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, 1997
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 Stock Exchange
Money Multiplier Notes due 1998-2000	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 [ ]

The aggregate market value of the voting stock held by nonaffiliates of the Registrant was approximately $22.0 billion at January 31, 1998.

There were 566,016,991 shares of Common Stock outstanding at January 31, 1998.

Documents Incorporated by Reference

Part I and II: Annual Report to Shareowners for the Year Ended December 31, 1997.

Part III: Proxy Statement for Annual Meeting of Shareowners to be held April 27, 1998.

ALLIEDSIGNAL INC.

CROSS REFERENCE SHEET

Form 10-K Item No.	Heading(s) in Annual Report to Shareowners for Year Ended December 31, 1997	Page(s) in Annual Report
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10. Directors and Executive Officers of the Registrant	Election of Directors; Voting Securities	*
11. Executive Compensation	Election of Directors -- Compensation of Directors; Executive Compensation	*
12. Security Ownership of Certain Beneficial Owners and Management	Voting Securities	*

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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, 1997.

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, 1997. Certain other information relating to the Executive Officers of the Registrant appears at pages 16 and 17 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 and engineered materials, including chemicals, fibers, plastics and advanced materials. The Company's operations are conducted by ten major businesses, which are grouped under three major product areas, as follows:

MAJOR PRODUCT AREAS	MAJOR BUSINESSES
Aerospace products	Engines Aerospace Equipment Systems Electronic & Avionics Systems Government Services
Automotive products	Turbocharging Systems Automotive Products Group Truck Brake Systems
Engineered materials	Polymers Specialty Chemicals Electronic Materials

Following is a description of the Company's major businesses:

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
Engines	Turbine propulsion engines	TFE731 turbofan TPE331 turboprop TFE1042 turbofan F124 turbofan LF507 turbofan CFE738 turbofan T53, T55 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
	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

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
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	Hamilton Standard Intertechnique Liebherr Nord Micro Parker Hannifin Sundstrand
	Engine systems and accessories	Electronic, hydromechanical and pneumatic gas turbine engine controls Digital electronic engine controls for military battle tanks Fuel flow metering components Pressure transducers Repair, overhaul and spare parts	Commercial, military, regional and general aviation aircraft engines Spacecraft Military battle tanks	Chandler-Evans Hamilton Standard Liebherr Lockheed Martin Lucas
	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	Commercial and military aircraft	Aircraft Braking Systems Dunlop B.F. Goodrich Messier-Bugatti
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 II Marrow Litton Lockheed Martin Narco Rockwell/Collins Sextant Smiths S-tec Trimble/Terra Universal

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
	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
	Guidance systems	Inertial sensors/systems and star sensors/ systems for guidance, stabilization, navigation and control	Military and commercial vehicles Commercial spacecraft and launch vehicles Energy Transportation Missiles Munitions	Astronautics-Kearfott Ball BEI GEC Honeywell Litton Rockwell/Collins
	Tactical command, control, communications, computers and intelligence	Combat identification systems (Identification Friend or Foe (IFF)) Commercial information security equipment Satellite communication terminals (SATCOM) Secured communication equipment (INFOSEC) Mortar fire control system (MFCS)	Military aviation Military communications Civil communications Commercial information security	Harris Hughes/ Magnavox Litton Lockheed Martin Motorola Raytheon/ E-Systems Rockwell/Collins Thomson-CSF/ Hazeltine
	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
Government Services	Management and technical services	Maintenance/operation of space systems and facilities Systems engineering, integration and training services Management of data processing facilities	U.S. and foreign government space and communications facilities Commercial space facilities	Computer Sciences Dyncorp Lockheed Martin Raytheon SAIC
	Federal manufacturing and technologies	Non-nuclear components for nuclear weapons	U.S. Department of Energy	Federally funded
Turbocharging Systems	Charge-air systems Thermal systems	Turbochargers Charge-air coolers Aluminum radiators Aluminum cooling modules Superchargers Remanufactured components	Automotive and heavy vehicle original equipment manufacturers (OEMs) Engine manufacturers Aftermarket distributors and dealers	Aisin Seiki Behr/McCord Hitachi Holset IHI KKK Mitsubishi/MHI Modine Schwitzer Valeo
	Electrical generators	Turbogenerators	Electrical power	Electric Utilities Capstone

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
Automotive Products Group	Aftermarket: filters and electronic, brake and steering components, car care products	Oil, air, fuel, transmission and coolant filters PCV valves Spark plugs Wire and cable Disc pads and brake linings Disc and drum brake components Brake hydraulic components Brake fluid Ball-joints Rack & pinions Power-steering pumps and components Antifreeze/coolant Driveway ice melter Windshield de-icer washer fluid	Automotive and heavy vehicle aftermarket channels and original equipment service (OES) Mass merchandisers	Abex/Cooper AC/Delphi/GM ArmorAll Belden/Cooper Bosch Champion/Cooper EIS/Standard Motor Eyquem Ferodo/T&N Girling/Lucas Havoline (Texaco) Knecht Labinal Lockheed/AP Mann & Hummel Mintex, Textar/BBA NGK Purolator/Mark IV Quinton Hazel/Echlin Raybestos/Echlin Teves/ITT Turtle Wax Wix/Dana Zerex (Valvoline) ZF
	Friction materials	Disc brake pads Drum brake linings Brake blocks Aircraft brake linings Railway linings	Automotive and heavy vehicle OEMs, OES and aftermarket channels Railway and commercial/military aircraft OEMs and brake manufacturers	Abex/Cooper Akebono BBA Group Delco Echlin Ferodo/T&N JBI Nisshinbo Pagid Sumitomo Teves/ITT
	Filters and spark plugs	Oil, air, transmission, fuel and cabin air filters Spark plugs	Automotive and heavy vehicle OEMs, OES and aftermarket channels	AC/Delphi/GM Bosch Champion/Cooper Champion Labs/U.I.S. Denso NGK Purolator/Mark IV Wix/Dana
Truck Brake Systems (joint venture)	Air brake systems	Anti-lock braking 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	Bosch Cummins/Holset Echlin/Midland-Grau Rockwell WABCO
Polymers	Carpet fiber	Nylon filament and staple yarns Bulk continuous filament	Commercial, residential and specialty carpet markets	BASF Beaulieu DuPont Monsanto Novalis
	Industrial fiber	Industrial nylon and polyester yarns	Passenger car and truck tires Auto and light truck seatbelts and airbags Broad woven fabrics Ropes and mechanical rubber goods Luggage Sports gear	Akzo DuPont Hoechst/Celanese Kolon Rhone-Poulenc Tong Yang

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
	Chemical intermediates	Caprolactam Phenol Acetone Ammonium sulfate Hydroxylamine Alphamethyl styrene Cyclohexanol Cyclohexanone Adipic acid	Nylon for fibers, engineered resins and film Phenol resins Fertilizer ingredients Specialty chemicals Vitamins Carbonization	BASF DSM DuPont Enichem Monsanto Phenol Chemie Rhone-Poulenc Ube
	Engineering plastics	Thermoplastic nylon Thermoplastic alloys and blends Post-consumer recycled PET resins Recycled nylon resins	Food and pharmaceutical packaging Engine housings (e.g., electric hand tools, chain saws) Automotive body components Office furniture Electrical and electronics	BASF Bayer DuPont General Electric Hoechst/Celanese Monsanto
	Textile nylon	Fine denier nylon yarns	Hosiery Lingerie Active wear Recreational equipment Luggage	BASF DuPont/ICI FCFC Fibra Nylstar
	Spectra performance materials	Extended-chain polyethylene composites	Cordage for commercial, fishing and recreational use Sports equipment composites Bullet resistant vests, helmets and heavy armor Cut-resistant industrial gloves Sailcloth	Akzo DSM DuPont
	Specialty film	Cast nylon Biaxially oriented nylon film Fluoropolymer film	Food Pharmaceuticals Packaging and industrial applications	DuPont Kolan Reynolds Toyobo
Specialty Chemicals	Pharmaceutical and agricultural chemicals	Oxime-based fine chemicals Fluoroaromatics Bromoaromatics	Agrichemicals Pharmaceuticals	DSM Zeneca
	Polymer additives and catalysts	Processing aids (wax) UV absorbers Flame retardants Catalysts	Plastics Coatings Cosmetics	Atochem BASF Eastman Hoechst
	Coatings and sealants	Polyethylene waxes Curing agents Technical preservatives	Sealants, adhesives, coatings and lubricants	BASF Eastman Exxon Hoechst Mobil Rohm & Haas Thor Zeneca
	Electronic chemicals	HF/derivatives Solvents Inorganic acids High purity solvents	Semiconductors	LaPorte Merck Olin
	Industrial specialties	Lab chemicals Electroplating chemicals Luminescent pigments Photo dyes Hydroxylamine sulfate	Diverse by product type	Varies by product line
	Hydrofluoric acid (HF)	Anhydrous and aqueous hydrofluoric acid Ultra-high purity hydrofluoric acid	Fluorocarbons Steel Oil refining Chemical intermediates Electronics	Ashland Atochem DuPont Hashimoto Merck Norfluor Quimaco Fluor

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
	Fluorocarbons	Genetron'r' refrigerants, aerosol and insulation foam blowing agents Genesolv'r' solvents Oxyfume sterilant gases	Refrigeration Air conditioning Polyurethane foam Rigid-board insulation Electronics Optical Metalworking Hospitals Medical equipment manufacturers	Atochem DuPont ICI
	Fluorine specialties	Sulfur hexafluoride (SF6) Iodine pentafluoride (IF5) Antimony pentafluoride (SbF5)	Resins Catalysts	Air Products Asahi Glass Atochem Ausimont Kanto Denka Kogyo Solvay Fluor
	Nuclear services	UF6 conversion services	Nuclear fuel Electric utilities	British Nuclear Fuels Cameco (Canada) Cogema (France) Tennex (Russia)
	Carbon materials	Binder pitch Creosote oils Refined naphthalene Driveway sealer tar and roofing pitch	Aluminum and carbon industries Wood products Chemicals Construction	Koppers Posco Chem Reilly Industries Rutgers
	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 Global Criterion IFP (France) Procatalyse (France) Stone & Webster Zeochem
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	Materials for computer chip manufacturing	Semiconductors Microelectronics	Tokyo-Ohka
	Amorphous metals	Amorphous metal ribbons and components	Electrical distribution transformers High frequency electronics Metal joining Theft deterrent	Allegheny-Ludlum Steel Armco Steel Kawasaki Steel Nippon Steel

The Aerospace-related businesses have organized their marketing, sales, service, technical support, repair and overhaul and distribution capabilities into a single, dedicated point of contact for its customers -- the Marketing, Sales & Service (MS&S) unit.

Additionally, the environmental catalysts business, a joint-venture with the General Motors Corporation, is a major worldwide supplier of catalysts used in catalytic converters for automobiles.

GENERAL

The Aerospace-related businesses serve key commercial and military components of the aviation, defense and space markets with a broad array of systems, subsystems, components and services. They design, develop, manufacture, market and service hundreds of products found on all types of aircraft, from single-piston engine aircraft, business aircraft and wide-bodied 'jumbos' flown by the world's commercial airlines, to trainers, transports, bombers, fighters and helicopters used by the U.S.

and other countries for national defense. The Company's global business consists primarily of original equipment (OE) sales and an extensive aftermarket business, including spare parts, maintenance and repair, and retrofitting. Worldwide customers include the U.S. and foreign governments, all of the major airframe and engine manufacturers, including Boeing, Lockheed Martin, Airbus Industrie, Aero International (Regional), Raytheon, Israeli Aircraft Industries, Northrop Grumman, British Aerospace, Cessna, Fairchild/Dornier, Dassault, Gulfstream, Bombardier, Rockwell International, Pratt & Whitney, General Electric and Rolls-Royce, as well as the world's leading airlines and business aircraft and general aviation aircraft operators, and dealers and distributors of general aviation products. The Company also provides field engineering management and technical support services to Boeing, the National Aeronautics and Space Administration (NASA), the U.S. Department of Defense (DoD), the U.S. Department of Energy, other federal civilian agencies as well as state and local governments and other commercial entities.

The Company is affected by U.S. Government budget constraints for defense and space programs as well as the level of production of commercial, business and general aviation aircraft which are impacted by business cycles and world economic conditions. Growth in the Company's commercial business for aerospace products is expected, over the long term, to help mitigate the reductions in U.S. defense spending. Moreover, sales of aerospace products are not dependent on any one key defense program or commercial customer.

In 1997, world defense spending stabilized after declining in prior years. Meanwhile, substantial improvement was seen in the commercial aircraft market, with build rates for large airlines at near record levels. This level of commercial activity is expected to continue in 1998. Regional airlines experienced strong traffic growth and new regional aircraft orders were also higher in 1997. The high-end business aviation market experienced significant growth and the commercial aftermarket spare parts and repair and overhaul business also showed strong improvement during 1997.

The Automotive businesses design, engineer, manufacture and distribute systems and components for worldwide vehicle manufacturers and aftermarket customers. As a result of recent acquisitions and divestitures, however, the Company's automotive businesses are shifting their focus to the worldwide aftermarket. The Automotive businesses market and distribute popular customer-branded products as well as private-label brands through warehouse distributors, mass merchandisers and parts retailers worldwide.

In 1997 and 1996, excluding the impact of the divested safety restraints and braking businesses, aftermarket sales, including OES sales, accounted for 62% and 63%, respectively, of the total sales of the Automotive businesses and worldwide passenger car and truck OE sales accounted for the balance. In 1997 and 1996, Automotive-related operations outside the U.S. accounted for $1,384 and $1,332 million, or 46% and 49%, respectively, of total Automotive related sales.

The Engineered Materials product area has three business units: Polymers, Specialty Chemicals and Electronic Materials. The Engineered Materials businesses manufacture chemicals, fibers, plastics and advanced materials with applications for numerous industries, including electronics, automotive, carpeting, refrigeration, construction, computers and utilities.

The Polymers business is comprised of fibers, chemicals and plastic resin. It operates caprolactam, ammonium sulfate and phenol plants. Polymers' market positions include nylon fiber for carpets and textiles, polyester fiber for industrial applications and intermediate chemicals. Polymers also makes Spectra'r' fiber used in armor and sporting goods.

The Specialty Chemicals business manufactures fluorine, hydrofluoric acid and polyethylene wax products. Specialty Chemicals serves the refrigeration and air conditioning, insulating foams, sterilization, hydrofluoric acid, pharmaceutical, agricultural, semiconductor, electronics, polymers, coatings and sealants and nuclear markets with key specialty and fine chemicals. Included in Specialty Chemicals is the Company's UOP joint venture with Union Carbide, a global leader in process technology for the petroleum industry. The integration of the German chemical company Riedel-de Haen into Specialty Chemicals in 1996 significantly increased Specialty Chemicals' role as a global supplier of pharmaceutical intermediates.

The Electronic Materials business includes laminate systems, materials used in the production of printed wiring boards, and advanced microelectronic materials which serves the semiconductor fabrication industry. Also included in this unit is the amorphous metals business which makes specialty metals for transformers.

The Company continuously assesses the relative strength of its portfolio of businesses 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 considers 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 action.

U.S. GOVERNMENT CONTRACTS

Aerospace-related sales to the U.S. Government, acting through its various departments and agencies and through prime contractors, amounted to $1,851 million for 1997 and $1,833 million for 1996, which includes sales to the DoD of $1,338 million in 1997 and $1,237 million in 1996. Approximately 59% and 55% of sales to the U.S. Government in 1997 and 1996, respectively, were made under fixed-price contracts in which the Company agrees to perform a contract for a fixed price and retains for itself any benefits of cost savings or must bear the burden of cost overruns.

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 which may reflect military and political developments, significant changes in contract scheduling, complexity of designs and the rapidity with which they become obsolete, constant necessity for design improvements, intense competition for available 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, as are 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 will have a material adverse effect on the Company. In addition, the Company carries out proactive compliance programs focused on areas of potential exposure.

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 for aerospace-related products and services for both government and commercial contracts was $5,087 million at December 31, 1997 and $4,514 million at December 31, 1996 of which U.S. and foreign government orders were $1,908 million and $1,906 million for the respective years. The Company anticipates that approximately $4,247 million of the total 1997 backlog will be filled during 1998.

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.

In addition, changes in the general economic environment and the financial condition of the airline industry may result in commercial customer requests for rescheduling, reduction or cancellation of firm contractual orders.

SEGMENT FINANCIAL DATA

Note 25 (Segment Financial Data) of Notes to Financial Statements in the Company's 1997 Annual Report to shareowners is incorporated herein by reference.

DOMESTIC AND FOREIGN FINANCIAL DATA

Note 26 (Geographic Areas -- Financial Data) of Notes to Financial Statements in the Company's 1997 Annual Report to shareowners is incorporated herein by reference.

RECENT DEVELOPMENTS

In June 1997, the Company acquired Prestone Products Corporation (Prestone) for approximately $400 million, including assumed liabilities. Prestone is a supplier of premium car care products and has annual sales of approximately $300 million. In July 1997, the Company acquired Grimes Aerospace Company (Grimes), a manufacturer of exterior and interior aircraft lighting systems, for approximately $475 million, including assumed liabilities. Grimes, which has 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 October 1997, 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, has annual sales of approximately $300 million. In November 1997, the Company acquired Holt Lloyd Group Ltd. for approximately $150 million. Holt Lloyd is a supplier of car care products primarily in Europe and Asia and has annual sales of approximately $150 million. In January 1998, the Company also acquired the Hardware Group and PacAero unit of Banner Aerospace, distributors of aircraft hardware, for approximately $350 million. The acquired operations have annual sales of about $250 million, principally to commercial air transport and general aviation customers. The Company also made several smaller acquisitions in 1997.

To speed delivery of aftermarket products, the Company formed strategic alliances in 1997 to streamline the Company's distribution processes. UPS Worldwide Logistics distributes the Company's automotive aftermarket products to customer locations across North America and Caterpillar Logistics Services directs the global distribution of spare parts used in the repair and overhaul of the Company's aerospace products.

In October 1997, the Company completed the sale of its automotive safety restraints business to Breed Technologies for $710 million in cash, subject to post-closing adjustments. The safety restraints business had 1996 net sales and income from operations of $940 and $70 million, respectively, from the sale of seat belts and air bags. In the first quarter of 1998, the Company expects to complete the sale of its underwater detection systems business to L-3 Communications Corporation for $70 million in cash, subject to post-closing adjustments. The ocean systems unit had annual revenues of about $70 million. During 1997, the Company also sold certain non-strategic businesses and other assets.

In April 1996, the Company sold a major component of its worldwide braking business to Robert Bosch GmbH, a privately held German company, for $1.5 billion in cash, subject to certain post-closing

adjustments which were finalized in October 1997. Included in the sale were the worldwide light-vehicle and medium-heavy truck hydraulic braking and ABS businesses. These businesses had 1995 net sales of $2.0 billion.

In 1997, the Company eliminated its three sector offices, consolidated its automotive products and avionics groups and repositioned some of its businesses.

The Company has recognized the need to ensure that its computer operations and operating systems will not be adversely affected by the upcoming calendar year 2000 and is cognizant of the time sensitive nature of the problem. The Company has assessed how it may be impacted by Year 2000 and has formulated and commenced implementation of a comprehensive plan to address known issues as they relate to its information systems. The plan, as it relates to information systems, involves a combination of software modification, upgrades and replacement. The Company estimates that the cost of Year 2000 compliance for its information systems will not have a material adverse effect on the future consolidated results of operations of the Company. The Company is not yet able to estimate the cost for Year 2000 compliance with respect to production systems, products, customers and suppliers; however, based on a preliminary review, management does not expect that such costs will have a material adverse effect on the future consolidated results of operations of the Company.

COMPETITION

The Company encounters substantial competition, in each of its product areas, with businesses producing the same or similar products or with businesses producing different products designed for the same uses. Such competition is expected to continue both in the U.S. and in global 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.

Aerospace-related products and services are sold in competition with those of a large number of other companies, some of which have substantial financial resources and significant technological capabilities. The Automotive-related products are sold in competition with other independent suppliers or with the captive component divisions of the vehicle manufacturers. Engineered materials-related 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 and affiliated companies are 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 sales in both 1997 and 1996 and foreign manufactured products and services were 22% and 23% of total Company sales in 1997 and 1996, 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; effects of foreign investment laws; import and trade restrictions, including embargoes; and governmental instability.

The Aerospace-related international operations consist primarily of exporting U.S. manufactured products and systems, performance of services that include operating aircraft repair and overhaul facilities, and licensing activities. The principal manufacturing facility outside of the U.S. is in Canada.

Automotive-related foreign operations are located in Australia, Brazil, Canada, China, France, Germany, India, Ireland, Italy, Japan, Malaysia, Mexico, South Korea, Spain and the United Kingdom. Distribution and marketing are conducted in these and numerous other countries as well. Automotive

related operations outside the U.S. are conducted through various foreign companies in which it has interests ranging from minor to complete control. International operations also include the exporting of U.S. manufactured products and licensing activities. Internationally, products are marketed under the Bendix, Fram, Autolite and Garrett trademarks.

Regarding Engineered Materials, Polymer's foreign operations are located in Germany, France and China; Specialty Chemicals' manufacturing facilities are located in Germany, Belgium, Canada and the Netherlands and Electronic Materials maintains facilities in Germany and Southeast Asia, including Taiwan, Singapore and China.

RAW MATERIALS

The principal raw materials used by the Company's businesses include: Aerospace businesses -- carbon fiber; electronic, optical and mechanical component parts and assemblies; electronic and electromechanical devices and metallic products; Automotive businesses -- castings, forgings, steel and bar stock, copper, aluminum, platinum and titanium and Engineered Materials businesses -- 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, butylrubber and coal tar pitch. 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, and 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, however, temporary shortages may occur from time to time.

PATENTS AND TRADEMARKS

The Company owns approximately 9,060 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, King, Prestone and Norplex Oak.

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 $349, $345 and $353 million in 1997, 1996 and 1995, respectively. Customer-sponsored (principally the U.S. Government) research and development activities amounted to an additional $597, $536 and $536 million in 1997, 1996 and 1995, 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 which are 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, 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 which 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 $69 million in 1997. The Company estimates that during each of the years 1998 and 1999 such capital expenditures will be in the $70 to $75 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 21 of the Company's 1997 Annual Report to shareowners, incorporated herein by reference, for further information regarding environmental matters.

EMPLOYEES

The Company had an aggregate of 70,500 salaried and hourly employees at December 31, 1997. Approximately 51,900 were located in the United States, and, of these employees, about 25% were unionized employees represented by various local or national unions.

ITEM 2.   PROPERTIES

The Company has 356 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 are located at Morris Township, New Jersey.

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

AEROSPACE

Anniston AL	South Bend, IN	Teterboro, NJ
Phoenix, AZ (4 plants, 3 fully leased, 1 partially leased)	Lawrence, KS	Rocky Mount, NC
Tempe, AZ	Olathe, KS	Urbana, OH
Tucson, AZ (partially leased)	Columbia, MD	Rexdale, Ont., Canada (partially leased)
Torrance, CA (partially leased)	Towson, MD	Raunheim, Germany
Stratford, CT (owned by the U.S. Government and managed by the Company)		Singapore

AUTOMOTIVE

Torrance, CA	Greenville, OH	Glinde, Germany
Huntington, IN	Conde, France	Skelmersdale, United Kingdom
Fostoria, OH	Thaon-Les-Vosges, France	

ENGINEERED MATERIALS

Metropolis, IL	Philadelphia, PA	Hopewell, VA
Baton Rouge, LA	Pottsville, PA	Longlaville, France
Geismar, LA	Columbia, SC	Seelze, Germany
Moncure, NC	Chesterfield, VA	

ITEM 3. LEGAL PROCEEDINGS

The first and second paragraphs of Note 21 (Commitments and Contingencies) of Notes to Financial Statements at page 36 of the Company's 1997 Annual Report to shareowners are incorporated herein by reference.

On September 27, 1997 the Company asked the United States District Court for the Northern District of New York to resolve a dispute over whether the Company was late in delivering a mercury modeling report to the State of New York. The report was delivered pursuant to a consent decree between the Company and the State addressing a remedial investigation of the Onondaga Lake system where the Company had operations prior to 1987. On December 19, 1997, the Court ruled that the State had properly established a deadline for the report of April 15, 1997, and that a $191,000 stipulated penalty was payable under the consent decree because the report had been delivered 58 days after the deadline.

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), 62 1991	Chairman of the Board since January 1992. Chief Executive Officer of the Company since July 1991.
Daniel P. Burnham (a), 51 1991	Vice Chairman since October 1997. Executive Vice President and President, AlliedSignal Aerospace from January 1992 to September 1997.
Frederic M. Poses (a), 55 1988	Vice Chairman since October 1997. Executive Vice President and President, AlliedSignal Engineered Materials from April 1988 to September 1997.

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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
Peter M. Kreindler, 52 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, 53 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, 46 1995	Senior Vice President and Chief Financial Officer since March 1995. Vice President and Controller of International Business Machines Corp. (IBM) (manufacturer of information-handling systems) from April 1994 to February 1995. General Assistant Controller of IBM from October 1993 to March 1994. Assistant Controller -- Sales & Marketing of Chrysler Corporation (automobile manufacturer) from April 1989 to September 1993.
Nancy A. Garvey, 48 1994	Vice President and Controller since September 1996. Vice President and Treasurer from February 1994 to August 1996. Staff Vice President -- Investor Relations from November 1989 to January 1994.
Larry E. Kittelberger, 49 1996	Vice President and Chief Information Officer since August 1995 (Executive Officer since February 1996). Corporate Chairman -- Information Officer Leadership Committee of Tenneco Inc. (diversified industrial concern) from June 1989 to July 1995.

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 27 (Unaudited Quarterly Financial Information) of Notes to Financial Statements at page 39 of the Company's 1997 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 1997 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 1997 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 25 of the Company's 1997 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

The Company 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 condition. The Company seeks to minimize the risks from these interest rates and foreign currency exchange rate fluctuations through its regular 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 is not a party to any leveraged financial instruments.

A discussion of the Company's accounting policies for financial instruments is included in Note 1 (Summary of Significant Accounting Policies) of Notes to Financial Statements at page 29 of the Company's 1997 Annual Report to shareowners, and such information is incorporated herein by reference. Additional disclosure relating to financial instruments is included in Note 17 (Financial Instruments) of Notes to Financial Statements at pages 34 and 35 of the Company's 1997 Annual Report to shareowners, and such information is incorporated herein by reference.

The Company uses foreign currency forward and option contracts to hedge the exposure to adverse changes in foreign currency exchange rates. The Company's principal currency exposures relate to the French franc, the German deutsche mark and the British pound against the U.S. dollar. 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 net income of a number of foreign subsidiaries. Forward and option agreements used to hedge net income are marked to market and recognized immediately in income.

The Company utilizes both fixed-rate and variable-rate debt as described in Note 15 (Long-term Debt and Credit Agreement) of Notes to Financial Statements at page 33 of the Company's 1997 Annual Report to shareowners, and such information is incorporated herein by reference. The Company uses interest rate swaps to manage the Company's exposure to interest rate movements and reduce borrowing costs.

The Company also maintains debt investments classified as available-for-sale and carried at their quoted market value. These short-term investments result from excess cash on hand.

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 also has procedures to monitor the impact of market risk on the fair value of its long-term debt, short-term debt investments and other financial instruments, considering reasonably possible changes in interest and currency rates. These procedures include the use of sensitivity analysis to estimate the impact of interest rate and currency rate changes on future cash flows and fair values. The following table illustrates the potential change in fair value for interest rate sensitive instruments based on a hypothetical immediate 1% point increase in interest rates across all maturities and the potential change in fair value for foreign exchange sensitive instruments based on a 10% increase in U.S. dollar per local currency exchange rates across all maturities at December 31, 1997 (dollars in millions):

	FACE OR NOTIONAL AMOUNT	CARRYING VALUE(1)	FAIR VALUE(1)	ESTIMATED INCREASE/(DECREASE) IN FAIR VALUE
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 written(3)	649	22	23	51
Foreign currency forward agreements held(3)	708	1	1	(64)
Foreign currency options held	150	4	4	9

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(1) Asset or (liability)

(2) Excludes capitalized leases.

(3) Increases and decreases in the fair value of foreign currency forward agreements are completely 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 analysis methods used by the Company to assess and mitigate risk discussed above should not be considered projections of future events or losses.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements, together with the report thereon of Price Waterhouse LLP dated January 28, 1998 appearing on pages 26 through 40 of the Company's 1997 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 1997 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, 1997, and such information is incorporated herein by reference. Certain other information relating to Executive Officers of the Registrant appears at pages 16 and 17 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

	PAGE IN ANNUAL REPORT TO SHAREOWNERS
(a)(1.) Index to Consolidated Financial Statements:	
Incorporated by reference to the 1997 Annual Report to shareowners:	
Report of Independent Accountants	40
Consolidated Statement of Income for the years ended December 31, 1997, 1996 and 1995	26
Consolidated Statement of Retained Earnings for the years ended December 31, 1997, 1996 and 1995	26
Consolidated Balance Sheet at December 31, 1997 and 1996	27
Consolidated Statement of Cash Flows for the years ended December 31, 1997, 1996 and 1995	28
Notes to Financial Statements	29

(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
10.13*	AlliedSignal Inc. Supplemental Pension Plan, as amended
13	Pages 18 through 40 (except for the data included under the captions 'Financial Statistics' on page 18) of the Company's 1997 Annual Report to shareowners
21	Subsidiaries of the Registrant
23	Consent of Independent Accountants
24	Powers of Attorney
27	Financial Data Schedule

The exhibits identified in the Exhibit Index with an asterisk(*) are management contracts or compensatory plans or arrangements.

(b) Reports on Form 8-K

During the three months ended December 31, 1997, reports on Form 8-K were filed on October 22, November 17 and December 18, in each case reporting, under Item 9, unregistered sales of the Company's Common Stock in reliance on Regulation S under the Act.

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.

February 26, 1998

By: /s/ NANCY A. GARVEY

Nancy A. Garvey
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	* Robert B. Palmer, Director
* Daniel P. Burnham, Director	* Russell E. Palmer, Director
* Frederic M. Poses, Director	* Ivan G. Seidenberg, Director
* Hans W. Becherer, Director	* Andrew C. Sigler, Director
* Ann M. Fudge, Director	* John R. Stafford, Director
* Paul X. Kelley, Director	* Thomas P. Stafford, Director
* Robert P. Luciano, Director	* Robert C. Winters, Director
	* Henry T. Yang, Director
/s/ RICHARD F. WALLMAN Richard F. Wallman Senior Vice President and Chief Financial Officer	/s/ NANCY A. GARVEY Nancy A. Garvey Vice President and Controller (Chief Accounting Officer)

*By: /s/ RICHARD F. WALLMAN

(Richard F. Wallman
Attorney-in-fact)

February 26, 1998

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
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 as of February 26, 1986 as amended and restated as of January 27, 1987, as further amended as of July 1, 1987 and as again amended and restated as of 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*	1982 Stock Option Plan for Executive Employees of Allied Corporation and its Subsidiaries, as amended (incorporated by reference to Exhibit 19.4 to the Company's Form 10-Q for the quarter ended September 30, 1991)
10.8*	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)
10.9*	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)
10.10*	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
10.11*	Amended and restated Agreement, as amended dated May 6, 1994 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)
10.12	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)
10.13*	AlliedSignal Inc. Supplemental Pension Plan, as amended (filed herewith)
11	Omitted (Inapplicable)
12	Omitted (Inapplicable)
13	Pages 18 through 40 (except for the data included under the captions 'Financial Statistics' on page 18) of the Company's 1997 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'

AlliedSignal Inc.
Supplemental Pension Plan

Amended and Restated
as of January 1, 1994

Article I - Purpose

Effective November 20, 1975, Allied Corporation adopted the Allied Corporation Supplemental Retirement Plan for Executives and Key Employees. Such plan is amended and restated effective January 1, 1994 as the AlliedSignal Supplemental Pension Plan (the "Plan").

The purpose of the Plan is to provide retired participants and their joint annuitants and beneficiaries under the Pension Plan with the amount of retirement income that is not provided under the Pension Plan because the participant deferred compensation under one or more nonqualified deferred compensation plans of AlliedSignal, including the Incentive Plan, the Supplemental Savings Plans and the Salary Deferral Plan or, by reason of the limits imposed by Section 415 and 401(a)(17) of the Code. The Plan is also intended to cover any contractual obligation Allied has to pay pension benefits which cannot be provided under the provisions of the Pension Plan.

Except to the extent otherwise indicated, and to the extent otherwise inappropriate, the Pension Plan and the provisions thereof are hereby incorporated by reference.

Article II - Definitions

1.1 AlliedSignal - means AlliedSignal Inc., a Delaware corporation and its subsidiaries.

1.2 Accrued Pension Benefit - means the amount of retirement income payable under the Pension Plan to or with respect to a participant at or after termination of employment, or such earlier date requiring payment under this Plan.

1.3 Board of Directors - means the Board of Directors of AlliedSignal.

1.4 Code - means the Internal Revenue Code of 1986, as amended from time to time.

1.5 Committee - means the Management Development and Compensation Committee of AlliedSignal.

1.6 Incentive Plan - means the Incentive Compensation Plan for Executive Employees of AlliedSignal Inc. and its Subsidiaries, and all predecessor and successor plans.

1.7 Pension Plan - means the AlliedSignal Inc. Retirement Program and/or such other pension plans covering salaried employees of AlliedSignal.

1.8 Plan - means the AlliedSignal Supplemental Pension Plan.

1.9 Salary Deferral Plan - means the Salary Deferral Plan for Selected Employees of AlliedSignal Inc. and its Affiliates (Career Band 6 and above or employees who occupy positions equivalent thereto), as the same may be amended from time to time.

1.10 Supplemental Benefit - means the excess, if any, of (i) the retirement income payable to or with respect to a participant under the Pension Plan which would have been accrued by the participant (1) had the amount of deferred compensation awards under the Incentive Plan been compensation included for calculating benefits under the Pension Plan in the year the award would otherwise have been earned or payable as recognized by the Pension Plan, (2) had Participant Deferred Contributions, as that term is defined in the Supplemental Savings Plans, been compensation included for calculating benefits under the Pension Plan in the year the compensation would otherwise have been earned or payable as recognized by the Pension Plan, (3) had the portion of Base Annual Salary and Incentive Awards deferred by a participant under the terms of the Salary Deferral Plan, been compensation included for calculating benefits under the Pension Plan in the year the compensation would otherwise have been earned or payable as recognized by the Pension Plan, (4) had the limits of Code Section 415 and 401(a)(17) not been incorporated in the Pension Plan, and (5) had the participant met all the requirements for a benefit from the Pension Plan with respect to all other pension benefits which AlliedSignal has become contractually obligated to pay to the participant, over (ii) the participant's Accrued Pension Benefit.

1.11 Supplemental Savings Plans - means the Supplemental Non-Qualified Savings Plans for Highly Compensated Employees of AlliedSignal Inc. and its Subsidiaries, as the same may be amended from time to time.

Article III - Participation

Participation in the Plan shall be limited to:

(a) those participants in the Pension Plan (and their joint annuitants and beneficiaries) who as a result of having deferred an award under the Incentive Plan or having deferred compensation under the Supplemental Savings Plans or the Salary Deferral Plan, receive or shall receive a lesser amount under the Pension Plan than would otherwise be paid or payable in the absence of such deferral;

(b) those participants in the Pension Plan (and their joint annuitants and beneficiaries) who as a result of the limitations contained in Code Sections 415 or 401(a)(17) receive or will receive a lesser amount under the Pension Plan than would otherwise be paid or payable in the absence of such limitations, and

(c) any employee who has entered into a contractual agreement with AlliedSignal under which AlliedSignal shall, after the termination of employment of the employee, provide a benefit in the form of a life annuity for the employee (and the employee's joint annuitant or beneficiary) as provided under the terms of the contractual agreement.

Article IV - Supplemental Benefit

4.01 Payment of Supplemental Benefit

(a) Supplemental Benefits shall be payable directly to such participant, or such participant's joint annuitant or beneficiary, as applicable, from the general assets of AlliedSignal and AlliedSignal shall not be under any obligation to set aside any funds or other assets for the payment of the Supplemental Benefits under this Plan. AlliedSignal may, in its sole discretion, establish funds for payment of these Supplemental Benefits. However, any and all such funds shall remain assets of AlliedSignal and subject to the claims of creditors of such corporation. Such funds, if any, shall not be deemed to be assets of this Plan.

(b) Any person entitled to a Supplemental Benefit shall be entitled to payment of such benefit only from the date on which such Supplemental Benefit becomes due and payable and only in such installments or other manner of payment as is provided under the relevant Pension Plan or agreement, provided, however, that if a Participant so elects, by giving written notice to the Plan Administrator, and if the Committee approves such election, payment of such Supplemental Benefit shall be in a lump sum equal to the present value of such Participant's Supplemental Benefit accrued to the date of such Participant's retirement under the relevant Pension Plan or agreement. For the purpose of determining the present value of a Participant's accrued Supplemental Benefit, the PBGC immediate annuity rate and the UP 1984 mortality table shall be used. Except as may be permitted pursuant to the proviso to the first sentence of this Paragraph (b), no person shall have a right to acceleration of any such payment. No person shall be entitled to anticipate such benefit by assignment, pledge or

transfer in any form or manner prior to actual or constructive receipt of payment.

(c) In the event that a Supplemental Benefit becomes payable in accordance with this Article IV, Section 4.01, Paragraph (b) and in the event the relevant Pension Plan or agreement is terminated in accordance with its terms, then the Participant shall have a right to only the Supplemental Benefit accrued to the date of termination of the relevant Pension Plan or agreement. In such event, AlliedSignal shall remain liable for the payment of the Supplemental Benefit and payment shall be made at such times and in such manner as the Plan Administrator shall determine, unless the Participant shall have made the election referred to in Paragraph (b) of this Section 4.01, in which event payment shall be made pursuant to such election, if approved by the Committee as therein required. Such accrued Supplemental Benefit shall remain subject to Paragraphs (a) and (b) of this Section 4.01.

(d) The rights and interest of any participant, joint annuitant or beneficiary to a Supplemental Benefit under this Plan are the same as any other unsecured creditor of Allied. In the event of any bankruptcy proceeding by or against Allied, a participant, joint annuitant or beneficiary shall be entitled to prove a claim for any unpaid portion of the benefit provided by the Plan.

Article V - Administration

5.01 Plan Administrator - The Board of Directors shall name a Plan Administrator. Such Plan Administrator shall serve at the convenience of the Board of Directors and shall serve without compensation. The Plan Administrator shall keep such records as necessary for the proper administration of the Plan and shall report to the Board of Directors at such time or times as the Board of Directors shall designate.

5.02 Benefit Determination - The Plan Administrator shall determine the amount and timing of any benefit paid under the Plan. The Plan Administrator shall rely on the records of AlliedSignal in determining any participant's eligibility for and amount of benefit under the Plan. In the event that the Plan Administrator's reliance on the records of AlliedSignal causes a benefit to be over or under paid, the Plan Administrator shall adjust future payments to be increased or decreased as required. If such future payments are insufficient to recover any overpayment to a participant, the Plan Administrator shall withhold any payments then due a participant and take any action deemed appropriate to recover the balance of the overpayment.

5.03 Benefit Appeals - The Plan Administrator shall establish an appeals procedure as defined by U.S. Department of Labor regulations. Such procedures will provide that the participant has sixty (60) days upon receipt of any benefits or denial of benefits to file an appeal with the Plan Administrator. The Plan Administrator must respond within sixty (60) days of receiving the appeal, in writing, specifically identifying those Plan provisions on which the benefit denial was based and indicating what information the participant must supply in order to perfect a claim for benefits.

Article VI - Amendment and Termination

6.01 Plan Amendments - AlliedSignal reserves the right to amend the Plan from time to time. The Plan may be amended by the Committee, however, no amendment shall reduce any benefit being paid or then payable to a participant. Further, no amendment shall reduce the benefits provided by the Plan to participants or alter in any manner the rights of the participants to benefits provided under this Plan.

6.02 Plan Termination - AlliedSignal reserves the right to terminate the Plan. However, such termination shall not adversely affect the rights of participants.

Selected Financial Data
AlliedSignal Inc. (dollars in millions except per share amounts)

Years ended December 31	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
For the Year											
Net sales	$14,472	$13,971	$14,346	$12,817	$11,827	$12,042	$11,831	$12,343	$11,942	$11,909	$11,116
Income (loss) from continuing operations (1)	1,170	1,020	875	759	656	535	(273)	462	528	463	515
Net income (loss) (2)	1,170	1,020	875	759	411	(712)	(273)	462	528	463	656
Per share of common stock:											
Earnings (loss) from continuing operations -- basic	2.07	1.80	1.54	1.34	1.16	.95	(.50)	.84	.89	.78	.77
Net earnings (loss) -- basic	2.07	1.80	1.54	1.34	.73	(1.26)	(.50)	.84	.89	.78	.98
Earnings (loss) from continuing operations -- assuming dilution	2.02	1.76	1.52	1.32	1.14	.93	(.50)	.84	.89	.78	.77
Net earnings (loss) -- assuming dilution	2.02	1.76	1.52	1.32	.71	(1.24)	(.50)	.84	.89	.78	.98
Dividends	.52	.45	.39	.3238	.29	.25	.40	.45	.45	.45	.45
At Year-End											
Net working capital	$ 1,137	$ 2,143	$ 1,086	$ 1,194	$ 1,078	$ 1,414	$ 526	$ 892	$ 1,065	$ 1,040	$ 722
Property, plant and equipment -- net	4,251	4,219	4,742	4,260	4,094	3,897	3,638	3,584	3,321	3,214	3,330
Total assets	13,707	12,829	12,465	11,321	10,829	10,756	10,382	10,456	10,342	10,069	10,321
Long-term debt	1,215	1,317	1,366	1,424	1,602	1,777	1,914	2,051	1,903	2,044	2,017
Shareowners' equity	4,386	4,180	3,592	2,982	2,390	2,251	2,983	3,380	3,412	3,268	3,129
Book value per share of common stock	7.86	7.39	6.35	5.27	4.21	3.97	5.40	6.28	5.89	5.53	5.22
Average investment (3)	6,935	6,468	5,598	4,848	4,506	4,939	6,771	6,723	6,520	6,629	6,859
Common shares outstanding (in millions)	558.3	565.6	565.6	566.2	567.6	567.6	552.6	538.8	580.0	591.8	599.8
Common shareowners of record	78,793	77,856	79,046	82,095	84,248	84,254	91,492	97,210	102,042	111,402	109,322
Employees (4)	70,500	76,600	88,500	87,500	86,400	89,300	98,300	105,800	107,100	109,550	115,300
Financial Statistics (5)											
Return on net sales (income from operations)	11.3	10.8	8.8	9.0	8.1	3.4	(2.5)	5.9	8.0	5.7	6.8
Return on net sales (after-tax)	8.1	7.3	6.1	5.9	5.5	4.4	(2.3)	3.7	4.4	3.9	4.6
Return on average investment (after-tax)	18.4	17.5	17.4	17.5	16.6	13.8	(1.3)	9.6	11.0	10.3	10.1
Return on average shareowners' equity (after-tax)	27.5	26.6	26.7	28.9	30.6	26.4	(8.4)	13.9	15.6	14.5	14.5
Interest coverage ratio	8.7	7.6	6.5	6.8	5.1	3.3	(.9)	2.6	3.0	2.8	3.6
Long-term debt as a percent of total capital	19.7	22.2	25.6	30.4	37.9	40.5	34.9	33.6	30.8	33.2	33.9
Total debt as a percent of total capital	31.7	29.5	33.7	34.1	42.7	44.7	43.9	40.4	35.7	35.9	39.0
Financial Statistics (5)(6)											
Return on net sales (income from operations)	11.4	10.7	9.1	9.0	7.9	6.5	4.7	5.9	8.0	7.4	6.8
Return on net sales (after-tax)	8.1	7.2	6.1	5.9	5.5	4.5	2.9	3.7	4.4	4.3	3.9
Return on average investment (after-tax)	18.3	17.4	17.4	17.5	16.6	13.9	7.8	9.6	11.0	10.9	8.9
Return on average shareowners' equity (after-tax)	27.4	26.3	26.7	28.9	30.5	26.7	10.5	13.9	15.6	15.9	12.2
Interest coverage ratio	8.8	7.5	6.8	6.8	5.0	3.3	2.1	2.6	3.0	2.9	3.2
Long-term debt as a percent of total capital	19.7	22.2	25.6	30.4	37.9	40.5	34.9	33.6	30.8	33.2	33.9
Total debt as a percent of total capital	31.7	29.5	33.7	34.1	42.7	44.7	43.9	40.4	35.7	35.9	39.0

(1) In 1997, includes a provision for repositioning and other charges, a gain on the sale of the safety restraints business as well as a charge related to the 1996 sale of the braking business, resulting in a net charge of $24 million (after-tax gain of $4 million, or $0.01 per share). In 1996, includes a provision for repositioning and other charges as well as a gain on the sale of the braking business resulting in a net gain of $33 million (after-tax $9 million, or $0.02 per share). In 1992, includes a provision for repositioning charges as well as a gain on the sale of common stock of Union Texas Petroleum Holdings, Inc. (Union Texas) resulting in a net charge of $11 million (after-tax $6 million, or $0.01 per share). In 1991, includes a provision for repositioning charges as well as gains on asset sales by Union Texas resulting in a net charge of $838 million (after-tax $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. In 1987, includes a gain from the sale of common stock by Union Texas of $108 million (after-tax $82 million, or $0.12 per share).

(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 $2.21 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 ratio exclude the impact on income of the cumulative effect of changes in accounting principles.

(6) The returns and interest coverage ratio 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 as well as 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, nonrecurring income in 1988 and Union Texas' equity transaction in 1987.

1997 COMPARED WITH 1996

DURING 1997, THE COMPANY MADE SIGNIFICANT PROGRESS IN THE SHIFT OF ITS BUSINESS PORTFOLIO TOWARD HIGHER GROWTH AND MARGINS. Acquisitions with aggregate annual sales of $1.5 billion were announced. In June 1997, the Company acquired Prestone Products Corporation (Prestone) for approximately $400 million, including assumed liabilities. Prestone is a supplier of premium car care products and has annual sales of approximately $300 million. In July 1997, the Company acquired Grimes Aerospace Company (Grimes), a manufacturer of exterior and interior aircraft lighting systems, for approximately $475 million, including assumed liabilities. Grimes, which has 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 October 1997, 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, has annual sales of approximately $300 million. In November 1997, the Company acquired Holt Lloyd Group Ltd. for approximately $150 million. Holt Lloyd is a supplier of car care products primarily in Europe and Asia and has annual sales of approximately $150 million. In January 1998, the Company also acquired the Hardware Group and PacAero unit of Banner Aerospace, distributors of aircraft hardware, for approximately $350 million. The acquired operations have annual sales of about $250 million, principally to commercial air transport and general aviation customers. The Company also made several smaller acquisitions in 1997, primarily in the Engineered Materials segment.

THE COMPANY ALSO DIVESTED SOME BUSINESSES WHICH WERE PRIMARILY CYCLICAL IN NATURE. In October 1997, the Company completed the sale of its automotive safety restraints business to Breed Technologies for $710 million in cash, subject to post-closing adjustments, and the Company recorded an after-tax gain of $196 million, or $0.35 per share, in the fourth quarter of 1997 (all earnings per share data in Management's Discussion and Analysis reflect basic earnings per share). The safety restraints business had 1996 net sales and income from operations of $940 and $70 million, respectively, from the sale of seat belts and air bags. It is expected that the proceeds will be used to continue to grow the Company's higher-margin businesses and pursue acquisitions that will expand or complement the Company's business portfolio. In April 1996, the Company sold its worldwide hydraulic and anti-lock braking systems (ABS) business (braking business) for $1.5 billion in cash, subject to certain post-closing adjustments which were finalized in October 1997. See Note 4 of Notes to Financial Statements for additional information. In the first quarter of 1998, the Company expects to complete the sale of its underwater detection systems business to L-3 Communications Corporation for $70 million in cash, subject to post-closing adjustments. The ocean systems unit had annual revenues of about $70 million. During 1997, the Company also sold certain non-strategic businesses and other assets.

The Company continuously assesses the relative strength of its portfolio of businesses 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 considers 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 action.

IN 1997, THE COMPANY ELIMINATED ITS THREE SECTOR OFFICES, CONSOLIDATED ITS AUTOMOTIVE PRODUCTS GROUP AND REPOSITIONED SOME OF ITS BUSINESSES. A provision of $250 million for repositioning and other charges (after-tax $159 million, or $0.28 per share) was established in the fourth quarter. The components of this charge include severance costs of $59 million, asset writedowns of $34 million and other exit costs of $31 million, as well as $40 million relating 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, $13 million relating to the writedown of an investment and other items consisting of asset impairments, customer claims and legal settlements.

THE BOARD OF DIRECTORS APPROVED AN INCREASE OF 15% IN THE QUARTERLY COMMON STOCK DIVIDEND, FROM $0.13 TO $0.15 PER SHARE. The dividend increase will be effective with the first quarter of 1998. The Company had previously increased its regular quarterly dividend by 16% in the first quarter of 1997.

NET SALES in 1997 were $14,472 million, an increase of $501 million, or 4%, compared with 1996. Of this increase, $1,178 million, or 8%, was due to volume gains and $482 million from the consolidation of recent acquisitions, offset in part by a $744 million reduction for disposed businesses, mainly in the Automotive segment. Lower selling prices and the impact of foreign exchange reduced sales for the Engineered Materials and Automotive segments by $415 million. Aerospace net sales increased $698 million, or 12%, and Engineered Materials improved by $241 million, or 6%. Automotive net sales decreased $438 million, or 10%. Excluding the disposed braking and safety restraints businesses, Automotive net sales increased $297 million, or 11%.

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 BUSINESS 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 sale of the braking business in 1996. 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. Both 1997 and 1996 include pretax gains on the sales of businesses as well as special charges (special items). Excluding the impact of these special items, income from operations improved by $156 million, or 10%. Aerospace income from operations increased 37%, but Engineered Materials and Automotive income from operations decreased 4% and 15%, respectively. The Company's operating margin was 11.4% in 1997, compared with 10.7% in 1996. Productivity (the constant dollar relationship of sales to costs) improved by 5.9% over 1996, reflecting in part initiatives in manufacturing, materials, product development and sales and marketing. See the detailed discussion of net income below for information by industry segment.

EQUITY IN INCOME OF AFFILIATED COMPANIES of $178 million increased by $35 million, or 24%, compared with 1996, mainly due to higher earnings from the UOP process technology joint venture (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 higher foreign exchange gains.

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 an acceleration of worldwide tax audits resulting in favorable developments to the Company's position, 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 $2.07 per share, was 15% higher than 1996 net income of $1,020 million, or $1.80 per share. Adjusted for special items in both years, net income for 1997 was $1,166 million, or $2.06 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 the Aerospace segment and moderately higher earnings by the Engineered Materials segment. The Automotive segment had significantly lower earnings.

A DISCUSSION OF THE OPERATIONS OF THE BUSINESS SEGMENTS follows. Adjusted net income (see tables below) for the segments excludes the impact of the 1997 and 1996 special items. (Dollars in millions)

Aerospace	Net Sales	Net Income	Adjusted Net Income
1997	$6,412	$515	$529
1996	5,714	206	385
Increase	$ 698	$309	$144

Aerospace sales of $6,412 million in 1997 increased by $698 million, or 12%, compared with 1996. Aerospace Equipment Systems sales were substantially higher, driven by continued aftermarket strength and substantially higher original-equipment shipments of engine fuel systems, environmental control systems and aircraft landing systems. The acquisition of Grimes also contributed $119 million of sales. Engines had significantly higher shipments of auxiliary power units (APUs) and commercial propulsion end units and spares. 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. Sales of electronic systems to the U.S. and foreign governments, however, were lower, mainly at communications and ocean systems. Sales of management and technical services to the U.S. Government were moderately higher.

The Company's 1997 sales to the Department of Defense (DoD), as a prime contractor and subcontractor, increased 8% compared with 1996. Sales to the DoD accounted for 21% of Aerospace's total sales, a decrease of one percentage point compared with 1996. Sales to the commercial and foreign government markets increased 18%, while sales to the National Aeronautics and Space Administration (NASA) and other U.S. Government agencies declined 14% in 1997.

Aerospace adjusted net income of $529 million in 1997 improved by $144 million, or 37%, from the 1996 adjusted net income. Income from Aerospace Equipment Systems and Engines was substantially higher due principally to increased sales and productivity improvements. Earnings for Electronic & Avionics Systems were moderately higher reflecting increased demand, improved manufacturing operations and material cost savings for flight safety avionics. However, electronic systems had lower net income on reduced sales at communications and ocean systems to the U.S. and foreign governments. Net income from management and technical services for the U.S. Government improved slightly.

The Company is affected by U.S. Government budget constraints for defense and space programs as well as the level of production of commercial, business and general aviation aircraft which are impacted by business cycles and world economic conditions. Growth in the Company's commercial business for aerospace products is expected, over the long term, to help mitigate the reductions in

U.S. defense spending. Moreover, aerospace sales are not dependent on any one key defense program or commercial customer.

In 1997, world defense spending stabilized after declining in prior years. Meanwhile, substantial improvement was seen in the commercial aircraft market, with build rates for large airlines at near record levels. This level of commercial activity is expected to continue in 1998. Regional airlines experienced strong traffic growth and new regional aircraft orders were also higher in 1997. The high-end business aviation market experienced significant growth and the commercial aftermarket spare parts and repair and overhaul business also showed strong improvement during 1997, reflecting a 7% increase in world airline passenger traffic.

The Company continues to receive significant contracts from the commercial aviation industry, DoD and NASA and Aerospace earnings are expected to remain strong.

At December 31, 1997 and 1996, the Company had firm orders for its aerospace products from the U.S. and foreign

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

1995	1996	1997
14.3	14.0	14.5

[GRAPHIC REPRESENTATION of Net Income (dollars in millions), expressed numerically below.]

1995	1996	1997
875	1,020	1,170

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

1995	1996	1997
1.54	1.80	2.07

governments of $1,908 and $1,906 million, respectively. Total backlog, including commercial contracts, at year-end 1997 and 1996 was $5,087 and $4,514 million, respectively. The Company anticipates that approximately $4,247 million of the total 1997 backlog will be filled during 1998.

Automotive	Net Sales	Net Income	Adjusted Net Income
1997	$3,802	$ 285	$170
1996	4,240	521	202
(Decrease)	$ (438)	$(236)	$(32)

Automotive sales of $3,802 million in 1997 were $438 million, or 10%, lower compared with 1996 reflecting the disposition of the braking and safety restraints businesses. Excluding these businesses, Automotive sales increased by $297 million, or 11%. Continued strength of the U.S. dollar negatively impacted sales growth by 3%. Turbocharging Systems sales were significantly higher, primarily reflecting the flow of new products and the popularity of turbocharged vehicles in Europe. Truck Brake Systems sales in North America also improved significantly, benefiting from an upturn in truck builds and increased installation rates of ABS. The Automotive Products Group sales were moderately higher reflecting $223 million of sales from the acquisitions of Prestone and Holt Lloyd. Sales of other aftermarket products and friction materials were lower reflecting in part unfavorable market conditions.

Automotive adjusted net income of $170 million in 1997 declined by $32 million, or 16%, from the 1996 adjusted net income. The decrease primarily reflects the absence of net income from the disposed braking and safety restraints businesses. Excluding these businesses, Automotive net income increased by $11 million, or 9%. Turbocharging Systems had substantially higher net income due to increased sales and productivity improvements. Net income for Truck Brake Systems was also substantially higher due principally to strong sales volume. Earnings for the Automotive Products Group decreased substantially, primarily in the North American aftermarket business; however, improvement for friction materials was a partial offset.

Engineered Materials	Net Sales	Net Income	Adjusted Net Income
1997	$4,254	$389	$462
1996	4,013	361	432
Increase	$ 241	$ 28	$ 30

Engineered Materials sales of $4,254 million in 1997 were $241 million, or 6%, higher compared with 1996. Volume gains of 9% were partially offset by lower selling prices and the impact of the strong U.S. dollar. Polymer 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. 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.

Engineered Materials adjusted net income of $462 million in 1997 increased by $30 million, or 7%, from the 1996 adjusted net income. Specialty Chemicals had significantly higher earnings, driven by UOP and improvements for pharmaceuticals and industrial specialties products. Polymers had moderately lower income reflecting both higher raw material costs and lower selling prices which reduced earnings for carpet fibers, industrial polyester and industrial nylon. Partial offsets for Polymers resulted from higher income from chemical intermediates, engineering plastics and specialty films due to sales increases.

Electronic Materials also had improved performance led by a substantial increase in earnings for advanced microelectronic materials and the absence of losses from the micro-optic devices business. Laminates was a partial offset as income declined due to pricing pressures and poor results in Europe.

REGARDING 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

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

	1995	1996	1997
Capital Expenditures	746	755	717
Company-funded R&D	353	345	349
Total Capital Expenditures/R&D	1,099	1,100	1,066

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

1995	1996	1997
25.6	22.2	19.7

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

1995	1996	1997
26.7	26.6	27.5

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 $90 and $87 million in 1997 and 1996, respectively, and are currently estimated to be approximately $85 million in 1998. While annual expenditures may increase over time, the Company expects it will be able to fund such 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, 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.

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

REGARDING THE YEAR 2000 compliance issue for information systems, the Company has recognized the need to ensure that its computer operations and operating systems will not be adversely affected by the upcoming calendar year 2000 and is cognizant of the time sensitive nature of the problem. The Company has assessed how it may be impacted by Year 2000 and has formulated and commenced implementation of a comprehensive plan to address known issues as they relate to its information systems. The plan, as it relates to information systems, involves a combination of software modification, upgrades and replacement. The Company estimates that the cost of Year 2000 compliance for its information systems will not have a material adverse effect on the future consolidated results of operations of the Company. The Company is not yet able to estimate the cost for Year 2000 compliance with respect to production systems, products, customers and suppliers; however, based on a preliminary review, management does not expect that such costs will have a material adverse effect on the future consolidated results of operations of the Company.

REGARDING FINANCIAL INSTRUMENTS, the Company, with operating and financing activities in numerous countries and sales throughout the world, is exposed to fluctuations in interest rates and foreign currency exchange rates. The Company manages exposure to changes in interest rates through its regular borrowing and investing decisions and, when deemed appropriate, through the use of interest rate swap agreements. The objective of such risk management activity is to minimize the cost of the Company's debt financing over an extended period of time. The Company manages exposure to foreign currency exchange rates for transactional items by matching and offsetting assets and liabilities and thereafter through financial hedge contracts with third parties. The Company does not use financial instruments for trading or other speculative purposes. See Note 17 of Notes to Financial Statements for further information on financial instruments.

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

TOTAL ASSETS at December 31, 1997 were $13,707 million, an increase of $878 million, or 7%, from December 31, 1996. Cash and cash equivalents and short-term investments at December 31, 1997 were $1,041 million, a decrease of $725 million compared with December 31, 1996. The decrease mainly results from acquisitions and common stock repurchases, partially offset by the proceeds received from the sale of the automotive safety restraints business. Cash flow from operating activities of $1,306 million increased by $110 million, or 9%, compared with 1996, principally due to the increase in net income. The Company's working capital turnover was up slightly to 5.1x at December 31, 1997 from 5.0x at December 31, 1996.

THE MAXIMUM AMOUNT OF BORROWING available under the Company's revolving credit agreement (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.

TOTAL DEBT at year-end 1997 of $2,307 million increased $376 million. The increase principally resulted 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. Subsequent to year-end 1997, the Company issued $400 million of long-term debt. The proceeds from the issuance were used to repay certain outstanding commercial paper of the Company. See Note 15 of Notes to Financial Statements for details of long-term debt and a discussion of the Credit Agreement.

THE COMPANY REPURCHASED 21.0 MILLION SHARES OF COMMON STOCK for $814 million in 1997. Common stock was repurchased to meet expected requirements for shares issued under employee benefit plans, acquisitions and a shareowner dividend reinvestment plan. At year-end 1997, the Company had 158.1 million shares of common stock held in treasury carried at $2,665 million. As of year-end 1997, the Company was authorized to repurchase 81.4 million shares of common stock.

At the 1997 Annual Meeting, shareowners approved an amendment to the Company's certificate of incorporation which increased the number of authorized common shares from 500 million to one billion. The additional shares are available for stock splits, acquisitions and other purposes. The Company's common stock was split 2-for-1 for owners of record as of August 21, 1997.

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 1995 is shown in Note 25 of Notes to Financial Statements. The Company's total capital expenditures in 1998 are currently projected at approximately $700 million. These expenditures are expected to be principally financed by internally generated funds. Approximately 62% of the projected 1998 expenditures are planned for expansion and cost reduction, 28% for replacement and maintenance and 10% for environmental projects.

1996 COMPARED WITH 1995

IN APRIL 1996, THE COMPANY SOLD ITS BRAKING BUSINESS WHICH 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 gain of $655 million (after-tax $368 million, or $0.65 per share). The Company received consideration of $1.5 billion, subject to certain post-closing adjustments which were finalized in October 1997. See Note 4 of Notes to Financial Statements for additional information. Excluded from the sale were brake friction materials, brake-related sales to the independent aftermarket and the medium- and heavy-duty truck brake systems business which is part of a joint venture with Knorr-Bremse AG.

IN THE SECOND QUARTER OF 1996, THE COMPANY RECORDED A PRETAX CHARGE OF $622 MILLION (AFTER-TAX $359 MILLION, OR $0.63 PER SHARE) RELATING TO THE COST OF ACTIONS TO REPOSITION SOME OF ITS BUSINESS UNITS AND TO RECOGNIZE ADDITIONAL ENVIRONMENTAL REMEDIATION LIABILITIES AS WELL AS OTHER CHARGES. Actions are being undertaken to consolidate production facilities, rationalize manufacturing capacity and optimize operational capabilities. The components of the repositioning charge include asset writedowns of $136 million, severance costs of $127 million and other exit costs of $14 million. The repositioning actions are expected to be completed in 1998 and will not materially impact the Company's liquidity. Upon completion, the repositioning actions are expected to generate additional annual income from operations of approximately $140 million. The charge to recognize additional environmental liabilities amounted to $175 million. See Note 3 of Notes to Financial Statements for additional information.

NET SALES in 1996 were $13,971 million, a decrease of $375 million, or 3%, compared with 1995. Net sales were lower reflecting the sale of the braking business. Excluding the braking business, net sales increased $1,019 million, or 8%. Of this increase, $794 million was due to volume gains, mainly by the Aerospace segment, and $366 million from the consolidation of recent acquisitions, offset in part by an $88 million reduction for disposed businesses, mainly by the Engineered Materials segment. Selling prices and the impact of foreign exchange were slightly unfavorable. Aerospace net sales increased $630 million, or 12%, and Engineered Materials improved by $300 million, or 8%. Automotive net sales increased $85 million, or 2%.

COST OF GOODS SOLD as a percent of net sales was 83.1% in 1996 compared with 81.2% in 1995. Included in 1996 are repositioning and other charges totaling $637 million, and 1995 reflects a provision of $115 million relating to the revaluation of the ABS assets to their fair market value (special charges). See Note 3 of Notes to Financial Statements for further information. Excluding these special charges, 1996 cost of goods sold as a percent of net sales was 78.5%, a decrease compared with 80.4% in 1995 mainly due to productivity initiatives to lower manufacturing and material costs.

GAIN ON SALE OF BUSINESS represents the 1996 pretax gain of $655 million on the sale of the braking business and the 1995 pretax gain of $71 million on the transfer of the high-density polyethylene (HDPE) joint venture, Paxon Polymer Company, L.P., to Exxon Chemical Company. See Note 4 of Notes to Financial Statements for further information.

INCOME FROM OPERATIONS of $1,509 million in 1996 improved by $249 million, or 20%, compared with 1995. Both 1996 and 1995 include pretax gains on the sales of businesses as well as special charges (special items). Excluding the impact of these special items, income from operations improved by $187 million, or 14%. Aerospace income from operations increased 18% and Engineered Materials improved 15%, but Automotive income from operations decreased 11%. The Company's operating margin was 10.7% in 1996, significantly higher than the 9.1% in 1995. Productivity improved by 6.0% over 1995, reflecting in part initiatives in manufacturing (Operational Excellence), product development (Technical Excellence) and sales and marketing (Customer Excellence) and the sale of the high-cost braking business. See the detailed discussion of net income below for information by industry segment.

EQUITY IN INCOME OF AFFILIATED COMPANIES of $143 million decreased by $48 million, or 25%, compared with 1995 mainly because the Company exited its HDPE joint venture in December 1995 and because of lower earnings from Knorr-Bremse AG's truck brake systems joint venture. A partial offset was significantly higher earnings from UOP.

OTHER INCOME (EXPENSE), $87 million income in 1996, improved by $109 million compared with 1995 mainly due to increased interest income (included in the Corporate and Unallocated segment), primarily reflecting the investment of cash received from the sale of the braking business, higher foreign exchange costs in 1995 and the minority interest share of the 1996 repositioning and other charges.

INTEREST AND OTHER FINANCIAL CHARGES of $186 million in 1996 increased by $18 million, or 11%, compared with 1995 due to higher levels of short-term debt.

THE EFFECTIVE TAX RATE in 1996 was 34.3% compared with 30.6% in 1995. Adjusted for special items in both years, the effective tax rate in 1996 was 33.5% compared with 33.0% in 1995.

NET INCOME in 1996 of $1,020 million, or $1.80 per share, was 17% higher than net income of $875 million in 1995, or $1.54 per share. Adjusted for special items in both years, net income for 1996 was $1,011 million, or $1.78 per share, an increase of 16% over 1995 net income. The higher adjusted net income in 1996 was the result of a substantial improvement in the operating performance by the Aerospace segment and higher earnings by the Engineered Materials segment. The Automotive segment had moderately lower earnings.

A DISCUSSION OF THE OPERATIONS OF THE BUSINESS SEGMENTS follows. Adjusted net income (see tables below) for the segments excludes the impact of the 1996 and 1995 special items. (Dollars in millions)

Aerospace	Net Sales	Net Income	Adjusted Net Income
1996	$5,714	$206	$385
1995	5,084	303	303
Increase (Decrease)	$ 630	$(97)	$ 82

Aerospace sales of $5,714 million in 1996 increased $630 million, or 12%, compared with 1995. Military aftermarket sales and sales to commercial original equipment manufacturers (OEMs) were substantially higher. Commercial aftermarket sales also improved. Military OEM sales were lower. Engines had significantly higher sales of commercial and military propulsion engines and APUs, including significantly higher aftermarket parts and repair and overhaul sales. Aerospace Equipment Systems also showed strong sales growth with gains across most product lines, including engine fuel systems, environmental control systems and aircraft landing systems to both the aftermarket and OEMs. Electronic & Avionics Systems sales improved slightly. Sales of communication and navigation systems increased significantly reflecting the acquisition of a precision products business in January 1996 and gains in guidance and control systems, but flight safety systems sales were moderately lower, reflecting the completion in 1995 of the program to install mandated traffic alert and collision avoidance systems (TCAS) on commuter aircraft. Production problems at flight safety systems, resolved in the latter part of the year, delayed the introduction of new products. Sales of management and technical services to the U.S. Government were significantly higher.

The Company's 1996 sales to the DoD, as a prime contractor and subcontractor, increased 3% compared with 1995 despite reductions in U.S. defense spending. Sales to the DoD accounted for 22% of Aerospace's total sales, a decrease of two percentage points compared with 1995. Sales to the commercial and foreign government markets increased 18%, while sales to NASA and other U.S. Government agencies declined 1% in 1996.

Aerospace adjusted net income improved to $385 million from $303 million, an increase of $82 million, or 27%, compared with 1995. Strong sales growth and productivity resulted in substantially higher earnings for Engines and Aerospace Equipment Systems. Increased management and technical services to the U.S. Government also resulted in significant gains, but Electronic & Avionics Systems had moderately lower income. Flight safety systems had substantially reduced earnings due to lower sales, manufacturing difficulties and certain repositioning expenses excluded from the 1996 provision. Higher net income for communication and navigation systems was a partial offset.

At December 31, 1996 and 1995, the Company had firm orders for its aerospace products from the U.S. and foreign governments of $1,906 and $1,871 million, respectively. Total backlog, including commercial contracts, at year-end 1996 and 1995 was $4,514 and $4,523 million, respectively.

Automotive	Net Sales	Net Income	Adjusted Net Income
1996	$ 4,240	$521	$202
1995	5,549	146	217
Increase (Decrease)	$(1,309)	$375	$(15)

Automotive sales of $4,240 million in 1996 were $1,309 million, or 24%, lower than in 1995. However, excluding the divested braking business, Automotive sales increased $85 million, or 2%. Safety Restraint Systems, primarily air bags, and Turbocharging Systems had significantly higher sales volumes in Europe, reflecting strong demand. Growth by Turbocharging Systems reflected the continued preference by

European customers for turbocharged, diesel-powered cars, although turbocharger sales were lower in Japan and North America. The Automotive Products Group had slightly lower sales due to the impact of weak economic conditions on the European aftermarket business, partially offset by significantly higher sales for filters & spark plugs due to new product introductions and higher original equipment sales. Sales of friction materials increased slightly, mainly in North America, and North American aftermarket sales were also slightly higher. Sales of Truck Brake Systems in North America were lower primarily because of decreasing medium- and heavy-duty truck production.

Automotive adjusted net income decreased to $202 million from $217 million in 1995, a $15 million, or 7%, decrease. The decrease reflects the absence of net income from the divested braking business. Excluding the braking business, Automotive net income increased substantially. The Automotive Products Group had substantially higher income due to reductions in distribution costs for the North American aftermarket business as well as significant sales gains and manufacturing improvements for filters & spark plugs. Higher sales resulting from additional production capacity for Turbocharging Systems and Safety Restraint Systems also resulted in significant net income gains.

Engineered Materials	Net Sales	Net Income	Adjusted Net Income
1996	$4,013	$ 361	$432
1995	$3,713	473	402
Increase (Decrease)	$ 300	$(112)	$ 30

Engineered Materials sales of $4,013 million in 1996 were $300 million, or 8%, higher compared with 1995 principally due to acquisitions. Specialty Chemicals sales increased substantially mainly reflecting the acquisition of Riedel-de Haen in October 1995. The fluorine products business showed slight improvement as the transition away from CFCs to substitute products was completed and the business diversifies to include more fluorine specialty products. The Polymers business had significantly higher sales of industrial fibers and engineering plastics products, primarily due to acquisitions in the fourth quarter of 1995. Carpet fiber plants operated near capacity as stronger demand was driven by sustained economic growth. Sales also increased for environmental catalysts, carbon materials and amorphous metals. Sales for Electronic Materials were moderately lower due to softness in the printed circuit board industry, however, improved sales of advanced microelectronic materials were a partial offset.

Engineered Materials adjusted net income increased to $432 million from $402 million, a $30 million, or 7%, increase. Substantially higher earnings for Specialty Chemicals was driven by UOP as the petrochemical and refining industries continued to be strong worldwide. The acquisition of Riedel-de Haen also contributed to higher earnings. Fluorine products net income also increased due to sales growth and significant operational improvements. Net income was significantly higher for the Polymers business, mainly reflecting improved market conditions for carpet fiber and earnings from the Bridgestone/Firestone acquisition in late 1995. Electronic Materials net income improved on higher sales for advanced microelectronic materials. A partial offset to higher segment income was the absence of earnings from the HDPE joint venture.

REGARDING ENVIRONMENTAL MATTERS, remedial response and voluntary cleanup expenditures were $87 and $72 million in 1996 and 1995, respectively. In the second quarter of 1996 the Company charged $175 million against pretax income for remedial response and voluntary cleanup costs. At December 31, 1996, the recorded liability for environmental matters was $530 million. In addition, in 1996 the Company incurred operating costs for ongoing businesses of approximately $60 million and capital expenditures of $43 million relating to compliance with environmental regulations.

TOTAL ASSETS at December 31, 1996 were $12,829 million, an increase of $364 million, or 3%, from December 31, 1995. Cash and cash equivalents and short-term investments at year-end 1996 were $1,766 million, an increase of $1,226 million compared with December 31, 1995, primarily reflecting the proceeds received from the sale of the braking business. Cash flows from operating activities of $1,196 million decreased by $20 million, or 2%, compared with 1995. The Company's working capital turnover was down slightly to 5.0x at December 31, 1996 from 5.2x a year earlier.

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 $470 and $58 million of commercial paper outstanding at December 31, 1996 and 1995, respectively. Commercial paper borrowing reached a high of $1,271 million during 1996.

TOTAL DEBT at year-end 1996 of $1,931 million decreased $79 million. Long-term debt was reduced by $49 million during 1996. The Company's total debt as a percent of capital was 29.5% at December 31, 1996, down from 33.7% at year-end 1995. Long-term debt as a percent of capital was 22.2% at year-end 1996, down from 25.6% at year-end 1995. See Note 15 of Notes to Financial Statements for details of long-term debt and a discussion of the Credit Agreement.

THE COMPANY REPURCHASED 14.0 MILLION SHARES OF COMMON STOCK for $409 million in 1996. Common stock was repurchased to meet expected requirements for shares issued under employee benefit plans and a shareowner dividend reinvestment plan. At year-end 1996, the Company had 150.8 million shares of common stock held in treasury carried at $1,953 million. In December 1996, the Board of Directors voted to increase the Company's common share repurchase authority by 100 million shares.

CAPITAL EXPENDITURES during 1996 were $755 million, an increase of $9 million from the $746 million spent in 1995. Spending by the segments and Corporate since 1995 is shown in Note 25 of Notes to Financial Statements.

SAFE HARBOR STATEMENT under the Private Securities Litigation Reform Act of 1995: Except for the historical information contained herein, the matters discussed in this annual report are forward-looking statements which involve risks and uncertainties, including but not limited to economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices, and other factors discussed in the Company's filings with the Securities and Exchange Commission.

CONSOLIDATED STATEMENT OF INCOME
AlliedSignal Inc.

YEARS ENDED DECEMBER 31 (DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS)	1997	1996	1995
Net sales	$14,472	$13,971	$14,346
Cost of goods sold	11,481	11,606	11,654
Selling, general and administrative expenses	1,581	1,511	1,503
Gain on sale of business	(226)	(655)	(71)
Total costs and expenses	12,836	12,462	13,086
Income from operations	1,636	1,509	1,260
Equity in income of affiliated companies	178	143	191
Other income (expense)	77	87	(22)
Interest and other financial charges	(175)	(186)	(168)
Income before taxes on income	1,716	1,553	1,261
Taxes on income	546	533	386
Net income	$ 1,170	$ 1,020	$ 875
Earnings per share of common stock -- basic	$ 2.07	$ 1.80	$ 1.54
Earnings per share of common stock -- assuming dilution	$ 2.02	$ 1.76	$ 1.52

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31 (DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS)	1997	1996	1995
Balance at beginning of year	$ 3,214	$ 2,315	$ 1,613
Net income	1,170	1,020	875
Common stock dividends (1997 -- $.52 per share; 1996 -- $.45 per share; 1995 -- $.39 per share)	(295)	(262)	(217)
Other	--	141	44
Balance at end of year	$ 4,089	$ 3,214	$ 2,315

The Notes to Financial Statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEET
AlliedSignal Inc.

DECEMBER 31 (DOLLARS IN MILLIONS)	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 611	$ 1,465
Short-term investments	430	301
Accounts and notes receivable	1,886	1,661
Inventories	2,093	1,946
Other current assets	553	466
Total current assets	5,573	5,839
Investments and long-term receivables	480	473
Property, plant and equipment -- net	4,251	4,219
Cost in excess of net assets of acquired companies -- net	2,426	1,418
Other assets	977	880
Total assets	$ 13,707	$ 12,829
LIABILITIES		
Current liabilities:		
Accounts payable	$ 1,345	$ 1,187
Short-term borrowings	47	32
Commercial paper	821	470
Current maturities of long-term debt	224	112
Accrued liabilities	1,999	1,895
Total current liabilities	4,436	3,696
Long-term debt	1,215	1,317
Deferred income taxes	694	610
Postretirement benefit obligations other than pensions	1,775	1,787
Other liabilities	1,201	1,239
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	2,425	2,189
Common stock held in treasury, at cost:		
1997 -- 158,114,964 shares		
1996 -- 150,828,234 shares	(2,665)	(1,953)
Cumulative foreign exchange translation adjustment	(181)	2
Unrealized holding gain on marketable securities	2	12
Retained earnings	4,089	3,214
Total shareowners' equity	4,386	4,180
Total liabilities and shareowners' equity	$ 13,707	$ 12,829

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)	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,170	$ 1,020	$ 875
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of business	(226)	(655)	(71)
Repositioning and other charges	250	622	115
Depreciation and amortization (includes goodwill)	609	602	612
Undistributed earnings of equity affiliates	(55)	(33)	(59)
Deferred income taxes	138	213	199
(Increase) decrease in accounts and notes receivable	(104)	(163)	134
(Increase) in inventories	(92)	(87)	(141)
(Increase) decrease in other current assets	(88)	134	35
Increase in accounts payable	226	117	16
(Decrease) in accrued liabilities	(188)	(77)	(245)
Net taxes paid on sale of business	(21)	(49)	--
Other	(313)	(448)	(254)
Net cash provided by operating activities	1,306	1,196	1,216
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(717)	(755)	(746)
Proceeds from disposals of property, plant and equipment	67	77	46
Decrease in investments and long-term receivables	25	20	27
(Increase) in other investments	(6)	(12)	(4)
Cash paid for acquisitions	(1,218)	(114)	(499)
Proceeds from sales of businesses	695	1,358	72
(Increase) in short-term investments	(129)	(301)	--
Net cash (used for) provided by investing activities	(1,283)	273	(1,104)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in commercial paper	351	412	58
Net increase (decrease) in short-term borrowings	18	(356)	253
Proceeds from issuance of preferred stock of subsidiary	112	--	--
Proceeds from issuance of common stock	151	147	104
Proceeds from issuance of long-term debt	33	48	108
Payments of long-term debt	(307)	(124)	(147)
Repurchase of preferred stock of subsidiary	(112)	--	--
Repurchases of common stock	(786)	(409)	(239)
Cash dividends on common stock	(295)	(262)	(217)
Other	(42)	--	--
Net cash (used for) financing activities	(877)	(544)	(80)
Net (decrease) increase in cash and cash equivalents	(854)	925	32
Cash and cash equivalents at beginning of year	1,465	540	508
Cash and cash equivalents at end of year	$ 611	$ 1,465	$ 540

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

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain reclassifications were made to prior year amounts to conform with the 1997 presentation.

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 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 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 is being amortized on a straight-line basis over appropriate periods ranging from 20 to 40 years. The cumulative amount of goodwill amortized at December 31, 1997 and 1996 is $476 and $423 million, respectively.

RECOGNITION OF CONTRACT REVENUES primarily relates to Aerospace operations. 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 future losses on contracts are charged to income when identified. Contracts which are part of a program are evaluated on an overall program basis.

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 which 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, 1997 and 1996 were $110 and $304 million and $120 and $410 million, respectively.

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 are based on the asset and liability approach. Deferred tax liabilities or assets reflect the impact of temporary differences between amounts of assets and liabilities for financial and tax reporting. Such amounts are subsequently 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 are calculated in accordance with the provisions of Statement of Financial Accounting Standards No. 128 -- "Earnings per Share" (SFAS No. 128), effective for 1997. SFAS No. 128 requires the Company to report both basic earnings per share which is based on the weighted-average number of common shares outstanding and diluted earnings per share which is based on the weighted-average number of common shares outstanding and all dilutive potential common shares outstanding. All prior years earnings per share data in this report have been recalculated to reflect the provisions of SFAS No. 128. All earnings per share data in this report reflect basic earnings per share, unless otherwise indicated. The details of the earnings per share calculations for the years 1997, 1996 and 1995 follow:

	Income	Shares	Per Share Amount
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
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
1995			
Earnings per share of common stock -- basic	$ 875	566,875,546	$1.54
Dilutive securities:			
Stock options		9,022,214	
Restricted stock units		1,171,998	
Earnings per share of common stock -- assuming dilution	$ 875	577,069,758	$1.52

For each of the years 1997, 1996 and 1995, there were outstanding stock options not included in the computation of diluted earnings per share of common stock because the options exercise price was greater than the average market price of the common shares. In 1997, 1996 and 1995, the number of stock options not included in the computation were 1,201,900, 35,000 and 1,241,350, respectively. These options were outstanding at the end of each of the respective years.

A TWO-FOR-ONE STOCK SPLIT was announced by the Company on July 23, 1997. The stock split was effected on September 15, 1997 for shareowners of record on August 21, 1997. All share and per share data in this report reflects the stock split for all periods presented.

NOTE 2

ACQUISITIONS

In 1997, the Company acquired Prestone Products Corporation (Prestone) for approximately $400 million, including assumed liabilities. Prestone is a supplier of premium car care products and has 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 has 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, has 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 has annual sales of approximately $150 million.

In 1995, the Company acquired a 95.8% interest in Riedel-de Haen AG from Hoechst AG for approximately $245 million. Riedel-de Haen AG is a specialty chemicals manufacturer located in Germany. The business had 1994 sales of approximately $250 million. In addition, the Company acquired The Budd Company's Wheel & Brake Division (Budd Wheel & Brake) for approximately $160 million. Budd Wheel & Brake was sold in 1996 as part of the sale of the Company's worldwide hydraulic and anti-lock braking systems (ABS) business (braking business).

The Company also made other smaller acquisitions in 1997, 1996 and 1995.

NOTE 3

REPOSITIONING AND OTHER CHARGES

In the fourth quarter of 1997, the Company recorded a pretax charge of $124 million relating to the costs to eliminate its three sector offices, consolidate its Automotive Products Group and reposition some of its businesses. These actions are intended to enhance the Company's competitiveness and productivity. The components of this charge include severance costs of $59 million, asset writedowns of $34 million and other exit costs of $31 million. All of the actions are expected to be completed in 1998. The Company also recorded other charges in the fourth quarter of 1997, including $40 million relating 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 are included as part of Cost of Goods Sold for 1997. Equity in Income of Affiliated Companies includes a charge of $13 million relating to the writedown of an equity investment. The total pretax impact of the repositioning and other charges for 1997 is $250 million (after-tax $159 million, or $0.28 per share).

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

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 is 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 are included as part of Cost of Goods Sold for 1996. Other Income (Expense) for 1996 includes 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 is $622 million (after-tax $359 million, or $0.63 per share).

Cost of Goods Sold in 1995 includes a provision of $115 million (after-tax $71 million, or $0.13 per share) relating to management's decision to exit the ABS business. The provision consists of the revaluation of the Company's ABS assets to their fair market value and certain other closure costs.

Note 4

GAIN ON SALE OF BUSINESS

In October 1997, the Company sold its automotive safety restraints business to Breed Technologies for $710 million in cash, subject to post-closing adjustments. 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 $0.35 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 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 $0.65 per share). The Company received consideration of $1.5 billion, subject to certain post-closing adjustments which were finalized in October 1997.

In December 1995, the Company transferred the assets of its high-density polyethylene (HDPE) business joint venture, Paxon Polymer Company, L.P., to Exxon Chemical Company (Exxon). The transfer of the HDPE business to Exxon resulted in a pretax gain of $71 million (after-tax $71 million, or $0.13 per share).

NOTE 5

OTHER INCOME (EXPENSE)

Years ended December 31	1997	1996	1995
Interest income and other	$ 95	$ 94	$ 35
Minority interests	(45)	(18)	(36)
Foreign exchange gain (loss)	27	11	(21)
	$ 77	$ 87	$(22)

NOTE 6

INTEREST AND OTHER FINANCIAL CHARGES

Years ended December 31	1997	1996	1995
Total interest and other financial charges	$196	$ 209	$ 189
Less -- Capitalized interest	(21)	(23)	(21)
	$175	$ 186	$ 168

NOTE 7

TAXES ON INCOME

Income before taxes on income

Years ended December 31	1997	1996	1995
United States	$ 1,526	$ 1,099	$ 1,101
Foreign	190	454	160
	$ 1,716	$ 1,553	$ 1,261

Taxes on income

Years ended December 31	1997	1996	1995
United States	$ 466	$ 359	$ 347
Foreign	80	174	39
	$ 546	$ 533	$ 386

Years ended December 31	1997	1996	1995
Taxes on income consist of:			
Current:			

United States	$ 292	$ 190	$ 118
State	54	41	25
Foreign	62	89	44
	408	320	187
Deferred:			
United States	98	133	192
State	22	(5)	12
Foreign	18	85	(5)
	138	213	199
	$ 546	$ 533	$ 386

Years ended December 31	1997	1996	1995
The principal items accounting for the difference in taxes on income computed at the U.S. statutory rate and as recorded on an overall basis are as follows:			
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Taxes on foreign earnings over (under) U.S. tax rate	.2	.4	(1.7)
Asset basis differences	(2.4)	(.1)	(2.0)
Nondeductible amortization	1.4	2.1	1.1
State income taxes	2.6	1.3	1.6
Tax benefits of Foreign Sales Corporation	(3.0)	(1.9)	(1.5)
Dividends received deduction	(.3)	(.2)	(.1)
ESOP dividend tax benefit	(.7)	(.7)	(.8)
All other items-- net	(1.0)	(1.6)	(1.0)
	31.8%	34.3%	30.6%

Deferred income taxes

December 31	1997	1996
Included in the following balance sheet accounts:		
Other current assets	$ 394	$ 309
Other assets	117	178
Accrued liabilities	--	(18)
Deferred income taxes	(694)	(610)
	$ (183)	$ (141)

Deferred tax assets (liabilities)

December 31	1997	1996
The temporary differences and carryforwards which give rise to deferred tax assets and liabilities are as follows:		
Property, plant and equipment basis differences	$(690)	$(644)
Postretirement benefits other than pensions	728	732
Postemployment benefits	67	65
Investment and other asset basis differences	(567)	(502)
Nonrecurring items	235	151
Other accrued items	326	420
Net operating losses	218	188
Deferred foreign gain	(48)	(50)
Undistributed earnings of subsidiaries	(45)	(66)
All other items -- net	(381)	(398)
	(157)	(104)
Valuation allowance	(26)	(37)
	$(183)	$(141)

The amount of federal tax net operating loss carryforwards generated by certain subsidiaries prior to their acquisition in 1997 is $195 million with 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 $375 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 $355 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

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. The fair values of marketable debt and equity securities at December 31, 1997 and 1996 were $152 million ($152 million, at cost) and $214 million ($206 million, at cost) and $155 million ($155 million, at cost) and $128 million ($130 million, at cost), respectively. The Company also had other short-term investments held for sale of $64 and $18 million at December 31, 1997 and 1996, respectively, carried at cost, which approximates market value.

NOTE 9

ACCOUNTS AND NOTES RECEIVABLE

December 31	1997	1996
Trade	$ 1,466	$ 1,330
Other	457	362
	1,923	1,692
Less -- Allowance for doubtful accounts and refunds	(37)	(31)
	$ 1,886	$ 1,661

The Company is a party to agreements under which it can sell undivided interests in designated pools of trade accounts receivable. During 1997 and 1996, the average outstanding was $505 and $517 million, respectively. New receivables are sold under the agreements as previously sold receivables are collected. During 1997, this represented an average collection period of 47 days or a replacement of receivables of approximately eight times. At both December 31, 1997 and 1996, customer 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 10

INVENTORIES

December 31	1997	1996
Raw materials	$ 639	$ 538
Work in process	722	762
Finished products	871	814
Supplies and containers	89	88
	2,321	2,202
Less --		
Progress payments	(88)	(126)
Reduction to LIFO cost basis	(140)	(130)

	$ 2,093	$ 1,946

Inventories valued at LIFO amounted to $191 million at December 31, 1997 and $223 million at December 31, 1996, which amounts were below estimated replacement cost by $140 and $130 million, respectively.

NOTE 11

OTHER CURRENT ASSETS

December 31	1997	1996
Current deferred taxes	$394	$309
Other	159	157
	$553	$466

NOTE 12

INVESTMENTS AND LONG-TERM RECEIVABLES

December 31	1997	1996
Affiliates (1)	$403	$379
Long-term receivables	77	94
	$480	$473

(1) Includes unrealized holding gains of $3 and $23 million at December 31, 1997 and 1996, respectively, on equity securities classified as available-for-sale. The cost basis of the equity securities was $7 and $21 million at December 31, 1997 and 1996, respectively. Also includes the Company's 50% partnership interest in UOP, a joint venture accounted for under the equity method. UOP is in the process technology and catalyst business.

NOTE 13

PROPERTY, PLANT AND EQUIPMENT

December 31	1997	1996
Land and land improvements	$ 330	$ 331
Machinery and equipment	6,038	5,760
Buildings	1,417	1,415
Office furniture and equipment	868	868
Transportation equipment	126	153
Construction in progress	410	449
	9,189	8,976
Less -- Accumulated depreciation and amortization	(4,938)	(4,757)
	$ 4,251	$ 4,219

NOTE 14

ACCRUED LIABILITIES

December 31	1997	1996
Wages	$ 246	$ 315
Customer advance payments/deposits	126	127
Insurance	110	102
Postretirement benefits other than pensions	157	135
Other	1,360	1,216
	$ 1,999	$ 1,895

NOTE 15

LONG-TERM DEBT AND CREDIT AGREEMENT

December 31	1997	1996
Employee stock ownership plan floating rate notes, 4.29%-4.71%, due 1998-1999	$ 85	$ 164
6.75% notes due August 15, 2000	100	100
9 7/8% debentures due June 1, 2002	250	250
9.20% debentures due February 15, 2003	100	100
Medium term notes, 8.93%-9.28%, due 1999-2001	69	116
Zero coupon bonds and money multiplier notes, 13.0%-14.26%, due 1998-2009	157	229
9 1/2% debentures due June 1, 2016	100	100
Industrial development bond obligations, 3.15%-6.75%, maturing at various dates through 2027	105	103
Other (including capitalized leases), 1.54%-12.42%, maturing at various dates through 2016	249	155
	$ 1,215	$ 1,317

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

December 31, 1997	Long-term Debt
1998	$224
1999	195
2000	177
2001	43
2002	275
Thereafter	525
	1,439
Less -- Current portion	(224)
	$1,215

The Company has a Five-Year Credit Agreement (Credit Agreement) with a group of 19 banks with commitments aggregating $750 million. The funds available under the Credit Agreement may be used for any corporate purpose. Loans under the Credit Agreement are required to be repaid no later than June 30, 2002. Annually, the Company may request that the maturity of the Credit Agreement be extended by another year. The Company intends to request an extension of this agreement in 1998. 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. The Credit Agreement does not restrict the Company's ability to pay dividends, however, it does require the Company to maintain a minimum net worth of $3.1 billion. The Credit Agreement also contains other customary conditions and events of default, the failure to comply with, or occurrence of, would prevent any further borrowings and would generally require the repayment of any outstanding borrowings under the Credit Agreement. 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 Agreement 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).

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 Company had no balance outstanding under the Credit Agreement at December 31, 1997. The Credit Agreement presently serves as support for the issuance of commercial paper.

NOTE 16

LEASE COMMITMENTS

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

December 31, 1997	Lease Payments
1998	$73
1999	72
2000	61
2001	47
2002	41
Thereafter	140
	$434

Rent expense of $109, $98 and $121 million was included in costs and expenses for 1997, 1996 and 1995, 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 condition. In seeking to minimize the risks and/or costs associated with such activities, the Company manages exposure to changes in interest rates and foreign currency exchange rates through its regular 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. The Company had no leveraged financial instruments at December 31, 1997 and 1996.

At December 31, 1997 and 1996, interest rate swap agreements effectively changed $300 million of fixed-rate debt at an average rate of 9.53% in both years to U.S. commercial paper based floating rate debt with an effective average rate of 8.04% and 7.94%, respectively. Based on their terms, 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, 1997 and 1996 effectively changed $58 and $66 million, respectively, of London Interbank Offer Rate (LIBOR) based floating rate debt at an average rate of 4.80% and 4.76%, respectively, to fixed rate debt with an effective average rate of 6.81% and 7.00%, respectively. The Company's interest rate swaps mature through the year 2000.

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 currently 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 and recognized immediately in income. The Company's principal foreign currency exposures relate to the French franc, the German deutsche mark, the British pound and the U.S. dollar. At December 31, 1997, the Company held or had written foreign currency forward and option agreements, maturing through 1999. The Company only writes foreign currency options 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 the amount of credit exposure. The Company's financial instrument counterparties are substantial investment or commercial banks with significant experience with such instruments. The Company also has procedures to monitor the impact of market risk on the fair value and costs of its financial 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. Because of the above practices and procedures, management believes that the Company's credit and market risk exposures from financial instruments are not significant at December 31, 1997.

The values of the Company's outstanding derivative financial instruments at December 31, 1997 and 1996 are as follows:

December 31, 1997	Notional Principal Amount	Fair Value (1)	Carrying Value
Interest rate swap			

agreements held	$358	$ 3	$ --
Foreign currency forward agreements held	708	1	1
Foreign currency forward agreements written	649	23	22
Foreign currency options held	150	4	4
Foreign currency options written	--	--	--
December 31, 1996			
Interest rate swap agreements held	$366	$ (1)	$ --
Foreign currency forward agreements held	425	(1)	(1)
Foreign currency forward agreements written	420	2	4
Foreign currency options held	120	1	1
Foreign currency options written	76	(1)	(1)

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

The only other material 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 $43 and $41 million at December 31, 1997 and 1996, respectively) are $1,396 and $1,388 million and the fair values are $1,584 and $1,560 million at December 31, 1997 and 1996, 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, 1997, the Company has remaining authority to repurchase from time to time up to 81.4 million shares of common stock.

	Shares Outstanding (in millions)	Common Stock/ Paid-in Capital	Treasury Stock
Balance December 31, 1994	566.2	$2,816	$ (1,505)
Purchased under repurchase programs	(11.0)	--	(239)
Used for Dividend Reinvestment Plan	.4	--	3
Used for employee benefit plans (including related tax benefits)	10.0	31	83
Balance December 31, 1995	565.6	2,847	(1,658)
Purchased under repurchase programs	(14.0)	--	(409)
Used for Dividend Reinvestment Plan	.2	--	2
Used for employee benefit plans (including related tax benefits)	13.4	58	109
Used for acquisitions	.4	--	3
Balance December 31, 1996	565.6	2,905	(1,953)
Purchased under repurchase programs	(21.0)	--	(814)
Used for Dividend Reinvestment Plan	.3	8	2
Used for employee benefit plans (including related tax benefits)	12.4	232	92
Used for acquisitions	1.0	32	8
Other	--	(36)	--
Balance December 31, 1997	558.3	$3,141	$(2,665)

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 10,468,811 and 8,204,312 shares available for future grants under the terms of the Company's stock option plans at December 31, 1997 and 1996, 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, 1997, there were 1,529,346 Units outstanding, including 215,920 Units granted in 1997, 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, 1997:

	Number of Options	Average Exercise Price

Outstanding at December 31, 1994	48,743,438	$ 14.38
Granted	12,799,180	18.27
Exercised	(8,398,830)	11.44
Lapsed or canceled	(717,134)	17.38
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

The following table summarizes information about stock options outstanding at December 31, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Average Life (1)	Average Exercise Price	Number Exercisable	Average Exercise Price
$ 7.18-$14.58	7,447,018	3.4	$11.05	7,447,018	$11.05
$16.00-$17.75	8,722,715	5.7	17.20	8,650,615	17.20
$17.79-$19.54	15,860,288	6.7	18.43	10,622,054	18.74
$21.25-$44.33	17,652,134	8.6	30.76	3,130,670	25.44
	49,682,155	5.2	21.49	29,850,357	17.08

(1) Average remaining contractual life in years.

There were 28,365,464 and 28,105,478 options exercisable at average exercise prices of $15.14 and $13.75 at December 31, 1996 and 1995, 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" and related interpretations. 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 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".

	1997	1996	1995
Weighted-average fair value per share of options granted during the year (1)	$9.15	$6.22	$5.53
Reduction of:			
Net income	$ 33	$ 24	$ 15
Earnings per share of common stock -- basic	$ .06	$ .04	$ .03
Earnings per share of common stock -- assuming dilution	$ .06	$ .04	$ .03
Assumptions:			
Historical dividend yield	1.8%	1.8%	1.8%
Historical volatility	19.1%	21.1%	23.0%
Risk-free rate of return	6.4%	5.5%	7.2%
Expected life (years)	5.0	5.0	5.5

(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 1997 and Retained Earnings in prior years.

NOTE 20

CUMULATIVE FOREIGN EXCHANGE TRANSLATION ADJUSTMENT

December 31	1997	1996	1995
Balance at beginning of year	$2	$61	$18
Translation adjustment and impact of hedges	(183)	(59)	43
	$(181)	$2	$61

NOTE 21

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, including those relating to commercial transactions, government contracts, product liability and environmental, health and safety matters.

In accordance with the Company's accounting policy described in Note 1 of Notes to Financial Statements, 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. With respect to all other 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 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 1997, 1996 and 1995 included interest of $191, $178 and $183 million and income taxes of $269, $221 and $185 million, respectively.

The weighted-average interest rate on short-term borrowings and commercial paper outstanding at December 31, 1997 and 1996 was 6.0%.

During 1997, a subsidiary of the Company issued $112 million of preferred stock to third-party investors and subsequently redeemed such stock prior to year-end.

NOTE 23

POSTRETIREMENT BENEFITS
OTHER THAN PENSIONS

The Company's U.S. retiree medical programs cover employees who retire with pension eligibility for hospital, professional and other medical services. Most of the programs 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 Company also sponsors retiree life insurance programs which generally provide a flat benefit of at least two thousand dollars or a benefit as a percent of pay.

The retiree medical and life insurance programs 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 has 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. The Company uses the services of an enrolled actuary to calculate postretirement benefit costs.

For measurement purposes, the assumed annual rates of increase in the per capita cost of covered health care benefits for 1997 were 6.75% to 8% 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%). The health care cost trend rate assumptions have a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1997 by $129 million and the aggregate of the service and interest cost component of net periodic postretirement benefit cost for the year then ended by $12 million. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7.25% and 7.75% at December 31, 1997 and 1996, respectively.

Net periodic postretirement benefit cost for 1997, 1996 and 1995 included the following components:

Years ended December 31	1997	1996	1995
Service cost-benefits attributed to service during the period	$ 21	$ 24	$ 20
Interest cost on accumulated postretirement benefit obligation	110	110	133
Net amortization	(24)	(14)	(12)
	107	120	141
Foreign plans	1	1	1
Net periodic postretirement benefit cost	$108	$121	$142

Presented below are the plans' status and amounts recognized in the Company's Consolidated Balance Sheet at December 31, 1997 and 1996:

December 31	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$1,012	$1,054
Fully eligible active plan participants	186	126
Other active plan participants	436	353
	1,634	1,533
Unrecognized prior service cost	221	115
Unrecognized net gain	77	274
Accrued postretirement benefit cost	$1,932	$1,922

NOTE 24

PENSIONS

The Company's pension plans, most of which are defined benefit plans and almost all of which are noncontributory, cover substantially all employees. Benefits under the plans are generally based on years of service and employees' compensation during the last years of employment or as a flat dollar benefit. Benefits are generally paid from funds previously provided to trustees. In the Company's principal U.S. plans, funds are contributed to a trustee as necessary to provide for current service and for any unfunded projected benefit obligation over a reasonable period. To the extent that these requirements are fully covered by assets on hand for a plan, a contribution may not be made in a particular year. At December 31, 1997, approximately 60% of the assets of U.S. plans were held in equity securities, with the balance primarily in fixed income-type securities. The Company uses the services of an enrolled actuary to calculate the amount of pension expense and contributions to trustees of the various pension plans.

Net periodic pension cost for 1997, 1996 and 1995 included the following components:

Years ended December 31	1997	1996	1995
Service cost-benefits earned during the period	$ 124	$ 133	$ 107
Interest cost on projected benefit obligation	412	398	395
Actual return on plan assets	(1,041)	(841)	(1,019)
Net amortization and deferral	527	388	616
Net periodic pension cost for defined benefit plans	22	78	99
Foreign plans and other	13	10	16
Net periodic pension cost	$ 35	$ 88	$ 115

The assumed rate of return for the Company's U.S. defined benefit pension plans was 10% in 1997, 9.5% in 1996 and 9% in 1995. The assumed discount rate used in calculating the projected benefit obligations at December 31, 1997, 1996 and 1995 was 7.25%, 7.75% and 7.25%, respectively. In addition, the assumed annual increase in compensation over employees' estimated remaining working lives was 5% in 1997, 1996 and 1995.

Presented below are the plans' funded status and amounts recognized in the Company's Consolidated Balance Sheet at December 31, 1997 and 1996 for its significant defined benefit pension plans:

	1997		1996	
December 31	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of benefit obligation:				
Vested	$4,731	$ 231	$3,715	$ 832
Nonvested	351	15	256	65
Accumulated benefit obligation	$5,082	$ 246	$3,971	$ 897
Projected benefit obligation	$5,656	$ 285	$4,474	$ 933
Less-- Fair value of assets	6,397	31	5,116	711
Over (under) funded plans	741	(254)	642	(222)
Unrecognized transition (asset) liability	(27)	1	(6)	(24)
Unrecognized net (gain) loss	(711)	52	(549)	(55)
Unrecognized prior service cost	61	32	(10)	90
Prepaid (accrued) pension cost	$ 64	$(169)	$ 77	$(211)

NOTE 25

SEGMENT FINANCIAL DATA

AlliedSignal Inc. is a global, advanced technology and manufacturing company. The Company's principal lines of business are aerospace, automotive and engineered materials. Aerospace's principal products, which include propulsion engines, auxiliary power units, environmental control systems, cabin pressurization and engine control systems and avionics, are sold to the U.S. and foreign governments, aircraft manufacturers, commercial airlines and dealers and distributors of general aviation products. Automotive supplies systems and components to worldwide manufacturers of passenger cars; light-, medium- and heavy-duty trucks; buses; and off-highway vehicles, as well as replacement parts through the independent aftermarket and passenger car/truck dealers. Engineered materials' products include chemicals, fibers, plastics and advanced materials, which have applications for numerous industries including electronics, automotive, carpeting, refrigeration, construction, computer and utilities, among others.

		Aerospace	Automotive	Engineered Materials	Corporate and Unallocated (1)	Total
Net sales (2)	1997	$ 6,412	$ 3,802	$ 4,254	$ 4	$ 14,472
	1996	5,714	4,240	4,013	4	13,971
	1995	5,084	5,549	3,713	--	14,346
Research and development expense	1997	180	43	126	--	349
	1996	173	49	123	--	345
	1995	154	80	109	10	353
Depreciation and amortization	1997	180	111	226	29	546
	1996	186	127	207	31	551
	1995	186	164	185	28	563
Income from operations (3)	1997	872	469	432	(137)	1,636
	1996	359	900	438	(188)	1,509
	1995	551	292	563	(146)	1,260
Net income (3)(4)	1997	515	285	389	(19)	1,170
	1996	206	521	361	(68)	1,020
	1995	303	146	473	(47)	875
Capital expenditures	1997	200	163	314	40	717
	1996	143	212	336	64	755
	1995	131	214	334	67	746
Identifiable assets	1997	5,889	2,894	4,100	824	13,707
	1996	5,172	2,729	3,453	1,475	12,829
	1995	5,079	3,813	3,302	271	12,465

Intersegment sales approximate market and are not significant.
(1) The "Corporate and Unallocated" column includes amounts for businesses sold and Corporate items.
(2) Sales to the U.S. Government and its agencies, mainly for the Aerospace segment, were $1,121 , $1,172 and $1,107 million for each of the respective years.
(3) Includes in 1997 a pre- and after-tax provision for repositioning and other charges for Aerospace of $23 and $14 million, Automotive of $64 and $48

million, Engineered Materials of $110 and $73 million and Corporate and Unallocated of $40 and $24 million, respectively. Also includes in 1997 a pre- and after-tax gain on the sale of the safety restraints business of $277 and $196 million for Automotive and a pre- and after-tax provision for the settlement of the 1996 braking business sale of $51 and $33 million for Automotive. Includes in 1996 a pre- and after-tax provision for repositioning and other charges for Aerospace of $292 and $179 million, Automotive of $117 and $49 million, Engineered Materials of $129 and $71 million and Corporate and Unallocated of $99 and $60 million, respectively. Also includes in 1996 a pre- and after-tax gain on the sale of the braking business of $655 and $368 million for Automotive. Includes in 1995 a pre- and after-tax provision for repositioning charge of $115 and $71 million for Automotive and a pre- and after-tax gain on the transfer of the HDPE business of $71 and $71 million for Engineered Materials.

(4) An interest charge is made by Corporate Office to the segments on the basis of relative investment. Taxes on income are generally included in the segments which gave rise to the tax effects and equity in income of affiliated companies is included in the segments in which these companies operate.

NOTE 26

GEOGRAPHIC AREAS -- FINANCIAL DATA

		United States	Canada	Europe	Other International	Adjustments and Eliminations	Total
Net sales (1)	1997	$11,319	$361	$2,171	$621	$--	$14,472
	1996	10,774	252	2,397	548	--	13,971
	1995	10,734	230	2,740	642	--	14,346
Net income (2)	1997	1,086	39	23	22	--	1,170
	1996	736	28	212	44	--	1,020
	1995	734	31	58	52	--	875
Assets	1997	10,861	339	2,570	677	(740)	13,707
	1996	9,880	302	2,501	729	(583)	12,829
	1995	9,378	219	2,964	588	(684)	12,465
Liabilities	1997	8,688	115	974	284	(740)	9,321
	1996	8,059	132	798	243	(583)	8,649
	1995	7,623	106	1,535	293	(684)	8,873

Sales between geographic areas approximate market and are not significant.

(1) Included in United States net sales are export sales of $2,467, $2,399 and $2,119 million for each of the respective years.

(2) Includes in 1997 an after-tax provision for repositioning and other charges for the United States of $92 million, for Europe of $57 million and for Other International of $10 million. Includes in 1997 an after-tax gain on the sale of the safety restraints business for the United States of $173 million, for Europe of $11 million and for Other International of $12 million. Also includes in 1997 an after-tax provision for the settlement of the 1996 braking business sale for the United States of $11 million, for Europe of $16 million and for Other International of $6 million. Includes in 1996 an after-tax provision for repositioning and other charges for the United States of $356 million and for Europe of $3 million. Also includes in 1996 an after-tax gain on the sale of the braking business for the United States of $244 million and for Europe of $143 million and an after-tax loss for Other International of $19 million. Includes in 1995 an after-tax provision for a repositioning charge for the United States of $29 million and for Europe of $42 million. Also includes in 1995 an after-tax gain on the transfer of the HDPE business for the United States of $71 million.

NOTE 27

UNAUDITED QUARTERLY FINANCIAL INFORMATION

	1997					1996				
	Mar. 31	June 30	Sept. 30	Dec. 31	Year	Mar. 31	June 30	Sept. 30	Dec. 31	Year
Net sales	$3,327	$3,578	$3,657	$3,910	$14,472	$3,778	$3,347	$3,348	$3,498	$13,971
Gross profit	722	814	817	638 (1)	2,991	766	112 (3)	750	737	2,365
Net income	259	305	292	314 (1)(2)	1,170	225	272 (3)(4)	253	270	1,020
Earnings per share -- basic	.46	.54	.52	.56 (1)(2)	2.07	.40	.48 (3)(4)	.45	.48	1.80
Earnings per share -- assuming dilution	.45	.52	.50	.55	2.02	.39	.47	.44	.46	1.76
Dividends paid	.13	.13	.13	.13	.52	.1125	.1125	.1125	.1125	.45
Market price (5)										
High	38.25	42.50	47.13	43.94	47.13	29.63	30.25	33.25	37.25	37.25
Low	33.25	33.88	41.13	31.63	31.63	23.63	27.13	26.38	31.00	23.63

(1) Includes a provision of $237 million, after-tax $159 million and $0.28 per share for repositioning and other charges. See Note 3 of Notes to Financial Statements for further information.

(2) Includes an after-tax gain of $196 million and $0.35 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. See Note 4 of Notes to Financial Statements for further information.

(3) Includes a provision of $637 million, after-tax $359 million and $0.63 per share for repositioning and other charges. See Note 3 of Notes to Financial Statements for further information.

(4) Includes an after-tax gain of $368 million and $0.65 per share on the sale of the braking business. See Note 4 of Notes to Financial Statements for further information.

(5) From composite tape -- stock is primarily traded on the New York Stock Exchange.

REPORT OF INDEPENDENT ACCOUNTANTS

[LOGO]

January 28, 1998

To the Shareowners and Directors of AlliedSignal Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of retained earnings and of cash flows present fairly, in all material respects, the financial position of AlliedSignal Inc. and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, 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.

PRICE WATERHOUSE LLP

Morristown, NJ

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

NAME	COUNTRY OR STATE OF INCORPORATION	SECURITIES OWNED CLASS	SECURITIES OWNED PERCENT OWNERSHIP
AlliedSignal International Finance Corporation	Delaware	Common Stock	100
AlliedSignal Avionics Inc	Kansas	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 and 333-14673), on Forms S-3 (Nos. 33-13211, 33-14071, 33-55425, 33-64245, 333-22355, 333-44523 and 333-45555) and on Form S-8 (filed as an amendment to Form S-14, No. 2-99416-01) of our report dated January 28, 1998 appearing in the 1997 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, 1997.

PRICE WATERHOUSE LLP

Morristown, New Jersey
February 26, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

POWER OF ATTORNEY

I, Daniel P. Burnham, a director of AlliedSignal Inc. (the "Company"), a Delaware corporation, hereby appoint Lawrence A. Bossidy, Peter M. Kreindler, Richard F. Wallman, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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/ Daniel P. Burnham

Daniel P. Burnham

Dated: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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/ Frederic M. Poses

Frederic M. Poses

Dated: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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/ John R. Stafford

John R. Stafford

Dated: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

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, Robert F. Friel and Nancy A. Garvey, 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, 1997,

(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: January 23, 1998

This schedule contains summary financial information extracted from the consolidated balance sheet at December 31, 1997 and the consolidated statement of income for the year ended December 31, 1997 and is qualified in its entirety by reference to such financial statements.

1,000

YEAR
DEC-31-1997
DEC-31-1997
611
430
1,466
37
2,093
5,573
9,189
4,938
13,707
4,436
1,215
0
0
716
3,670
13,707
14,472
14,472
11,481
11,481
0
0
175
1,716
546
1,170
0
0
0
1,170
2.07
2.02