	292	314(1)(2)	1,170
Earnings per share-- basic	.53	.62	.59	.63	2.37	.46	.54	.52	.56(1)(2)	2.07
Earnings per share-- assuming dilution	.52	.61	.58	.62	2.32	.45	.52	.50	.55	2.02
Dividends paid	.15	.15	.15	.15	.60	.13	.13	.13	.13	.52
Market price (3)										
High	43.81	47.56	46.69	44.94	47.56	38.25	42.50	47.13	43.94	47.13
Low	34.63	39.63	32.63	33.06	32.63	33.25	33.88	41.13	31.63	31.63

(1) Includes a provision of $237 million, after-tax $159 million and $0.27 per share for repositioning and other charges.
(2) Includes an after-tax gain of $196 million and $0.34 per share on the sale of the safety restraints business and an after-tax loss of $33 million and $0.06 per share related to the settlement of the 1996 braking business sale.
(3) From composite tape -- stock is traded primarily on the New York Stock Exchange.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

NAME	COUNTRY OR STATE OF INCORPORATION	SECURITIES OWNED CLASS	PERCENT OWNERSHIP
AlliedSignal International Finance Corporation..................	Delaware	Common Stock	100
AlliedSignal Laminate Systems Inc.	Delaware	Common Stock	100
AlliedSignal Technical Services Corporation.....................	Delaware	Common Stock	100
AlliedSignal Technologies Inc...................................	Arizona	Common Stock	100
Astor Corporation...	Delaware	Common Stock	100
EM Sector Holdings Inc..	Delaware	Common Stock	100
Grimes Holdings Inc...	Delaware	Common Stock	100
Prestone Holdings Inc...	Delaware	Common Stock	100

The names of the Registrant's other consolidated subsidiaries, which are primarily totally-held by the Registrant, are not listed because all such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting part of AlliedSignal Inc.'s Registration Statements on Forms S-8 (Nos. 33-09896, 33-51455, 33-55410, 33-58347, 33-60261, 33-62963, 33-64295, 333-14673, 333-57509, 333-57515, 333-57517 and 333-57519), on Forms S-3 (Nos. 33-13211, 33-14071, 33-55425, 33-64245, 333-22355, 333-44523, 333-45555, 333-49455 and 333-68847) and on Form S-8 (filed as an amendment to Form S-14, No. 2-99416-01) of our report dated February 1, 1999 appearing in the 1998 Annual Report to Shareowners of AlliedSignal Inc., which is incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 1998.

PRICEWATERHOUSECOOPERS LLP

Florham Park, New Jersey
March 4, 1999

POWER OF ATTORNEY

I, Lawrence A. Bossidy, Chairman and Chief Executive Officer and a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Lawrence A. Bossidy

____

Lawrence A. Bossidy

Dated: February 5, 1999

POWER OF ATTORNEY

I, Hans W. Becherer, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Hans W. Becherer
____
Hans W. Becherer

Dated: February 5, 1999

POWER OF ATTORNEY

I, Ann M. Fudge, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Ann M. Fudge
____
Ann M. Fudge

Dated: February 5, 1999

POWER OF ATTORNEY

I, Paul X. Kelley, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Paul X. Kelley

____

Paul X. Kelley

Dated: February 5, 1999

POWER OF ATTORNEY

I, Robert P. Luciano, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Robert P. Luciano

____

Robert P. Luciano

Dated: February 5, 1999

POWER OF ATTORNEY

I, Robert B. Palmer, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Robert B. Palmer
____
Robert B. Palmer

Dated: February 5, 1999

POWER OF ATTORNEY

I, Russell E. Palmer, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Russell E. Palmer
____
Russell E. Palmer

Dated: February 5, 1999

POWER OF ATTORNEY

I, Frederic M. Poses, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

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(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Frederic M. Poses
____
Frederic M. Poses

Dated: February 5, 1999

POWER OF ATTORNEY

I, Ivan G. Seidenberg, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Ivan G. Seidenberg

____

Ivan G. Seidenberg

Dated: February 5, 1999

POWER OF ATTORNEY

I, Andrew C. Sigler, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Andrew C. Sigler
____
Andrew C. Sigler

Dated: February 5, 1999

POWER OF ATTORNEY

I, John R. Stafford, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

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/s/ John R. Stafford
____
John R. Stafford

Dated: February 5, 1999

POWER OF ATTORNEY

I, Thomas P. Stafford, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Thomas P. Stafford

____

Thomas P. Stafford

Dated: February 5, 1999

POWER OF ATTORNEY

I, Robert C. Winters, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Robert C. Winters
____
Robert C. Winters

Dated: February 5, 1999

POWER OF ATTORNEY

I, Henry T. Yang, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman and Richard J. Diemer, Jr., each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead, in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1998,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ Henry T. Yang
____
Henry T. Yang

Dated: February 5, 1999

This schedule contains summary financial information extracted from the consolidated balance sheet at December 31, 1998 and the consolidated statement of income for the year ended December 31, 1998 and is qualified in its entirety by reference to such financial statements.

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YEAR
DEC-31-1998
DEC-31-1998
712
0
1,554
37
2,332
5,593
9,358
4,961
15,560
5,185
1,476
0
0
716
4,581
15,560
15,128
15,128
11,476
11,476
0
0
162
1,943
612
1,331
0
0
0
1,331
2.37
2.32