"Unlike most long, arduous journeys, which provide few satisfactions until the destination is reached, ours has brought immediate rewards—and also a broader vision of the destination itself. We know we can do a lot better; our largest gains are still ahead of us."

Annual Report '93

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Financial Highlights (Adjusted for March 1994 2-for-1 stock split) (a)

(Dollars in millions except per share amounts)

Years ended December 31	1993	1992	1991
Net sales	**$11,827**	$12,042	$11,831
Income (loss) from operations	**954**	415	(291)
Percent of sales	**8.1**	3.4	(2.5)
Income (loss) before cumulative effect of changes in accounting principles	**656**	535	(273)
Percent of sales	**5.5**	4.4	(2.3)
Net income (loss)(b)	**411**	(712)	(273)
Earnings (loss) per share before cumulative effect of changes in accounting principles	**2.31**	1.90	(1.00)
Earnings (loss) per share	**1.45**	(2.52)	(1.00)
Dividends per share	**.58**	.50	.80
Research and development	**313**	320	381
Return on average shareowners' equity	**30.6**	26.4	(8.4)
Total assets	**10,829**	10,756	10,382
Book value per share of common stock	**8.42**	7.93	10.79
Average shares outstanding (in millions)	**283.2**	282.0	273.2
Common shareowners	**84,248**	84,254	91,492

(a) On February 7, 1994, the Board of Directors declared a 2-for-1 stock split to be distributed on March 14 to shareowners of record on February 22. Share data for all periods have been adjusted to reflect the split.

(b) Includes in 1993 the cumulative impact of the adoption of FASB No.112 of $245 million, or $0.86 a share, and in 1992 of FASB Nos. 106 and 109 of $1,247 million, or $4.42 a share, as discussed in Note 1. In both 1992 and 1991 includes the impact of Streamlining and Restructuring charges and gains relating to Union Texas, as discussed in Notes 4 and 21 of Notes to Financial Statements, respectively.

On the cover:
Much of AlliedSignal's recent success can be attributed to partnerships: among employees; with customers and suppliers; through acquisitions and joint ventures; and with investors. At the company's braking systems plant in Moulins, France, (from left) Kim Ny Nou, Hervé Jacquet and Louisette Niedercorn are part of a Total Quality team that has reduced scrap material by 50 percent.

DEAR

Dear Shareowner:

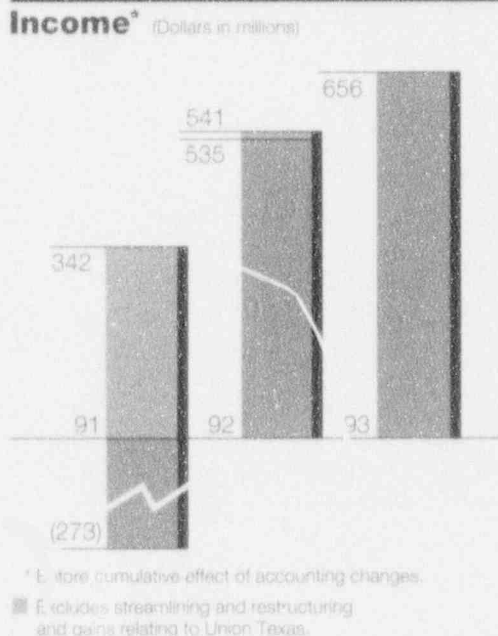
Judging by the flattering attention AlliedSignal's performance has attracted on Wall Street and in the media, your management might be tempted to conclude that we had finally "arrived" and were poised for induction into the club of the world's premier companies.

Let me assure you: We know better. We've made progress, but we have a long way to go.

True, our 86,000 employees have every reason to be proud of the remarkable strides they've made since 1991, when the company embarked on a journey of fundamental change. Earnings have grown substantially, and shareowners have had the pleasure these last three years of watching the market value of the company increase by $7.6 billion or 208 percent.

In 1993 alone:

- Earnings grew 23 percent to a record $656 million.
- Operating margin widened 25 percent to 8.1 percent from 6.5 percent (up from 4.7 percent in 1991).
- Our share price (before adjusting for the March 1994 two-for-one split) began the year at $60.50 and ended 1993 at $79, an increase of 31 percent.
- Return on equity for 1993 was 30.6 percent.
- Productivity improved 5.8 percent.
- Free cash flow totaled a record $365 million.



* Before cumulative effect of accounting changes.
Excludes streamlining and restructuring and gains relating to Union Texas.

Unlike most long, arduous journeys, which provide few satisfactions until the destination is reached, ours has brought immediate rewards — and also a broader vision of the destination itself. As we change and improve, we discover many more opportunities for advancement. For example:

- While our customers are pleased with our new attitudes and heightened levels of service, we are still more inwardly focused than a customer-oriented company should be.
- Although we have peeled away some layers of bureaucracy which impede our responsiveness to customers, others remain and continue to slow us down.
- While we have overhauled our primary processes, other important ones remain untouched. Our early efforts to improve speed have demonstrated that cycle-time reduction initiatives can achieve ten-fold improvements, but the vast majority of such gains are still ahead of us.
- It's nice to be able to report sharply growing earnings in the face of recession in some of our key markets, but our stagnant sales are hardly the sign of a growth company.
- Although our materials management efforts have already reduced costs substantially and improved our products, the program is not yet mature, and it will yield greater gains over the next two years.
- New proprietary products have bolstered our leadership in many markets, but our initiative to accelerate the new product commercialization process will enrich the returns on our investments in research and technology.
- We took some important steps toward globalization in 1993, but our efforts in the high-growth markets of the Pacific Rim need to be accelerated.

Clearly, we have a lot more to do.

Apart from quantitative results, the big difference between where we stood in mid-1991 and where we stand at the threshold of 1994 is that our employees are beginning to sense what they can achieve.

A couple of years ago our people saw some of the giants of American industry struggling with runaway costs and changed realities in their markets. To avoid a crisis of our own, we articulated a vision of what kind of company we wanted to be — premier, distinctive and successful — and the values we needed to share — among them, integrity, teamwork, speed and performance. We selected and installed the vehicle to guide our quest. For want of a better name, we elected to call it Total Quality.

One would be hard pressed today to find a com-

SHAREOWNER

The Leadership Committee

From left

Peter M. Kreindler
Senior Vice President and General Counsel

John W. Barter
Senior Vice President and Chief Financial Officer

Paul R. Schindler
Senior Vice President International

Isaac R. Barpal
Senior Vice President and Chief Technology Officer

Donald J. Redlinger
Senior Vice President Human Resources

Lawrence A. Bossidy
Chairman of the Board and Chief Executive Officer

Daniel P. Burnham
Executive Vice President and President AlliedSignal Aerospace

Frederic M. Poses
Executive Vice President and President AlliedSignal Engineered Materials

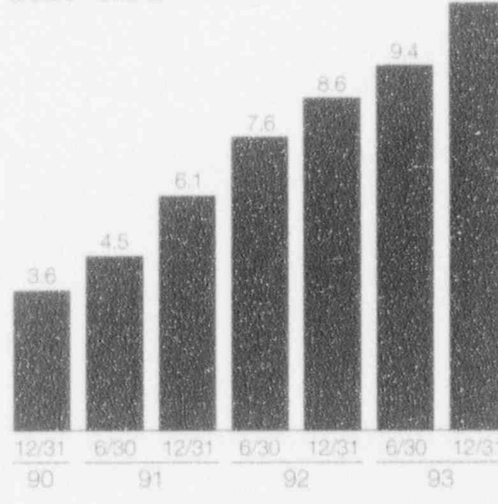
James E. Sierk
Senior Vice President Quality and Productivity

David G. Powell
Senior Vice President Public Affairs

Ralph E. Reins
Executive Vice President and President AlliedSignal Automotive

pany that hasn't boarded the TQ bandwagon. But boarding and reaching a charted destination are not the same. For us, TQ is not theory; it means results: immediate, tangible results. TQ is not for just a few elite change agents; it's for every one of our employees. Everyone.

We set out to persuade all our employees that customers, not organization charts, are why our company exists. Customers should be first in our minds every day and in everything we do; if we cannot satisfy them, we don't have jobs. We said that improvement would come only if our employees told us how they could do their jobs better and faster. We told our people that TQ would provide powerful tools to unleash their unique abilities, working both individually and in teams. We began to move from a vertical, hierarchical, department-oriented organization to a horizontal one, governed by cross-functional, multi-level, process-oriented teams focused on satisfying customers.



The underlying principle was not revolutionary. When people are convinced that their ideas are wanted and they put their heads together, they always come up with better ways of doing things. When teams are challenged to generate ideas for change and empowered to implement them, you suddenly see sparks of creativity as people — many for the first time — come to believe that they really do have the ability to affect their jobs and improve their company. When existing pockets of excellence are identified and their methods are spread throughout the company, you begin to see the resources of a big business and the agility of a lean business mesh into one competitive powerhouse

We undertook to provide each of our employees with Total Quality training by the end of 1993. That goal has been reached. Visit any of our plants from South Bend to Singapore, and you will find posted on our bulletin boards not slogans or motivational posters but graphs which chart the improvements wrought by one or more of our 6,000 teams — or which clearly proclaim the need for improvement AlliedSignal employees in 40 countries speak in different tongues, but they are beginning to talk the same language of customer focus, teamwork, cycle-time reduction, speed, continuous improvement and zero-defect products.

But teamwork among employees is not enough to get the job done. Whatever success we've had has resulted from partnering — not only internally, but also with key constituencies outside our company: customers, suppliers, acquired companies, joint venture allies and investors. Illustrations of these partnerships appear in the next section of this report.

Today we have hundreds of joint TQ teams which include our own employees and those of customers. Each of these teams has a specific problem to solve or business mission to accomplish. The lines of demarcation between our customers and ourselves blur as we work together to improve our products, speed our service and help each other reach mutually beneficial goals.

Customers who not so long ago told us we were not responsive are telling us today how much we've improved by focusing on their needs and making them partners in the search for solutions. Several customers have been so impressed by the speed and scope of change at AlliedSignal that they have requested our Total Quality training programs for their own employees.

Partnerships with suppliers, too, have made a big difference in our performance. Demands by deflation-afflicted businesses for ever-lower prices have forced many companies to adopt the strategy of reducing the number of suppliers, buying more from each and securing better prices.

Certainly our own customers' price demands have obliged us to seek better prices from our suppliers. But we are trying to do more than just demand lower prices; we cannot make our products without a steady, reliable flow of quality components and services from strong, viable companies. And so we have formed partnerships with and provided TQ training to our key suppliers to help them become more productive. By lowering their cost of doing business, they can offer us better value and still be profitable. We've also worked with them to redesign components and processes so that they better fit both our needs and those of our customers.

Our growth plans include both internal growth — selling more of our existing products and developing new ones — and external growth from niche acquisitions, alliances with joint venture partners and globalization.

In 1993, among other transactions, we purchased Sundstrand's data control business and merged it with our avionics business; we formed a global alliance in truck braking systems with Knorr-Bremse of Germany; and we acquired a majority position in Akzo's European carpet fiber business. We need to do more of these types of transactions in order to maintain strong U.S. market positions and be a long-term player in global markets.

Globalization is also an essential ingredient of our growth strategy. We operate today in 40 countries, but from the perspective of sales and earnings volumes, we are not fully developed in the Pacific Rim, which today includes most of the world's high-growth economies. To help us identify business opportunities and local partners in these countries, we have relocated the headquarters of our international operations to Hong Kong. During 1994 we will put more people on the ground in Asia to accelerate our progress.

In recent years we have invested heavily in attracting and developing the best talent available. Our goods and services are the products of the minds and skills of our employees; to the extent that we attract, stimulate and develop the best people, our products will be the best in the market, and our company will flourish.

People's attitudes are what make up the new spirit of AlliedSignal, and that spirit is the key to our being able to extend our strong recent performance well into the future.

Accordingly, early in 1993 we took a survey of all our employees throughout the world to learn how they felt about AlliedSignal. The survey drew 60,792 completed questionnaires, an unusually high response rate of 71 percent.

Of course, answers differed from business to business and from location to location. But definite patterns emerged. On the positive side, we got high marks for job satisfaction, downward communication, credibility, commitment to quality and employee pride and commitment.

However, we received low marks for upward communication (we don't listen well enough), career development and organization of work flow. We are taking these issues seriously, and each business unit has prepared an action plan to deal with those grievances that surfaced most frequently.

While AlliedSignal's ambitious revitalization program has resulted in significant advances, some have the view that gains of this magnitude will be difficult to replicate. My purpose in discussing some of the areas where we can improve is not to impress you with our modesty but rather to have you share our conviction that the largest gains are still ahead.

Meeting our commitments in 1992 and 1993 provided our people with the self-confidence to undertake more challenging objectives. When people repeatedly see their efforts yielding worthwhile accomplishments, they establish and reach more ambitious goals. This is the mindset that we want to prevail throughout our company. Flowing from this all-encompassing goal — to get a lot better — are our goals for 1994:

- Make our numbers;
- Make quantum improvements through Total Quality; and
- Make growth happen.

For the first time in five years, this letter will not bear the co-signature of Alan Belzer, who retired at the end of 1993 as President, Chief Operating Officer and member of the Board of Directors. In his distinguished 37-year career at AlliedSignal, Alan with his wisdom and determination made lasting contributions to the growth and prosperity of this company. I am personally indebted to him for helping educate me about the company's organization, products and markets when I joined AlliedSignal in July 1991. All of Alan's colleagues join me in wishing him a satisfying retirement.

I am also deeply grateful to the AlliedSignal customers, employees, suppliers, Board of Directors and shareowners whose support has been so fundamental to our reaching this point and whose continued support will propel us in 1994 to the next plateau.

Larry Bossidy

Larry Bossidy
Chairman and
Chief Executive Officer

February 8, 1994

Partnerships

A fundamental ingredient in AlliedSignal's progress has been the formation of alliances among employees; with customers and suppliers; through acquisitions and joint ventures; and with investors.

In Minneapolis, (from left) Arne Thompson, Bruce Samuel, Bing Nearing and Carmen Profeta are part of an AlliedSignal/Northwest Airlines team that reduced the cycle time for routine maintenance of auxiliary power units. Samuel and Profeta work for Northwest.

CUSTOMERS

Partnerships with customers are crucial to AlliedSignal's success in meeting customer expectations, increasing market share and improving efficiency.

AlliedSignal Aerospace and Northwest Airlines used joint quality training as a springboard to reduce the time it takes to remove an auxiliary power unit from an aircraft at Northwest's hub in Minneapolis and transport it to AlliedSignal's facility in Phoenix for routine maintenance. An average cycle time of 14 days was slashed to three.

AlliedSignal Engineered Materials worked with Mohawk Industries, one of the world's largest carpet manufacturers, to develop a nylon yarn whose texture resembles the appearance and feel of natural fibers, but is more durable, affordable and stain-resistant.

Breaking new ground in concurrent engineering with Chrysler Corporation, AlliedSignal Automotive developed an anti-lock braking system for the critically acclaimed 1995 Dodge/Plymouth Neon in just 2½ years, cutting 1½ years from its previous best cycle time.

▲ John Franklin and Vicki Henderson inspect an assembly used to make aircraft brake linings. Other members of the Aerospace/Automotive team include (from left) Tim Murray, Steve Schroeder, Jack Kosinski and Cal Waller.

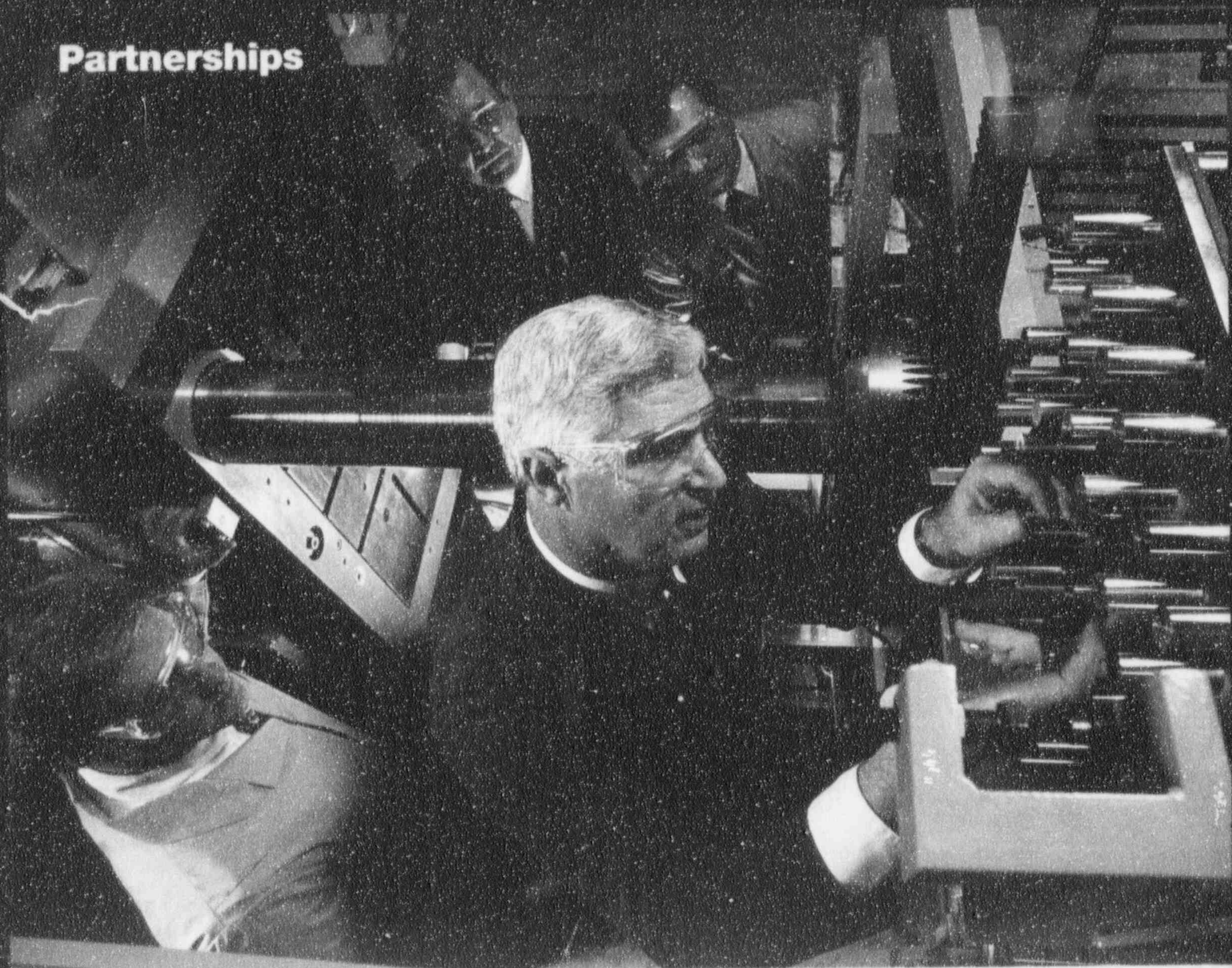
Employees throughout AlliedSignal are focused on speed and teamwork.

As the result of the work of a cross-sector team, Aircraft Landing Systems is delivering brake linings to its customers much faster because Automotive Braking Systems now produces and delivers the necessary parts within 30 days of an order, a process that used to take 90.

A just-in-time parts program designed by a team of Aerospace employees has streamlined the procurement of hardware for aircraft engines and auxiliary power units. Stocking requirements are logged at assembly areas with hand-held data recorders. Orders for parts are transmitted electronically to AlliedSignal's warehouse in Tempe, Arizona and filled within 24 hours.

The company completed phase one of Total Quality training in 1993, providing each of its 86,000 employees the tools to identify, design, implement and measure process improvements. Now such teams are participating in the next phase, AlliedSignal's Total Quality Speed initiative, designed to cut radically the cycle times of core processes.

EMPLOYEES



Ashtabula Rubber Company participated in AlliedSignal's quality training program. In Ashtabula, Ohio, (clockwise from left) Randy Smith, Art Allcock, Robert Tatum and Richard Stiff inspect a molding press. Smith and Tatum are AlliedSignal employees.

SUPPLIERS

AlliedSignal is embracing key suppliers as partners in the push for world-class quality, cost and delivery. AlliedSignal is buying more from preferred suppliers who support its productivity goals. The company also is training suppliers in techniques to help them improve quality and reduce costs.

An AlliedSignal Automotive team conducted a week-long Total Quality Speed (TQS) workshop for Ashtabula Rubber Company in Ashtabula, Ohio, a supplier of components for AlliedSignal truck brakes. As a result, Ashtabula Rubber implemented a one-step spray-coating process and eliminated production bottlenecks, reducing its order-to-delivery time by one-third.

ACR Industries of Macomb, Michigan, which supplies AlliedSignal Aerospace with precision gears for wing flaps on F/A-18 aircraft, compressed its production cycle from 16 weeks to 10 after participating in TQS training.

By committing to productivity improvements, suppliers win more business from AlliedSignal and gain a competitive edge with their other customers.

Acquisitions and joint ventures are helping AlliedSignal extend its global reach and gain access to new markets, technologies and products.

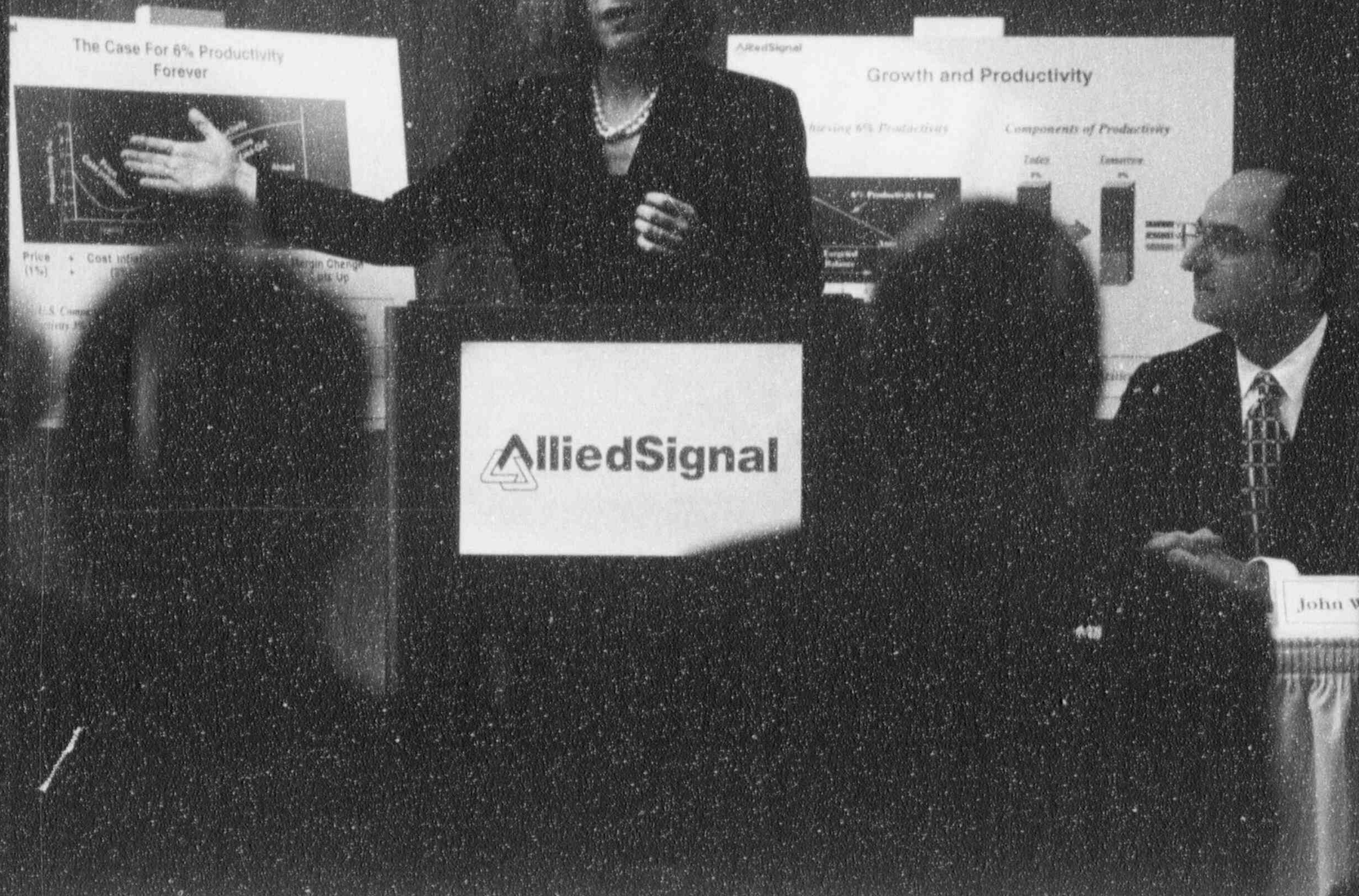
The 1993 acquisition of Sundstrand Data Control meets customer needs for a broader range of avionics. Sundstrand's ground proximity warning and windshear detection systems, aircraft data management and flight recorder technology complement AlliedSignal Aerospace's avionics business and global distribution system.

AlliedSignal Engineered Materials expanded its fluorocarbons business by purchasing a unit from Praxair that supplies gases for sterilizing medical equipment, and strengthened its fibers business in Europe by acquiring a majority interest in Akzo's nylon carpet fiber unit based in The Netherlands. A new $650-million alliance with Knorr-Bremse AG of Germany supplies air brake controls to the worldwide truck industry.

Acquisitions and strategic alliances, along with internal growth, are critical components of AlliedSignal's growth strategy for the 1990s.

▲ AlliedSignal has acquired a majority interest in Akzo's European nylon carpet fiber business in The Netherlands. (from left) Jan Smeding, Jan Siepel, Diederik Mols and Christa Weusthof of AlliedSignal Carpet Fibers inspect carpet samples.

ALLIANCES



Nancy A. Garvey, Vice President and Treasurer, and John W. Barter, Senior Vice President and Chief Financial Officer, meet regularly with the financial community to discuss company developments and industry trends.

INVESTORS

Investors are partners in AlliedSignal, literally and figuratively. By purchasing the company's shares, they stake their financial future on the company's success in meeting its financial objectives.

Shareowners include some 100,000 individual investors, who own 28 percent of the shares outstanding. An additional 14 percent of the shares are owned by some 42,000 employees through AlliedSignal savings plans.

The remaining shares are owned by approximately 750 institutional investors—investment managers, insurance companies, bank trust departments, mutual funds, pension funds and brokerage firms.

Just as the company conducts continuous dialogue with its customers so that its products meet their needs, AlliedSignal maintains a program of regular communication with the investment community to ensure that the company's goals are understood by shareowners and to respond to their information needs. In 1993, investor confidence in the future of AlliedSignal added $2.6 billion of market value to the company's shares, an increase of 31 percent.

WHAT WE DO

A Look at AlliedSignal's Major Businesses and Products

Aerospace	Business Units	Principal Products
	Engines	Turboprop, turbofan and turboshaft engines, auxiliary power units
	Air Transport Avionics, General Aviation Avionics	Airborne weather avoidance radar and collision avoidance systems, automatic flight control and navigation systems, voice and data aircraft communications systems, air data systems
	Aerospace Systems & Equipment, Controls & Accessories, Fluid Systems	Environmental control systems, actuators, fluid systems, torpedo propulsion, engine controls, electric power generating systems
	Aircraft Landing Systems	Wheels and brakes
	Technical Services Corp., Kansas City Division	Managerial and technical services
	Government Electronics Systems	Sonar systems, microwave landing and electronic identification systems, flight guidance and control systems, automatic test equipment, cockpit display systems

Automotive	Business Units	Principal Products
	Braking Systems	Disc brakes, drum brakes, anti-lock braking systems, traction control systems, brake boosters, master cylinders, disc brake pads, drum brake linings
	Safety Restraint Systems	Seat belts, air bag systems, components including hybrid inflators
	Turbocharging Systems	Commercial diesel and passenger car turbochargers, charge-air intercoolers
	AlliedSignal Truck Brake Systems Company (alliance with Knorr-Bremse AG)	Heavy-duty air and hydraulic brake systems, anti-lock braking systems, traction control systems, valves, compressors, air dryers, actuators
	Filters & Spark Plugs	Oil, air, fuel and transmission filters; spark plugs, oxygen sensors
	Automotive Aftermarket (North America)	Filters, brakes, spark plugs, wire and cable
	Aftermarket Europe	Filters, spark plugs, brakes, brake fluid, brake cleaners

Engineered Materials	Business Units	Principal Products
	Fibers: Carpet Fibers, Industrial Fibers, Textile Nylon, High Performance Fibers	Nylon carpet fibers, nylon and polyester industrial fibers, nylon apparel fibers, high performance fibers
	Chemicals: Chemical Intermediates, Fluorocarbons, Oximes, Tar Products, HF/Fluorine Specialties	Hydrofluoric acid, fluorocarbons, CFC substitutes, uranium hexafluoride, specialty chemicals, oximes, tar products, sterilant gases, environmental systems
	Plastics: Engineering Plastics, Specialty Films	Engineering plastics, films
	Advanced Materials: Performance Additives, Environmental Catalysts, Advanced Microelectronics Materials, Amorphous Metals, Laminate Systems, Filtration Systems, Fluorglas	Low-molecular weight polyethylene, amorphous metal alloys, catalysts, copper foil laminates for printed circuit boards

Markets	Facilities	Net Sales	Income

Markets

Commercial and regional aviation
General aviation
Military aviation
Aftermarket parts, repair and overhaul
Engineering management
Technical support services
Undersea
Space
Missiles

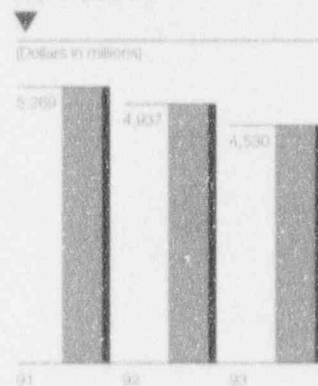
Facilities

Headquarters:
Torrance, California

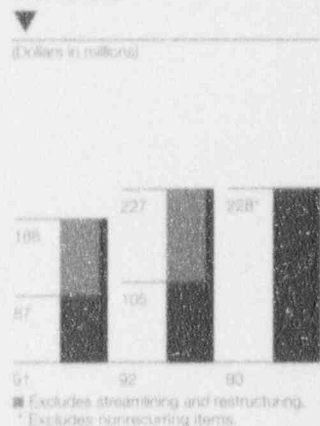
Facilities:

North America	120
Europe	25
Asia	7
Other	3

Net Sales



Income



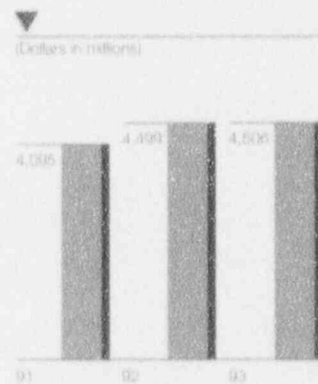
■ Excludes streamlining and restructuring.
* Excludes nonrecurring items.

Passenger cars
Light, medium, heavy trucks
Off-highway vehicles
Recreational vehicles
Railway and marine equipment
Aircraft and industrial equipment
Engine, brake manufacturers
Auto and truck aftermarkets

Headquarters:
Southfield, Michigan

Facilities:

North America	53
Europe	89
Asia	9
Other	8



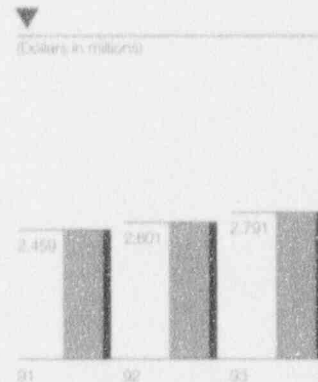
■ Excludes streamlining and restructuring.
* Excludes nonrecurring items.

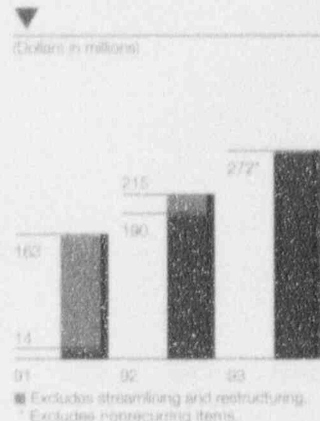
Residential/commercial carpeting
Tires
Apparel
Seat belts
Recreational products
Sails
Bullet-resistant helmets and body armor
Refrigeration
Gas/electric utilities
Food/pharmaceutical packaging
Electronics
Computers
Telecommunications
Polishes
Aluminum
Automotive
Aerospace
Medical

Headquarters:
Morris Township, New Jersey

Facilities:

North America	62
Europe	10
Asia	7
Other	2





■ Excludes streamlining and restructuring.
* Excludes nonrecurring items.

AEROSPACE

Delivering Strong Earnings in Difficult Markets

The 1993 acquisition of Sundstrand Data Control broadens AlliedSignal's commercial avionics product line. In Redmond, Washington, (from left) Christine Stahl, Frank Brem and Scott Gremmert work on an enhanced ground proximity warning system.

Right: AlliedSignal traffic alert and collision avoidance systems have been installed on more than 3,500 commercial aircraft worldwide.

Below: A guidance sensor for a commercial space satellite system is tested at AlliedSignal's Teterboro, New Jersey labs.

Despite cost retrenchment in the commercial aviation industry and reduced U.S. defense spending, AlliedSignal Aerospace reported higher earnings in 1993 and maintained its leadership in key markets.

Net income rose to $228 million from $227 million in 1992, excluding unusual items in both years. Sales were $4.53 billion, down from $4.94 billion in 1992.

In 1993, Aerospace simplified its organization and, excluding the effect of acquisitions, trimmed its work force by 11 percent. Since the beginning of 1991, Aerospace has consolidated 25 strategic business units into 12, and earnings have grown 15 percent. By combining its Propulsion Engines and Auxiliary Power businesses, for example, into a single unit called AlliedSignal Engines, the company will eliminate redundant work and save about $50 million a year. Aerospace also is merging its Communications, Guidance & Control and Ocean Systems units into a single business, AlliedSignal Government Electronics Systems.

In another step to reduce bureaucracy and be more responsive to customers, Aerospace is consolidating its sales, service, repair and overhaul, and distribution capabilities into a single organization.

Aerospace's integrated customer service centers in Phoenix; Raunheim, Germany; and Singapore enable AlliedSignal to meet the needs of commercial airlines for worldwide support. In addition, Aerospace is extending its capabilities to service products of other suppliers who can benefit from AlliedSignal's global presence.

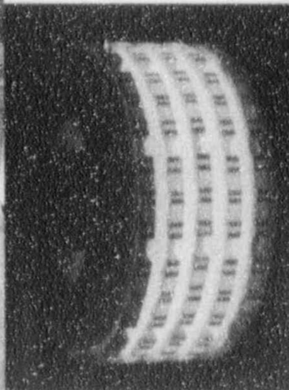
Attention to quality and customer service have strengthened AlliedSignal's preferred-supplier status with leading U.S. airlines, including American and Northwest. In 1993, the chairman of one of AlliedSignal's most demanding airline customers praised the company for its revitalized "commitment to quality." Improved customer focus also helped AlliedSignal win more than 65 percent of the major equipment contracts it competed for in 1993. Among new business wins were:

- Wheels and brakes for Japan Airlines' new fleet of Boeing 777 aircraft;

Attention to quality and customer service helped AlliedSignal Aerospace win more than 65 percent of the major equipment contracts it competed for in 1993.

Left: At Aerospace's engine manufacturing facility in Phoenix, Keith Cheraso inspects a turbofan engine component used primarily on business jets.

Below: AlliedSignal's new *Bendix Carbenix* brake, shown during development testing, is designed for large commercial aircraft.



Richard Tan prepares a *Garrett* engine for testing at Aerospace's repair and overhaul facility in Singapore.

- Forward-looking windshear detection/avoidance weather radar systems, communications and navigation equipment, traffic alert and collision avoidance systems, and auxiliary power units for Continental Airlines;
- Landing gear and wheels and brakes for the new McDonnell Douglas F/A-18 E/F Hornet fighter jet;
- Upgraded electronics systems for the U.S. Air Force fleet of C-130 and C-141 transport aircraft; and
- Satellite orientation control systems for the IRIDIUM global telecommunications network.

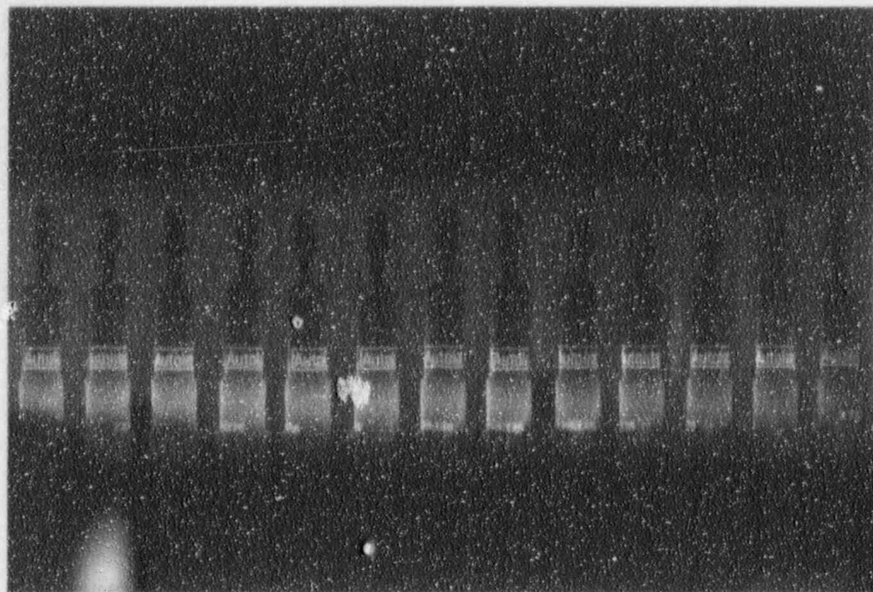
Aerospace also is significantly enhancing its productivity with a focus on Total Quality Speed initiatives, which have led to faster inventory turns and a 27-percent reduction in inventory since the start of 1991, translating to a total reduction in inventory of $357 million. A materials quality assurance program reduced the average defect rate of parts received from suppliers by 71 percent in 1993 alone, and even more aggressive cuts are projected.

In addition to quantum productivity improvements, AlliedSignal completed key acquisitions in 1993. Sundstrand Data Control, a supplier of ground proximity warning and windshear detection systems, aircraft data management and flight recorders, complements AlliedSignal's commercial avionics product mix and global distribution system. The company also acquired the aircraft wheel and brake overhaul operations of Air Treads, Inc. to position itself for growth in maintenance outsourcing by commercial airlines. Already the world's leading producer of aircraft wheels and brakes, AlliedSignal now can provide comprehensive parts support and help customers save money with special full-service programs.

Although steady quarterly upturns in flying hours and in takeoffs and landings are harbingers of increasing demand in the U.S., the fastest growing aviation markets are outside North America. Particularly promising is China, which purchased one of every ten new commercial aircraft in 1993. AlliedSignal already supplies auxiliary power units, wheels and brakes, avionics systems and other components for airlines operating in China and is pursuing other growth markets in Asia.

AUTOMOTIVE

Meeting Growing Consumer Demand for Safety Features



AlliedSignal's manufacturing plant in Fostoria, Ohio produced its seven billionth spark plug in 1993.

Right: AlliedSignal's all-in-one brake repair kit for the European aftermarket won an award at the 1993 Equip'Auto show in Paris.

Below: Chrysler's critically acclaimed Neon features an advanced anti-lock braking system and other components from AlliedSignal.

AlliedSignal Automotive reported solid earnings growth in 1993, as several key products were introduced and employee teams improved productivity across the organization. Net income for Automotive was $184 million, up 30 percent from $141 million in 1992, excluding unusual items in both years. Sales totaled $4.51 billion, versus 1992's $4.50 billion. Excluding the effects of foreign exchange, sales in 1993 increased 5 percent.

Automotive's 1993 performance followed a substantial profit improvement in 1992, despite continued widespread recession in Europe.

A recovering North American car and truck market helped offset the European decline. AlliedSignal supplies a variety of products for minivans and light-duty trucks, which are experiencing growing popularity among U.S. consumers. The company also benefited from growing demand for safety features such as anti-lock braking systems (ABS) and air bags. Demand for these features helped boost sales to Chrysler Corporation by 34 percent over 1992 levels.

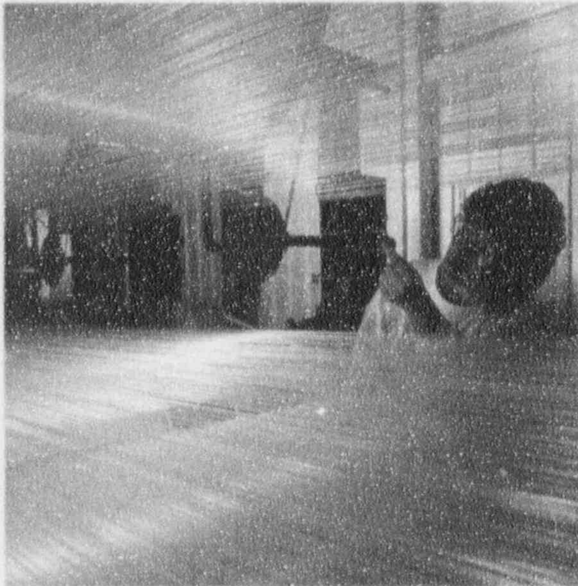
Aftermarket sales of AlliedSignal's well-known brands—including *Bendix* brakes, *Autolite* spark plugs and *FRAM* filters—also increased substantially.

Automotive introduced an ABS with traction control on Ford's new "global car," the Mondeo, chosen as European "Car of the Year" by a panel of automotive writers. The *Bendix Mecatronic II* ABS "turns a good car into a brilliant one," proclaimed one journalist. The company will increase its production capacity for ABS units in 1994 to meet requirements for the Mondeo and its sister models, the Ford Contour and Mercury Mystique, which will be introduced in North America in the fall of 1994.

AlliedSignal also is providing a new, lower cost ABS for Chrysler minivans and the Dodge/Plymouth Neon, named "Automobile of the Year" by Automobile magazine. The same ABS will be used on the Chrysler Cirrus and Dodge Stratus, which debut in mid-1994.

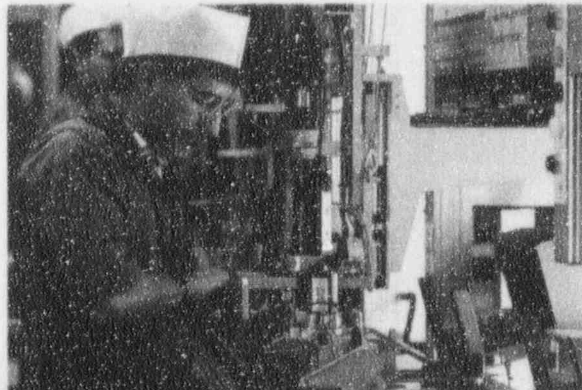
The future also will see the launch of a new low-cost ABS for Ford in both Europe and North America—*Bendix Mecatronic III* ABS. Automotive continued to increase penetration of the heavy-duty truck market as well, supplying

A resurgent North American car and truck market helped offset a decline in Europe, as did strong consumer demand for vehicles equipped with anti-lock brakes and air bags.



Pat Headrick prepares fibers to be woven into fabric for air bags at AlliedSignal's safety restraints plant in Knoxville, Tennessee.

Right: Victor De Oliveira assembles components at the Moulins, France braking systems plant.



Below: In France, AlliedSignal makes the *Bendix Mecatronic II* ABS used by Ford on its new "global car," the Mondeo.

Bendix AntiLock brakes to the industry's major manufacturers, including Navistar and Ford.

Automotive launched a new inflator for passenger-side air bags on Chrysler's popular minivans. The hybrid inflator, assembled by a joint venture in Knoxville, Tennessee, uses argon gas and a proprietary propellant for cost, performance and environmental benefits. AlliedSignal also announced a three-company joint venture to begin making the inflators in Europe, initially for Fiat and Opel.

Capitalizing on a shift to turbocharged diesel engines in Europe, AlliedSignal won contracts to supply *Garrett* turbos on engines for Volkswagen and Opel models. And for the third time in four years, the winning engine in the Indianapolis 500 was equipped with an AlliedSignal *Garrett* turbo.

Automotive continued its move toward globalization, establishing headquarters in Europe for three new business units — AlliedSignal Aftermarket Europe, Braking Systems Europe and Turbocharging Systems.

AlliedSignal joined with Knorr-Bremse AG of Germany to create a $650-million supplier of air-brake systems to the worldwide medium- and heavy-duty truck industry. Automotive also opened a seat belt plant in Spain and established an air bag marketing and engineering staff in Japan. Expanding into Eastern Europe, AlliedSignal established an aftermarket joint venture in Russia and began exporting turbochargers to a tractor plant in Minsk. Plans are well under way to sell AlliedSignal products in the burgeoning Chinese market, beginning with engine components.

In 1993, some 2,000 employee teams worldwide used Total Quality Speed and materials management techniques to reduce cycle times and costs. As a result, Automotive exceeded its 6 percent productivity improvement goal.

By combining its brake and friction materials businesses in 1993, Automotive now can provide automakers with integrated braking systems that contain more AlliedSignal components, while reducing overhead costs and operational complexity.

ENGINEERED MA

Growing through New Products and Global Expansion

In Pendleton, South Carolina, Doris Reed uses a digital height meter to test the contour of a copper laminate panel.

Right: AlliedSignal is partnering with Mohawk Industries to develop new carpet fabrics. In Calhoun, Georgia, (from left) Warren Weiss, Steve Robinson, Frank Peters and Debra Scheerer inspect Mohawk's "Sisal Accents" collection. Peters is with Mohawk.

Left: At AlliedSignal's new industrial fibers plant in Longlaville, France, (clockwise from top left) René Reuter, Jean-Luc Hennebicq, Jean-Francois Fritsch and Marita Thise review work amidst polyester fiber destined for Goodyear. Reuter and Thise are Goodyear employees.

AlliedSignal Engineered Materials achieved substantially higher earnings in 1993, driven by stronger sales, productivity improvements, and materials management savings. Engineered Materials is vigorously pursuing global expansion, improving key product lines and commercializing new products to meet changing customer needs.

Net income for Engineered Materials in 1993 was $272 million, an increase of 27 percent from the $215 million generated in 1992, excluding unusual items in both years. Sales increased 7 percent to $2.79 billion from $2.60 billion in 1992.

Much of Engineered Materials' growth over the next two years will come from globalizing core businesses such as fibers, fluorines, environmental catalysts, plastics and laminates, and developing new oximes and performance additives. Acquisitions and alliances are critical to this strategy, particularly in fibers, its largest business.

A U.S. exporter of carpet fibers for many years, Engineered Materials in 1993 became a European producer by acquiring a majority interest in a new company formed with Akzo NV. Based in The Netherlands, AlliedSignal Carpet Fibers combines AlliedSignal's strong position in residential carpet fibers with Akzo's strength in the European commercial market.

AlliedSignal also completed its largest capital project ever, a $200-million industrial fibers plant in Longlaville, France. The facility can produce 42 million pounds of polyester fiber annually for use primarily in belted radial tires. Modeled after AlliedSignal's Moncure, North Carolina plant, the facility enables Engineered Materials to capitalize on the shift in Europe from the use of rayon to polyester in belted tires.

High-performance *Spectra* fibers are in demand for applications ranging from military armor to a new braided fishing line. French soldiers participating in United Nations peacekeeping efforts in Bosnia were equipped with helmets made of an ultra-tough composite using *Spectra* fibers. The new helmets weigh less and provide 80 percent more protection than the helmets previously used by the French forces. AlliedSignal plans to pursue new applications for this lifesaving material.

The company is aggressively changing its fluorines busi-

TERIALS

AlliedSignal is changing its fluorines business as it prepares for the mandatory phaseout of CFCs and meets burgeoning demand for environmentally safer substitutes.

Juan Ruiz (foreground) and Michael Cummings examine parts of a glue-gun plastic housing at AlliedSignal's Plastics Technical Lab in Morris Township, New Jersey.

In 1993, AlliedSignal received an ozone protection award from the U.S. Environmental Protection Agency for its work with Hannaford's Shop 'n Save store in Glens Falls, New York, one of the first U.S. supermarkets to use CFC substitutes in its frozen food cases.

ness as it prepares for the mandatory phaseout of chlorofluorocarbons (CFCs) and seeks to meet burgeoning worldwide demand for environmentally safer CFC substitutes. CFCs are widely used in refrigeration, air conditioning and foam insulation.

In 1993, AlliedSignal was awarded a U.S. patent for *Genetron* AZ-50, a new non-ozone-depleting refrigerant for use in ice machines, supermarket refrigerated cases and other commercial applications. To help customers comply with the phaseout of CFCs, AlliedSignal will start full-scale commercial production of AZ-50 refrigerant in the spring of 1994. The company will open a new $70-million plant in Geismar, Louisiana to make CFC substitutes for refrigerants and for sterilizing medical equipment. The company already has more than doubled capacity at its El Segundo, California facility for insulating foam applications and has expanded a plant in Baton Rouge, Louisiana to produce CFC-free refrigerants and sterilants.

Reaching out to new markets, AlliedSignal acquired the U.S. sterilant gases business of Praxair, Inc., and expanded a joint venture with Lucky Ltd. to produce and market CFC substitutes in Korea. In addition, AlliedSignal's design, technical and manufacturing experts are teaming with customers to help smooth the way for converting their operations from CFCs to substitutes.

Other Engineered Materials initiatives during 1993 focused on growth:

- Environmental Catalysts: AlliedSignal introduced an automotive catalyst that will help automakers meet air pollution standards and cut some materials costs by 30 to 50 percent.
- Oximes: AlliedSignal enhanced the world's only fully integrated oximes business by acquiring a Kansas-based specialty chemicals business specializing in compounds for the agricultural and pharmaceutical markets.
- Plastics: A new venture with Mitsubishi Kasei Corporation of Japan will offer more than 30 grades of plastic for the automotive and electrical supply industries.
- Laminates: A new manufacturing facility was built in Thailand to meet the needs of global electronics customers.

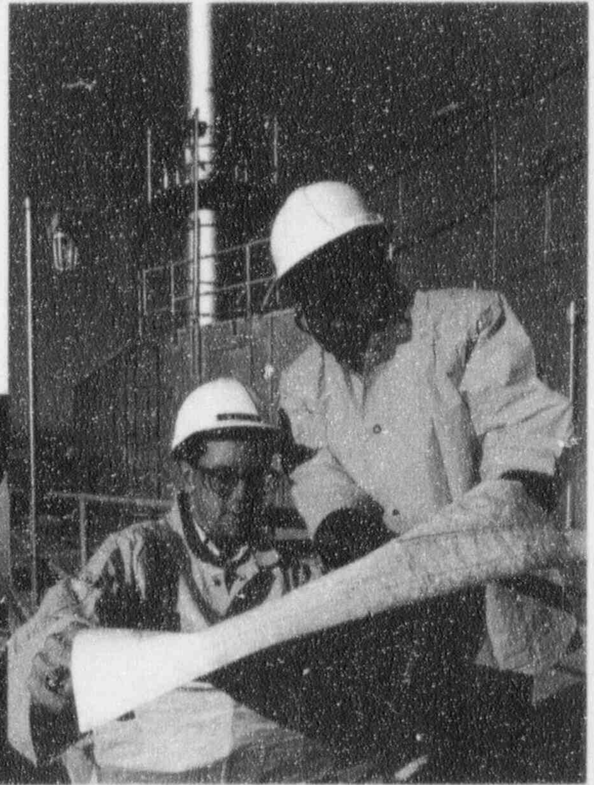
Engineered Materials in 1994 will focus on accelerating growth through new product development, global expansion and acquisitions.

ENVIRONMENT

Preserving Health, Safety and the Environment

Right: A new catalytic oxidizer at Engineered Materials' chemical plant in Philadelphia has reduced air pollutants by more than 90 percent. Barbara Flowers and John Tomlinson inspect a mechanical drawing of the oxidizer.

Below: Technicians monitor the oxidizer's performance.



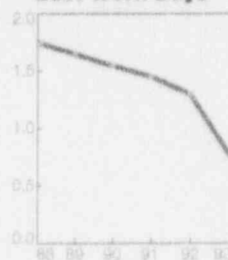
Above: Bill Dennis wears an air-sampling pump as nurse Anna Mae Fritz (left) and industrial hygienist Darolyn Wall test air quality at Aerospace's facility in Tempe, Arizona.

AlliedSignal manufacturing plants, research facilities and offices around the world display two items prominently: AlliedSignal's Vision and Values statement and its Health, Safety and Environmental (HS&E) Policy. The HS&E Policy serves as an important reminder of the company's commitment to comply with all environmental laws and regulations, develop strong internal standards and controls, conserve resources, minimize waste, and protect human health and the environment.

HS&E programs at AlliedSignal, overseen by more than 350 full-time professionals, go well beyond a plaque on the wall. Since 1988, for example, AlliedSignal has reduced hazardous wastes by 52 percent. In 1993 alone, the company:

- Invested $39 million in environmental capital projects;
- Recycled more than 3,000 tons of nylon polymer; and
- Trained more than 2,000 employees as part of a new safety leadership program, including 200 manufacturing employees who now serve as trainers for their co-workers. In 1994, the company plans to train the balance of its work force in ways to enhance safety in the workplace.

Lost Work Days



Safety programs have reduced work related injuries and illnesses. Since 1988, the annual rate of lost work day cases per 100 employees has dropped 58 percent.

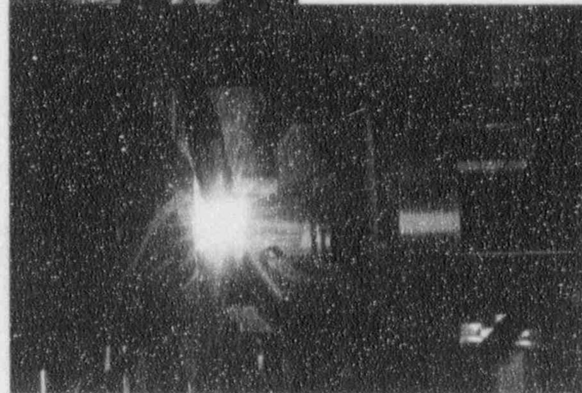
The AlliedSignal safety leadership program is protecting employees as well as the company's financial health. In addition, an alternative return-to-work program developed in 1993 by a workers' compensation Total Quality team, together with safety training and rapid medical response teams, helped reduce lost work days.

Since its creation in 1977, AlliedSignal's environmental audit program has been used as a model by other corporations and organizations worldwide. Under the program, more than 50 AlliedSignal manufacturing facilities are audited each year to assure full compliance with company policies and environmental laws and regulations. The auditing system has been adopted as a

AlliedSignal's environmental audit program has been used as a model by companies around the world.

Left: Jerry O'Neal monitors noise levels at Aerospace's Tempe facility to evaluate needs for hearing protection for employees.

Below: An air bag inflator is welded in Knoxville, Tennessee. Automotive's new hybrid inflator uses argon gas and a proprietary propellant for cost, performance and environmental benefits.

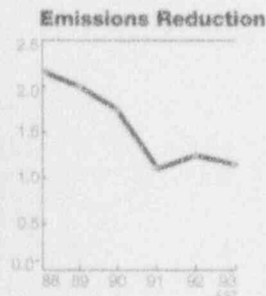


Engineered Materials is partnering with Waste Management Inc. and Carpet Fair Stores to recycle nylon from used carpets. In Baltimore, Ron Skelton uses an infrared analyzer to identify carpet fibers, while Forrest Sloan (left) and Don Aleksejus sort carpets.

model for the International Chamber of Commerce's environmental auditing guidelines and the European Commission's voluntary eco-management audit system.

Investments in environmental programs also are helping AlliedSignal comply with the provisions of the Clean Air Act, which begin to take effect in 1994. For example, the installation of an $11-million catalytic oxidation unit has reduced hazardous air emissions by more than 90 percent at AlliedSignal's chemical plant in Philadelphia.

Emissions Reduction

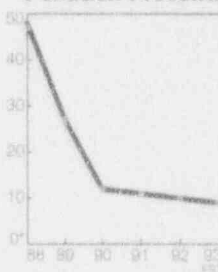


Since 1988, AlliedSignal has reduced by 43 percent emissions of 17 chemicals under the EPA's "33/50" voluntary reduction program. The increase in 1992 was due to a since discontinued pilot plant.

* tons x 1,000

AlliedSignal's *Design for the Environment* criteria are an important part of the company's design engineering specifications to ensure that products not only meet customer needs, but also are safe to use and protect the environment. For example, AlliedSignal uses recycled plastic products to make an engineered plastic resin for various uses, including car bumpers. The company also has a pilot project under way to recycle used nylon carpets for use in the manufacture of other fiber products.

Pollution Prevention



Since 1988, AlliedSignal has cut by 81 percent emissions of more than 300 chemicals under the EPA's Superfund Amendments and Reauthorization Act (SARA) Title III monitoring program.

* tons x 1,000

Each year, all AlliedSignal managers who have significant health, safety or environmental responsibilities are required to personally affirm that their operations are meeting the company's stringent HS&E objectives. Risk-assessment and product-integrity committees also assure that goals are met.

Through such programs, AlliedSignal protects the health and safety of its employees, the reliability and safety of its products, and the environmental quality of the communities in which it operates.

1993 Compared with 1992

n 1993, the Company initiated a number of new programs and furthered those begun in 1991 and 1992 to strengthen and grow its businesses. A number of growth businesses were enhanced through internal product development, strategic acquisitions, joint ventures and through major capital investments. The Company is overhauling its basic processes to increase market penetration and forming commodity purchasing teams and working with its customers and suppliers to raise product quality and reduce production costs. The Company believes that its revenues will grow in 1994 through internal focus on product development and customer satisfaction as well as through selected acquisitions. Profits are expected to increase significantly based on the Company's growth strategy as well as by continuing to generate strong free cash flow and by enhancing productivity improvements, including cycle-time reductions.

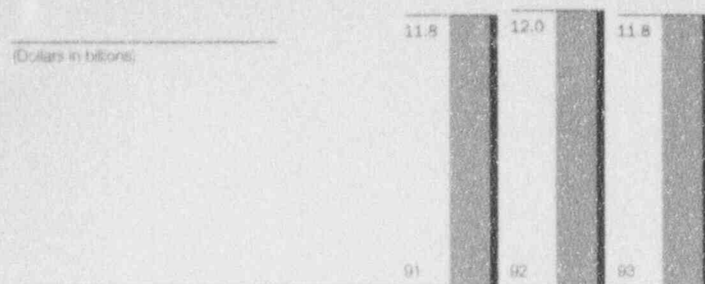
The Company strengthened a number of major businesses in 1993:

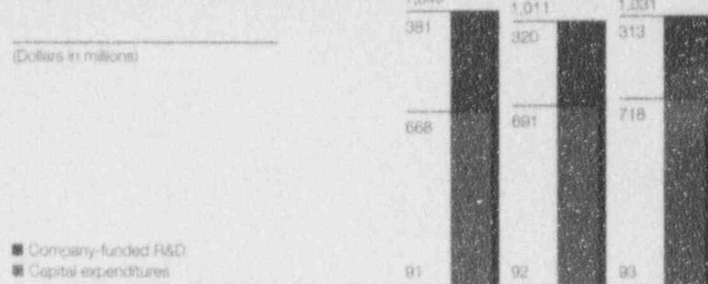
- To become a more broad-based avionics supplier, the Company acquired Sundstrand Data Control for $195 million. The acquired business manufactures a variety of avionics products for data management, ground hazard avoidance, general aviation communications, navigation and instrumentation. 1992 sales of such products were $194 million. The Company also acquired the aircraft wheel and brake overhaul operations of Air Treads, Inc. which had 1992 sales of approximately $22 million.
- To strengthen the Company's position in air brake controls and related products for the truck industry, the Company and Knorr-Bremse AG formed two ventures—one in North America and one in Europe. The new ventures are the market leaders for a number of truck air brake systems components in North America, France, Italy and the U.K., and are strongly positioned elsewhere in Europe. The Company owns 65 percent of the North American operation and 35 percent of the European operations. Annual sales of the two ventures are expected to be about $650 million. The Company also acquired Filtram S.A., the manufacturer and distributor of its Fram® filter products in Mexico.
- In the fibers business, the Company, as the majority shareowner, and Akzo NV of Arnhem, The Netherlands, formed a new company to manufacture and market commercial carpet fibers in Europe. The new company, which consists of fiber production facilities previously owned by Akzo, is expected to have annual sales of about $70 million. The Company also announced that it is discussing a combination of its North American carpet and textile fibers operations with those of BASF Corporation. The Company also started up its $200 million industrial polyester fiber plant in Longlaville, France. The plant manufactures polyester yarn which the Company believes will become the primary fiber reinforcement for passenger car radial tires. Rayon is currently used to reinforce car tires in Europe.
- The Company expanded its fluorocarbon business through the acquisition of the U.S. sterilant gas business of Praxair Inc. and by more than doubling, from 20 to 50 million pounds per year, the Company's hydrochlorofluorocarbons (HCFC)-141b capacity at its El Segundo, California facility. Sterilant gases are a mixture of ethylene oxide and chlorofluorocarbons (CFCs) used for infection control by health care providers. HCFC is an environmentally-safer substitute for CFCs which have been linked to the reduction of the earth's protective ozone layer and are being phased out of production by the end of 1995. HCFC-141b is a new blowing agent used in a variety of commercial and residential rigid-insulating foam applications. Non-ozone-depleting refrigerants will also be produced at a new $100 million plant being built in Geismar, Louisiana. Production from the first phase of the plant, estimated to cost about $70 million, is expected by mid-1994.

The Company's common stock will be split 2-for-1. On March 14, 1994, each shareowner of record on February 22, 1994 will receive one additional share for each share owned. Sufficient authorized shares for the 100 percent stock distribution will become available by the redemption of common stock purchase rights. The rights redemption price of $0.05 a share will be paid to shareowners on March 10, 1994 with the regular first quarter dividend of $0.29 per pre-split share. Share and per share data throughout this discussion have been restated to reflect the stock split.

The Company expects to raise the regular quarterly dividend on its common stock by 16 percent, from $0.145 to $0.1675 per post-split share, beginning with the second quarter payment of 1994. The Company had also increased its regular quarterly dividend by 16 percent in February 1993.

The Company adopted, effective January 1, 1993, an accounting change related to postemployment benefits. The Financial Accounting Standards Board (FASB) issued Statement No. 112—"Employers' Accounting for Postemployment Benefits" (FASB No. 112) which requires the Company to accrue, over an employee's service life, the cost of severance and health care benefits. The current year's impact of FASB No. 112 is an after-tax provision of $11 million, or $0.04 a share. As part of the adoption, the Company also recorded "catch-up" after-tax charges totaling $245 million, or $0.86 a share. This one-time charge reduced the Company's shareowners' equity by 11 percent.





esults of Operations. *The Company's earnings grew to record levels in 1993 benefitting from productivity actions and only a slowly recovering U.S. economy, which more than offset the impact of a depressed aerospace industry and a recession in Europe.*

Net sales in 1993 were $11,827 million, down 2 percent from last year. Of the $215 million decrease, $206 million was the effect of the stronger dollar on Automotive and $81 million was because of reduced sales volumes, reflecting the recession in Europe and weakness in the aerospace industry offset in part by $72 million of price increases.

Cost of goods sold, as a percent of sales, decreased from 82.4 percent in 1992 to 80.8 percent in 1993. This was the second consecutive yearly decrease. The improvement was the result of productivity gains, including cycle-time reductions and materials management initiatives throughout the Company. Overall, productivity (the constant dollar basis relationship of sales to costs) grew by 5.8 percent over last year.

Nonrecurring items consist of a net gain of $16 million from the formation of the Knorr-Bremse venture offset mainly by the co[illegible] several unusual items. See Note 3 of Notes to Financial Statements for additional information.

Income from operations of $954 million in 1993 improved by $539 million. Excluding the nonrecurring items in 1993 and the current year's impact of adopting FASB No. 112 as well as charges for streamlining and restructuring in 1992 (special provisions), income from operations improved by $173 million, or 22 percent, reflecting significant earnings gains despite a generally slow world economy. After excluding the special provisions, Aerospace's income increased 4 percent and Automotive's and Engineered Materials' income both increased 32 percent. Profit margins increased from 6.5 percent in 1992 to 8.1 percent mainly as a result of improved productivity throughout the Company. See the discussion of net income below for information by segment.

Equity in income of affiliated companies of $122 million increased by $19 million, or 18 percent, reflecting higher earnings in the UOP process technology joint venture (UOP). The Paxon high-density polyethylene joint venture (Paxon), however, had lower income as industry overcapacity depressed prices, mainly in the first half of the year.

Earnings from Union Texas investment reflects the disposition of the Company's common stock holdings in 1992 as discussed in Note 21 of Notes to Financial Statements.

Other income (expense), a $9 million loss, compares to a gain of $9 million in 1992 reflecting increased foreign exchange losses in Europe and Brazil partly offset by higher interest income from investments in short-term securities.

Interest and other financial charges of $157 million decreased $63 million, or 29 percent, from last year because of a lower average level of total debt outstanding, reflecting in part, the redemption of three debt issues and lower interest rates.

The effective tax rate in 1993 was 27.9 percent compared to 23.8 percent in 1992. Excluding the impact in 1992 of streamlining and restructuring charges and the gain relating to Union Texas Petroleum Holdings, Inc. (Union Texas), the effective tax rate for 1992 was 24.1 percent. The 3.8 percentage point increase was due to a higher level of earnings taxed at the new higher U.S. tax rate and the absence of preferentially taxed Union Texas dividends. A partial offset resulted from an adjustment to deferred tax balances because of the 1993 tax rate change. Net income for 1993 benefited by about $0.02 a share from the net effect of the 1993 tax law changes. See Note 7 of Notes to Financial Statements for further information on income taxes.

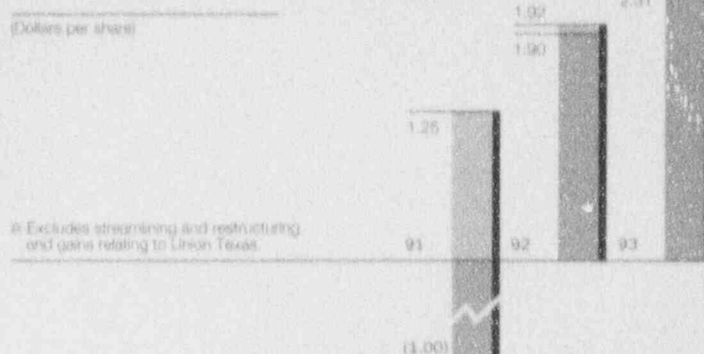
Income before the cumulative effect of changes in accounting principles of $656 million, or $2.31 a share, in 1993 was favorable by $121 million, or $0.41 a share, compared to $535 million, or $1.90 a share, last year.

Net income (loss) in 1993 was income of $411 million, or $1.45 a share. In 1992 the Company reported a loss of $712 million, or $2.52 a share. However, both periods were impacted by the cumulative effect of adopting accounting changes as well as unusual items. 1993 results included the current year's charge for adopting FASB No. 112, a net nonrecurring gain and the impact of the U.S. tax increase. Results in 1992 include streamlining and restructuring charges and the gain on the disposition of the Company's interest in Union Texas. Excluding these items from both years, current year's net income was $659 million, or $2.33 a share, which compares with net income of $541 million, or $1.92 a share, in 1992. The higher income was the result of significant increases for Automotive and Engineered Materials.

A discussion of the operations of the business segments, before the cumulative impact of accounting changes on net income, follows. Adjusted net income excludes the impact of the 1993 nonrecurring items and the 1992 streamlining and restructuring provision. (Dollars in millions)

Aerospace	Net Sales	Net Income	Adjusted Net Income
1993	$4,530	$224	$228
1992	4,937	105	227
Increase/(Decrease)	$ (407)	$119	$ 1

Aerospace sales decreased 8 percent because of continued significant volume reductions in military, commercial and general aviation markets. Lower production of general aviation aircraft resulted in fewer propulsion engine deliveries.



Aftermarket sales were significantly lower in the auxiliary power unit product line. Mainly because of a reduction in the number of aircraft built, sales of controls and accessories and fluid systems as well as avionics and communications systems were materially lower. Technical service contracts awarded by various government agencies and sales of ocean systems increased moderately. Sales of aircraft landing systems increased slightly, and aftermarket sales related to propulsion engines were higher. The acquisition of Sundstrand's data control business in the fourth quarter of 1993 contributed $24 million to sales.

Overall, the Company's 1993 sales to the Department of Defense (DOD), as a prime contractor and subcontractor, declined by 11 percent compared to 1992 because of reduced defense spending. Sales to the commercial and foreign government markets declined by 9 percent, while sales to the National Aeronautics and Space Administration (NASA) and other U.S. government agencies increased by 6 percent in 1993. Sales to the DOD accounted for 31 percent of Aerospace's total sales, a decrease of 1 percent compared to 1992.

Although total sales were lower and 1993 results included an after-tax charge of $5 million reflecting the current year's impact of adopting FASB No. 112, Aerospace's adjusted net income improved slightly compared to last year. Continuing productivity improvements and sales increases in several product lines were the principal offsets. Significant cost savings were realized at every operating business unit. Aerospace Systems and Equipment had substantially higher earnings. Higher aftermarket sales related to aircraft landing systems, propulsion engines and guidance and control systems as well as higher sales of ocean systems and technical services also contributed to the favorable earnings. Earnings were lower for avionics and auxiliary power and communications systems because of reduced sales.

Changing defense priorities and severe federal budget pressures are expected to continue to restrain funding for DOD-related aerospace products over the next few years. As a result, a number of the Company's military and space programs may be stretched out, curtailed or cancelled.

The commercial airline industry continues to be in a cyclical downturn brought on in part by the recession. Many airline carriers have cancelled new aircraft orders reflecting the excess capacity of the world airline fleet and the reluctance of commercial carriers to finance new aircraft purchases. With improved economic conditions, air traffic should continue to rebound and, over the long-term, drive the demand for new aircraft and mitigate the impact of continued reductions in defense spending.

The Company continues to receive significant contracts from the commercial aviation industry, DOD and NASA and earnings are expected to remain strong. The strength reflects the broad diversification of the Company's aerospace businesses and the quality of its products and services. Among the Company's contracts are a number of priority development programs and system upgrades which are believed to be vital to the nation's defense.

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 determined, management is not presently aware of any such investigation which it expects will have a material adverse effect on the Company.

Funded backlog of $1,283 and $1,557 million at December 31, 1993 and 1992, respectively, consists of unfilled firm orders from the U.S. and foreign governments for the Company's aerospace products for which funding has been both authorized and appropriated by the customer. Total negotiated backlog of $4,773 and $4,859 million at year-end 1993 and 1992, respectively, also includes firm orders for which funding has not yet been appropriated as well as commercial contracts. The Company anticipates that approximately $2,335 million of the total 1993 backlog will be filled during 1994.

Automotive	Net Sales	Net Income	Adjusted Net Income
1993	$4,506	$226	$184
1992	4,499	76	141
Increase	$ 7	$150	$ 43

Automotive sales were essentially level with last year despite the negative impact, totaling $206 million, of translating mainly weakened European currencies to the U.S. dollar. Sales of all products in the North American market were higher. Original equipment (OE) sales for passenger cars, light trucks and heavy trucks rebounded. The Company has significant product content on light trucks. Sales of passenger-side air bags were especially strong and sales of seat belts, aftermarket products, turbocharging systems and anti-lock braking systems (ABS) also improved. Sales by the Company's Brazilian operations improved after a number of disappointing years because of poor economic conditions in that country. OE and aftermarket product sales were materially lower in Europe reflecting the impact of the recession.

Automotive's adjusted net income increased significantly, reflecting higher sales to the North American OE manufacturers and the aftermarket and strong productivity gains. Rationalization and enhanced productivity programs continued, mainly in Europe, where sales are down materially due to the

poor economy. In the North American market, automotive and truck brakes, safety restraints, aftermarket products and turbochargers had substantial earnings growth. Productivity improvements and higher sales volumes substantially reduced prior year losses in Brazil. The 1993 results include an after-tax charge of $3 million reflecting the current year's impact of adopting FASB No. 112.

The Company introduced new ABS products in Europe and the U.S. in 1993 which strengthened its position in braking systems for new vehicle production. Although its market share remains less than 10 percent, the Company is developing more advanced technology that should strengthen its competitive position by 1996.

Increased competitive activity across all product lines and increasing product and cost demands from customers will continue to put pressure on the Company's automotive business. However, the Company believes it will more than offset these market conditions through product innovation, aggressive productivity actions to reduce costs and by accelerating the process of supplying integrated automotive systems to the global marketplace. To improve operating efficiencies, the Company initiated plans in 1991 and 1992 to significantly reduce the number of its worldwide locations. By the end of 1993, 20 operating plants had been closed. Sales offices, distribution centers and research and development facilities are also being consolidated.

Engineered Materials	Net Sales	Net Income	Adjusted Net Income
1993	$2,791	$269	$272
1992	2,601	190	215
Increase	$ 190	$ 79	$ 57

Engineered Materials had a 7 percent sales increase. Sales of fluorine products, including environmentally-safer substitutes for CFCs, grew substantially and sales of laminate systems, oximes, performance additives and tar products were materially higher. Sales of carpet and industrial fibers also improved, but sales of intermediate chemicals and environmental catalysts were lower because of weak market conditions.

Engineered Materials' adjusted net income was significantly higher in 1993 because of strong productivity gains and improved revenues for fluorine products, industrial fibers, performance additives and tar products. Results also improved for UOP. Partially offsetting these gains were higher operating costs for laminate systems, reduced demand for intermediate chemicals and lower earnings for Paxon. 1993 results include an after-tax charge of $2 million reflecting the current year's impact of adopting FASB No. 112.

Regarding environmental matters, the Company is subject to various federal, state and local requirements relating to the protection of the environment. The Company believes that, as a general matter, its policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage and that its handling, manufacture, use and disposal of hazardous or toxic substances are in accord with environmental laws and regulations. However, mainly because of past operations and operations of predecessor companies, the Company 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. The Company records 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 on the completion of feasibility studies or the settlement of claims, but in no event later than the Company's commitment to a plan of action.

Remedial response and voluntary cleanup expenditures were $65 and $69 million in 1993 and 1992, respectively, and are currently estimated to increase to approximately $96 million in 1994. While annual expenditures have generally increased from year-to-year, and may continue to increase over time, the Company expects it will be able to fund such expenditures from cash flow from operations. 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.

During 1993 the Company charged $41 million against income for remedial response and voluntary cleanup costs. At December 31, 1993 the recorded liability for environmental matters was $480 million. In addition, the Company incurred ongoing operating costs, and made capital expenditures of $39 million, relating to compliance with environmental regulations.

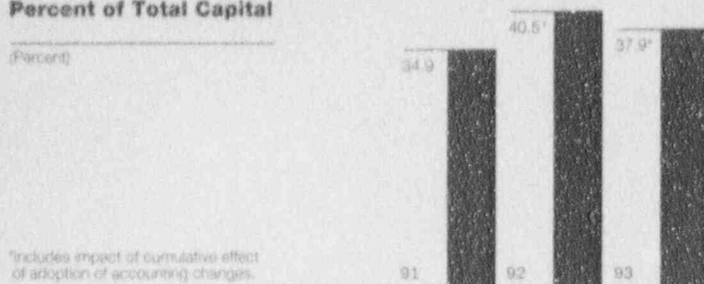
Although the Company does not currently possess sufficient information to reasonably estimate the amounts of liabilities to be recorded upon future completion of studies or settlements, and neither the timing nor the amount of the ultimate costs associated with environmental matters can be determined, 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.

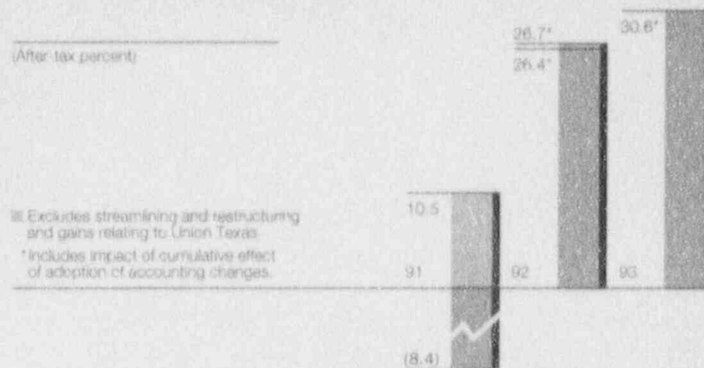
See Note 19 of Notes to Financial Statements for a discussion of the Company's commitments and contingencies, including those related to environmental matters.

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

inancial Condition. *Cash flow from operating activities was materially higher as a result of strong earnings growth and a strengthening balance sheet which reflects greatly improved operating working capital and a significant customer advance.*

Total assets at December 31, 1993 were $10,829 million, an increase of $73 million from December 31, 1992. Cash and cash equivalents at year-end 1993 were $892 million, a decrease of $39 million, however, cash investments classified as long-term increased $40 million, to $90 million, at December 31, 1993. Cash flows from operating activities, provided by significantly improved earnings for 1993 and a reduction in working capital, increased by $111 million. The current ratio at year-end 1993 was 1.3x, down slightly from 1.4x at December 31, 1992. Mainly through a reduction in accounts receivable and inventories, the Company's working capital turnover was improved to 4.8x at December 31, 1993 from 4.5x a year earlier.





The maximum amount of borrowing available under the Company's revolving credit agreements (Credit Agreement) was reduced by the Company in July 1993 from $1.11 billion to $900 million, reflecting the Company's strong cash position, significantly higher earnings and current credit requirements. The Credit Agreement supports the issuance of commercial paper as well as outstanding floating rate Employee Stock Ownership Plan (ESOP) notes. There was $164 million of commercial paper outstanding at year-end 1993 and $4 million at the end of 1992. Commercial paper borrowing reached a high of $484 million during 1993. Outstanding ESOP notes, at favorable floating interest rates, totaled $259 million at December 31, 1993 and 1992.

Total debt at year-end 1993 was $1,960 million, a decrease of $153 million. Long-term debt was reduced by $175 million mainly from the redemption of various debt issues. The Company's total debt as a percent of capital, after the adoption of FASB No. 112, was 42.7 percent at December 31, 1993, down from 44.7 percent at year-end 1992. The long-term debt to capital ratio was 37.9 percent at year-end 1993, down from 40.5 percent at year-end 1992. See Note 14 of Notes to Financial Statements for details of long-term debt and a discussion of the Credit Agreement. In January 1993, Moody's upgraded the Company's long-term debt from A3 to A2 and its commercial paper from P-2 to P-1. This followed a comparable upgrading from Standard & Poor's in December 1992.

The adoption of FASB No. 112 does not impact the Company under the terms of its outstanding debt and its existing Credit Agreement or the payment of dividends to shareowners, in part because the accounting change has no effect on cash.

The Company repurchased 6.7 million shares of common stock for $220 million in 1993. Common stock was repurchased in 1993 to offset the issuance of shares for employee benefit plans and a shareowner dividend reinvestment plan. At year-end, the Company had 74.4 million shares of common stock held in treasury carried at $1,437 million. As of year-end 1993, the Company had remaining authority to repurchase 16.5 million shares of common stock.

Capital expenditures during 1993 were $718 million, an increase of $27 million from the $691 million spent in 1992. Spending by the segments and Corporate since 1991 is shown in Note 25 of Notes to Financial Statements. The Company's total capital expenditures in 1994 are currently projected at about $610 million. The expenditures are expected to be financed by internally generated funds. Approximately 58 percent of the projected 1994 expenditures are planned for expansion and cost reduction, 31 percent for replacement and maintenance and 11 percent for environmental and other projects.

1992 Compared with 1991

In 1991 and 1992, the Company took a series of bold initiatives to establish the foundation for sustained business growth. The Company substantially reduced its layers of management, improved cycle time, dramatically enhanced customer responsiveness, increased productivity, consolidated businesses and closed unproductive plants, and significantly improved overall competitiveness. The Company estimates that these programs contributed significantly to the improved 1992 operating income.

In 1992 the Company disposed of its holdings in Union Texas for $940 million. The Company realized a pretax gain of $357 million (after-tax $221 million, or $0.78 a share).

In 1992 the Company established a provision of $368 million (after-tax $227 million, or $0.80 a share) for streamlining and restructuring programs to improve the Company's overall productivity. These programs include the consolidation of facilities, further streamlining of operations and administration, and the cost of product modifications to improve customer satisfaction.

The Company adopted, effective January 1, 1992, two accounting changes related to retiree health benefits and income taxes. FASB Statement No. 106—"Employers' Accounting for Postretirement Benefits Other Than Pensions" (FASB No. 106) requires the Company to accrue the estimated cost of retiree medical and life insurance payments during an employee's active service life. FASB Statement No. 109—"Accounting for Income Taxes" (FASB No. 109) requires an asset and liability approach to taxes. The current year's impact of FASB Nos. 106 and 109 is an after-tax provision of $23 million, or $0.08 a share, and an after-tax provision of $2 million, or $0.01 a share, respectively. As part of the adoption, the Company recorded "catch-up" after-tax charges totaling $1.25 billion, or $4.42 a share. A charge of $1.1 billion relating to FASB No. 106 reflects a number of steps taken by management, including one which limits future retiree medical benefits at approximately twice the level of 1992. A charge of $148 million relates to FASB No. 109. These one-time charges reduced the Company's shareowners' equity by 42 percent. As a result of adopting these accounting changes, the Company reported a net loss of $712 million, or $2.52 a share, in 1992.

Results of Operations. *The Company's profits increased dramatically in 1992 in each of its core businesses despite relatively disappointing economies in the U.S. and other countries.*

Net sales in 1992 were $12,042 million, an increase of $211 million, compared to the prior year. Of this increase, $134 million was due to increased prices, $27 million was the result of volume growth and $50 million was due to favorable foreign exchange fluctuations at Automotive.

Cost of goods sold, as a percent of sales, declined from 83.8 percent in 1991 to 82.4 percent in 1992. The improved performance was principally the result of enhanced productivity actions as well as lower research and development expense. The results for 1992 include a charge of $51 million reflecting the impact of adopting FASB Nos. 106 and 109. Overall, productivity grew by 5.6 percent over last year.

Streamlining and restructuring charges in 1992 and 1991 are discussed in Note 4 of Notes to Financial Statements.

Income from operations of $415 million in 1992 compares to a loss from operations of $291 million in 1991. Excluding charges for streamlining and restructuring for both years and the current year's impact of adopting FASB Nos. 106 and 109 (special provisions), income improved by $278 million, or 50 percent, reflecting strong performance by all segments, despite a generally sluggish world economy. After excluding the special provisions, Aerospace's income increased 10 percent, Automotive's more than doubled and Engineered Materials' increased 56 percent. Profit margins, excluding the special provisions, increased from 4.7 percent in 1991 to 6.9 percent in 1992 mainly as a result of improved productivity throughout the Company. See the discussion of net income below for information by segment.

Equity in income of affiliated companies of $103 million increased $57 million. Included in last year's amount was a $60 million write-down of a UOP business. Earnings in 1992, on a comparable basis, were higher from UOP reflecting improved licensing revenues and equipment sales, but lower from Paxon because of reduced sales and margins reflecting competitive conditions.

Earnings from Union Texas investment, including the gain on the disposition as well as equity and dividend income, of $395 million increased $274 million. The 1992 results include a pretax gain of $357 million on the disposition of the Company's common stock in Union Texas, while 1991 included pretax income of $69 million on the sales of Union Texas' domestic oil and gas businesses.

Other income (expense) of $9 million grew by $18 million principally because of higher interest income on short-term securities and lower foreign exchange losses.

Interest and other financial charges of $220 million declined by $37 million, or 14 percent, from last year mainly because of a reduced level of debt outstanding and lower rates on floating rate borrowings.

The effective tax rate (benefit) for 1992 was 23.8 percent. The 1991 tax rate benefit was 30.0 percent. Excluding the streamlining and restructuring charges and gains relating to Union Texas, the effective tax rates for 1992 and 1991 were 24.1 and 23.7 percent, respectively. See Note 7 of Notes to Financial Statements for further information on income taxes.

Income before the cumulative effect of changes in accounting principles of $535 million, or $1.90 a share, in 1992 was favorable by $808 million, or $2.90 a share, compared to last year's loss of $273 million, or $1.00 a share. Excluding the impact of adopting FASB Nos. 106 and 109, the 1992 provision for streamlining and restructuring and the gain on the disposition of Union Texas, current year's net income was $566 million, or $2.01 a share. The favorable income was the result of significant increases for Aerospace, Automotive and Engineered Materials. After the cumulative effect of the accounting changes and the special items above, the Company had a net loss of $712 million, or $2.52 a share, in 1992.

A discussion of the operations of the business segments, before the cumulative impact of accounting changes on net income, follows. Adjusted net income excludes the impact of the streamlining and restructuring provisions. (Dollars in millions)

Aerospace	Net Sales	Net Income	Adjusted Net Income
1992	$4,937	$105	$227
1991	5,269	87	188
Increase/(Decrease)	$ (332)	$ 18	$ 39

The Company's aerospace business had a 6 percent drop in sales because of the dual impact of significant reductions in military spending and the effect of the lackluster economy on both the general aviation and commercial airline industries. The impact of fewer engine deliveries, reduced sales of military aircraft ground test equipment and flight controls, and lower sales of OE auxiliary power units and environmental control systems were offset partly by higher prices, and greater repair and overhaul services for the airline industry. Overall, the Company's 1992 sales to the DOD, as a prime contractor and subcontractor, declined by 12 percent mainly as a result of reduced defense spending. Sales to the commercial and foreign government markets declined by 6 percent, while sales to NASA and other U.S. government agencies increased by 20 percent. Sales to the DOD accounted for 32 percent of Aerospace's total sales, a decrease of 2 percent compared to 1991.

Despite lower sales, the Aerospace segment had significant growth in its adjusted net income. Significant improvements in productivity, reflecting in part reduced cycle time, contributed to higher margins for airline services, landing systems, fluid systems and controls and accessories. This improved performance was only partly offset by lower sales of propulsion engines and auxiliary power units. 1992 net income includes an after-tax charge of $9 million reflecting the current year's impact of adopting FASB Nos. 106 and 109.

Funded backlog of $1,557 and $2,619 million at December 31, 1992 and 1991, respectively, consists of unfilled firm orders from the U.S. and foreign governments for the Company's aerospace products for which funding has been both authorized and appropriated by the customer. Total negotiated backlog of $4,859 and $5,190 million at year-end 1992 and 1991, respectively, also includes firm orders for which funding has not yet been appropriated as well as commercial contracts.

Automotive	Net Sales	Net Income (Loss)	Adjusted Net Income
1992	$4,499	$ 76	$141
1991	4,095	(203)	54
Increase	$ 404	$279	$ 87

Sales of automotive products rose by 10 percent in 1992. Automotive and truck brake systems to the North American and European vehicle manufacturers and aftermarket, safety restraints, friction materials, turbochargers, filters and spark plugs all had material growth. The improved sales reflected new business and solid market recovery in the Company's

core product lines. Light truck sales in the North American market, in which the Company has significant product content, were especially strong. Sales in Brazil, where the Company has several plants, were sharply lower as a result of the economic turmoil in that country.

Automotive substantially improved its adjusted net income through higher sales volumes and substantial productivity gains. During 1992, management implemented various rationalization and census reduction programs to achieve the productivity gains. The 1992 increase was led by strong performances in passenger car and North American light truck brakes, turbochargers, friction materials, aftermarket and heavy vehicle businesses, filters, spark plugs and safety restraints. The Company's Brazilian operations, however, incurred substantially higher losses on lower sales volume reflecting the continuing poor economic conditions in that country. The Company is implementing numerous productivity improvements in Brazil which are expected to mitigate the operating loss. Automotive's 1992 net income includes an after-tax charge of $6 million reflecting the current year's impact of adopting FASB Nos. 106 and 109.

Engineered Materials	Net Sales	Net Income	Adjusted Net Income
1992	$2,601	$190	$215
1991	2,459	14	163
Increase	$ 142	$176	$ 52

Engineered Materials had a 6 percent increase in sales. Sales of carpet fibers were materially higher as a result of an increase in market share and improving business conditions. Sales of engineering plastics, environmental catalysts, oximes and industrial fibers also increased materially. Sales of circuit board laminates were higher as a result of an acquisition in August 1992. Prices for acetone, a by-product of the fibers process, were lower due to weak market conditions.

Engineered Materials' adjusted net income increased substantially because of productivity gains, which resulted in lower costs throughout the segment, and because of strong performance by carpet fibers and engineering plastics as well as favorable margins for fluorine products and circuit board laminates. UOP also reported higher income. Paxon had lower earnings because of increased competition.

Regarding environmental matters, remedial response and voluntary cleanup expenditures were $69 and $58 million in 1992 and 1991, respectively. At December 31, 1992 the total amount of recorded liabilities for environmental costs was $476 million.

inancial Condition. *Greatly improved cash flow resulted from higher earnings and more efficient use of the Company's assets as well as the disposition of the Company's holdings in Union Texas.*

Total assets at December 31, 1992 were $10,756 million, an increase of $374 million, from December 31, 1991. Cash and cash equivalents were $931 million, an increase of $693 million over the balance at December 31, 1991. Cash flow provided by substantially higher operating activities for 1992 grew by $404 million to $1,069 million. The current ratio was 1.4x, up from 1.1x at December 31, 1991. The Company's working capital turnover was 4.5x, an improvement mainly in managing its product inventory, compared to 4.2x at December 31, 1991.

In September 1992 the Company received $355 million from the redemption, at face value, of $200 million in preferred shares and $155 million in warrants by Union Texas. In November the Company sold its 33.3 million common share interest in Union Texas through a secondary public offering. Net proceeds were $585 million. Total proceeds of $940 million from the two transactions were used to reduce short-term debt, with the balance invested as of December 31, 1992 mainly in short-term marketable securities.

The maximum amount of borrowing available under the Company's Credit Agreement was reduced by the Company in July 1992 from $1.35 billion to $1.11 billion, reflecting the Company's strong earnings and cash flow position.

The Credit Agreement serves as support for the issuance of commercial paper as well as ESOP notes. There was $4 million in commercial paper outstanding at year-end 1992, while at the end of 1991 there was $263 million outstanding. Commercial paper borrowing reached a high of $563 million during 1992. Supported ESOP notes, at favorable floating interest rates, totaling $259 and $182 million, were outstanding at December 31, 1992 and 1991, respectively.

Total debt at year-end 1992 of $2,113 million decreased by $682 million as a result of reduced short-term borrowings, commercial paper and various long-term debt issues, offset in part by higher borrowings under the ESOP Program. Long-term debt of $1,777 million decreased by $137 million. The Company's total debt as a percent of capital, including the cumulative impact of the one-time 1992 accounting changes, was 44.7 percent at December 31, 1992, up from 43.9 percent at year-end 1991. The long-term debt to capital ratio was 40.5 percent at December 31, 1992, an increase from 34.9 percent at year-end 1991.

The Company repurchased 5.3 million shares of common stock for $152 million in 1992 to partially offset the issuance of shares for employee benefit plans and a shareowner dividend reinvestment plan.

Capital expenditures during 1992 were $691 million, an increase of $23 million from the $668 million spent in 1991. Spending by the segments and Corporate since 1991 is shown in Note 25 of Notes to Financial Statements.

Consolidated Statement of Income

(Dollars in millions except per share amounts)

Years ended December 31	1993	1992	1991
Net sales	$11,827	$12,042	$11,831
Cost of goods sold	9,551	9,923	9,912
Selling, general and administrative expenses	1,338	1,336	1,363
Streamlining and restructuring	—	368	847
Nonrecurring items	(16)	—	—
Total costs and expenses	10,873	11,627	12,122
Income (loss) from operations	954	415	(291)
Equity in income of affiliated companies	122	103	46
Earnings from Union Texas investment	—	395	121
Other income (expense)	(9)	9	(9)
Interest and other financial charges	(157)	(220)	(257)
Income (loss) before taxes on income	910	702	(390)
Taxes (benefit) on income	254	167	(117)
Income (loss) before cumulative effect of changes in accounting principles	656	535	(273)
Cumulative effect of changes in accounting principles:			
Accounting for income taxes	—	(148)	—
Accounting for postemployment benefits, net of income taxes	(245)	—	—
Accounting for postretirement benefits other than pensions, net of income taxes	—	(1,099)	—
Net income (loss)	$ 411	$ (712)	$ (273)
Earnings (loss) per share of common stock: (a)			
Before cumulative effect of changes in accounting principles	$ 2.31	$ 1.90	$ (1.00)
Cumulative effect of changes in accounting principles:			
Accounting for income taxes	—	(.52)	—
Accounting for postemployment benefits, net of income taxes	(.86)	—	—
Accounting for postretirement benefits other than pensions, net of income taxes	—	(3.90)	—
Net earnings (loss)	$ 1.45	$ (2.52)	$ (1.00)

(a) Earnings per share of common stock are based upon the following weighted average number of shares: 1993, 283,233,078 shares; 1992, 281,973,006 shares; and 1991, 273,167,752 shares. No dilution results from outstanding common stock equivalents.

Consolidated Statement of Retained Earnings

(Dollars in millions except per share amounts)

Years ended December 31	1993	1992	1991
Balance at beginning of year	$ 747	$ 1,594	$ 2,113
Net income (loss)	411	(712)	(273)
Other	27	8	(28)
Common stock dividends (1993—$.58 per share; 1992—$.50 per share; 1991—$.80 per share)	(162)	(143)	(218)
Balance at end of year	$ 1,023	$ 747	$ 1,594

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

Consolidated Balance Sheet

AlliedSignal Inc.

(Dollars in millions)

December 31		1993	1992
Assets	Current assets:		
	Cash and cash equivalents	$ 892	$ 931
	Accounts and notes receivable	1,343	1,529
	Inventories	1,745	1,871
	Other current assets	587	588
	Total current assets	4,567	4,919
	Investments and long-term receivables	553	446
	Property, plant and equipment—net	4,094	3,897
	Cost in excess of net assets of acquired companies—net	1,087	1,048
	Other assets	528	446
	Total assets	$10,829	$10,756
Liabilities	Current liabilities:		
	Accounts payable	$ 1,207	$ 1,221
	Short-term borrowings	57	150
	Commercial paper	164	4
	Current maturities of long-term debt	137	182
	Accrued liabilities	1,924	1,948
	Total current liabilities	3,489	3,505
	Long-term debt	1,602	1,777
	Deferred income taxes	339	412
	Postretirement benefit obligations other than pensions	1,689	1,663
	Other liabilities	1,320	1,148
Shareowners' equity	Capital—common stock—Authorized 500,000,000 shares (par value $1 per share); issued: 1993—358,228,742 shares; 1992—358,228,742 shares	358	358
	—additional paid-in capital	2,453	2,424
	Common stock held in treasury, at cost: 1993—74,395,236 shares; 1992—74,462,188 shares	(1,437)	(1,336)
	Cumulative foreign exchange translation adjustment	(7)	58
	Retained earnings	1,023	747
	Total shareowners' equity	2,390	2,251
	Total liabilities and shareowners' equity	$10,829	$10,756

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

Consolidated Statement of Cash Flows

(Dollars in millions)

Years ended December 31		1993	1992	1991
Cash flows from operating activities	Net income (loss)	$ 411	$ (712)	$(273)
	Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
	Cumulative effect of change in accounting for:			
	Income taxes	—	148	—
	Postemployment benefits	245	—	—
	Postretirement benefits other than pensions	—	1,099	—
	Nonrecurring items	(59)	—	—
	Gain on disposition of Union Texas	—	(357)	—
	Streamlining and restructuring (includes affiliated company)	(217)	133	852
	Depreciation and amortization (includes goodwill)	547	529	504
	Undistributed earnings of equity affiliates (includes Union Texas)	(34)	(47)	(144)
	Deferred taxes	110	83	(196)
	Decrease (increase) in accounts and notes receivable	91	(104)	17
	Decrease in inventories	123	130	153
	Decrease (increase) in other current assets	14	31	(136)
	Increase (decrease) in accounts payable	20	157	(168)
	Increase (decrease) in accrued liabilities	151	167	(62)
	Other	(222)	(188)	118
	Net cash flow provided by operating activities	1,180	1,069	665
Cash flows from investing activities	Expenditures for property, plant and equipment	(718)	(691)	(668)
	Proceeds from disposals of property, plant and equipment	37	42	15
	Decrease in investments and long-term receivables	48	59	27
	(Increase) in other investments	(31)	(18)	(17)
	Cash paid for acquisitions	(244)	(113)	(83)
	Proceeds from sales of investments and businesses	129	1,044	4
	(Increase) in marketable securities	(40)	(50)	—
	Net cash flow provided by (used for) investing activities	(819)	273	(722)
Cash flows from financing activities	Net increase (decrease) in commercial paper	160	(259)	181
	Net (decrease) in short-term borrowings	(88)	(307)	(12)
	Proceeds from issuance of common stock	143	244	115
	Proceeds from issuance of long-term debt	131	121	120
	Repurchases of long-term debt (including current maturities)	(355)	(163)	(273)
	Repurchases of common stock	(229)	(142)	—
	Cash dividends on common stock	(162)	(143)	(218)
	Net cash flow (used for) financing activities	(400)	(649)	(87)
	Net increase (decrease) in cash and cash equivalents	(39)	693	(144)
	Cash and cash equivalents at beginning of year	931	238	382
	Cash and cash equivalents at end of year	$ 892	$ 931	$ 238

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

(Dollars in millions except per share amounts)

Note 1. Summary of Significant Accounting Policies

Subsequent Events

- The Board of Directors determined on February 7, 1994 to redeem the common stock purchase rights for all rights outstanding on February 18, 1994 at $0.05 per right.
- The Board of Directors also declared a two-for-one common stock split for shareowners of record on February 22, 1994. The stock split is payable on March 14, 1994 and all stock related data in the financial statements reflect the stock split for all periods presented.

Consolidated financial statements include the accounts of AlliedSignal Inc. and majority-owned subsidiaries.

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 other inventories.

Investments and long-term receivables are carried at the lower of cost or market, and in the case of affiliates over which significant influence is exercised, 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 25- or 40-year periods. The cumulative amount of goodwill amortized at December 31, 1993 and December 31, 1992 is $315 and $287 million, respectively.

Postemployment benefits for former or inactive employees, excluding retirement benefits, are accounted for under the provisions of Financial Accounting Standards Board (FASB) Statement No. 112—"Employers' Accounting for Postemployment Benefits" (FASB No. 112), effective January 1, 1993. FASB No. 112 requires the Company to accrue the cost of certain benefits, including severance, workers' compensation, and health care coverage, over an employee's service life. A one-time charge for the adoption of FASB No. 112 of $396 million (after-tax $245 million, or $0.86 a share) was recognized as the cumulative effect of a change in accounting principle in 1993. The 1993 ongoing expense was $18 million (after-tax $11 million, or $0.04 a share). The Company uses the services of an enrolled actuary to calculate the expense. The Company previously expensed the cost of such benefits on a pay-as-you-go basis or recognized the impact at the time of a specific event.

Postretirement benefits other than pensions are accounted for under the provisions of FASB Statement No. 106—"Employers' Accounting for Postretirement Benefits Other Than Pensions" (FASB No. 106), effective January 1, 1992. FASB No. 106 requires the Company to accrue the estimated cost of retiree benefit payments during an employee's active service life. The Company previously expensed the cost of these benefits on a pay-as-you-go basis.

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 on the completion of feasibility studies or the settlement of claims, but in no event later than the Company's commitment to a plan of action. The liabilities for environmental costs recorded in Accrued Liabilities and Other Liabilities at December 31, 1993 and 1992 were $66 and $414 million and $71 and $405 million, respectively.

Interest rate swap and foreign currency forward exchange, options and swap agreements are entered into to manage the Company's exposure to changes in interest and foreign currency exchange rates.

- Changes in the amount to be received or paid under interest rate swap agreements are recognized in Interest and Other Financial Charges.
- Changes in the market value of foreign currency forward exchange, options (put and call) and swap agreements are recognized in Other Income (Expense) or Cumulative Foreign Exchange Translation Adjustment, as appropriate, when foreign currency exchange rates fluctuate. Such changes mitigate the impact of foreign exchange fluctuations on foreign currency denominated transactions, assets and liabilities.

Income taxes are based on the asset and liability approach embodied in FASB Statement No. 109—"Accounting for Income Taxes" (FASB No. 109), effective January 1, 1992. Under FASB No. 109, 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. Prior years' financial statements have not been restated to apply the provisions of FASB No. 109. Income taxes for 1991 are based on pretax financial statement income in accordance with Accounting Principles Board Opinion No. 11 (APB No. 11). An appropriate deferred tax was provided for the tax effect of timing differences between pretax financial statement income and taxable income per the tax return. Deferred income taxes have not been provided on approximately $112 million of undistributed earnings of foreign affiliated compa-

nies, 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 2. Acquisitions

In 1993 the Company acquired the data control business (Data Controls) of Sundstrand Corporation for $195 million in cash. The business had sales of $194 million in 1992. Data Controls manufactures a wide range of avionics such as ground proximity warning systems, reactive windshear detection systems, flight data and voice recorders, general aviation in-flight phone systems and aircraft condition monitoring systems. The Company also made a number of small acquisitions in 1993.

Note 3. Nonrecurring Items

The 1993 nonrecurring items consist of a gain of $89 million (after-tax $50 million or $0.17 a share) from the formation of an alliance of the Company's air-brake control and related product operations for heavy trucks with those of Knorr-Bremse AG, partly offset by a provision totaling $73 million (after-tax $49 million, or $0.17 a share) covering transaction and other costs including formation costs relating to Knorr-Bremse and other business ventures as well as the cost of several legal actions.

Note 4. Streamlining and Restructuring

The 1992 provision reflects a pretax charge of $368 million (after-tax $227 million, or $0.80 a share) covering programs to improve the Company's overall productivity. These programs include the consolidation of facilities, further streamlining of operations and administration and the cost of product modifications to improve customer satisfaction.

The 1991 provision reflects a pretax charge of $907 million (after-tax $661 million, or $2.42 a share) covering streamlining, restructuring and environmental charges and costs for the rationalization of facilities. Of this provision, $60 million was included on the "Equity in Income of Affiliated Companies" line since it relates to a business of the UOP process technology joint venture (UOP). The provision includes costs for the elimination of about 5,600 salaried jobs, mainly through severance programs, the consolidation of production facilities and administrative functions and the rationalization of several product lines as well as the disposition of nine non-strategic business units. Also included in the provision is $190 million for environmental costs of previously sold or shutdown facilities, as a result of revisions in estimates or the completion of studies, as well as facilities to be disposed of in connection with the restructuring.

Note 5. Other Income (Expense)

Years ended December 31	1993	1992	1991
Interest income and other	$ 35	$17	$ 10
Repurchase of debentures	(1)	(1)	(5)
Foreign exchange (loss) (a)	(43)	(7)	(14)
	$ (9)	$ 9	$ (9)

(a) Includes the amortization of premiums for foreign currency forward exchange contracts of $(38), $(28) and $(12) million, in each of the respective years. In part, the contracts, in conjunction with domestic borrowings, were utilized to finance certain foreign operations and contributed to lower expense on the "Interest and Other Financial Charges" line.

The Company had forward exchange contracts, maturing through 1994, to purchase and sell foreign currencies aggregating $210 and $117 million at December 31, 1993 and $439 and $597 million at December 31, 1992, respectively. These amounts are all based upon spot rates in effect at the end of each respective year. The Company also had foreign currency options hedging anticipated transactions, maturing through 1994, aggregating $117 and $293 million at December 31, 1993 and 1992, respectively.

Note 6. Interest and Other Financial Charges

Years ended December 31	1993	1992	1991
Total interest and other financial charges	$186	$247	$283
Less—Capitalized interest	(29)	(27)	(26)
	$157	$220	$257

At December 31, 1993 and 1992 the Company had interest rate swap agreements, maturing through 1999, amounting to a total notional principal of $455 and $347 million, respectively. At December 31, 1993 these agreements effectively changed $373 million of fixed rate debt (average 9.66 percent) to London Interbank Offer Rate (LIBOR) based floating rate debt (average 5.30 percent) and $82 million of LIBOR based floating rate debt (average 3.11 percent) to fixed rate debt (average 7.24 percent). At December 31, 1992 these agreements effectively changed $265 million of fixed rate debt (average 9.79 percent) to LIBOR based floating rate debt (average 4.68 percent) and $82 million of LIBOR based floating rate debt (average 3.42 percent) to fixed rate debt (average 7.43 percent).

Note 7. Taxes (Benefit) on Income

In the fourth quarter 1992 the Company adopted FASB No. 109, "Accounting for Income Taxes", retroactive to January 1, 1992. The adoption of FASB No. 109 changes the Company's method of accounting for income taxes to an asset and liability approach from the deferred method under APB No. 11.

Income (loss) before taxes on income

Years ended December 31	1993	1992	1991
United States	$799	$634	$(240)
Foreign	111	68	(150)
	$910	$702	$(390)

Taxes (benefit) on income

Years ended December 31	1993	1992	1991
United States	$244	$160	$(100)
Foreign	10	7	(17)
	$254	$167	$(117)

Years ended December 31	1993	1992	1991
Taxes (benefit) on income consist of:			
Current:			
United States	$ 95	$ 55	$ 48
State	25	15	16
Foreign	24	14	15
	144	84	79
Deferred:			
United States	99	92	(148)
State	25	(2)	(16)
Foreign	(14)	(7)	(32)
	110	83	(196)
	$254	$167	$(117)

Years ended December 31	1993	1992	1991
The principal items accounting for the difference in taxes (benefit) on income (loss) 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%	34.0%	(34.0)%
Taxes on foreign earnings over (under) U.S. tax rate	(2.4)	(3.6)	7.2
Asset basis differences	(1.7)	—	2.6
Nondeductible amortization and depreciation	1.2	1.5	4.7
State income taxes	3.3	.4	(1.4)
Tax benefits of Foreign Sales Corporation	(1.9)	(2.9)	(4.5)
Dividends received deduction	(.2)	(1.5)	(3.5)
ESOP dividend tax benefit	(.9)	(1.1)	—
Impact of rate change on beginning-of-the-year deferred tax balances	(1.5)	—	—
All other items—net	(3.0)	(3.0)	(1.1)
	27.9%	23.8%	(30.0)%

Year ended December 31	1991
The principal items in the deferred tax provision are as follows:	
Accelerated depreciation and amortization	$ 33
Nonrecurring items and acquisitions	8
Streamlining and restructuring	(198)
Pension and savings plans	(14)
Long-term contracts	12
Alternative minimum tax credit carryforward	(31)
State income taxes	(16)
All other items—net	10
	$(196)

Deferred income taxes

Years ended December 31	1993	1992
Included in the following balance sheet accounts:		
Other current assets	$ 468	$ 482
Other assets	104	47
Deferred income taxes	(339)	(412)
	$ 233	$ 117

Deferred tax assets/(liabilities)

December 31	1993	1992
The temporary differences and carryforwards which give rise to deferred tax assets and liabilities are as follows:		
Property, plant and equipment basis differences	$(742)	$(706)
Postretirement benefits other than pensions	716	699
Postemployment benefits	158	—
Investment and other asset basis differences	(465)	(477)
Streamlining, restructuring and other nonrecurring items	290	380
Other accrued items	334	299
Foreign net operating losses	118	105
Alternative minimum tax credit	60	68
Other tax credits	41	44
U.S. capital loss	43	43
All other items—net	(239)	(241)
Sub-total	314	214
Valuation allowance	(81)	(97)
	$ 233	$ 117

Other tax credits relate primarily to U.S. general business tax credits which are available to reduce income tax payments through the year 2007. The alternative minimum tax credit is available to reduce regular income tax payments for an indefinite period of time. The foreign net operating losses relate to several countries and such benefits are available to reduce income tax payments for periods which range from five years to an indefinite period. The U.S. capital loss is available to offset income tax payments on capital gains through 1997.

Note 8. Accounts and Notes Receivable

December 31	1993	1992
Trade	$1,245	$1,343
Other	126	223
	1,371	1,566
Less—Allowance for doubtful accounts and refunds	(28)	(37)
	$1,343	$1,529

The Company is a party to agreements under which it can sell undivided interests in designated pools of trade accounts receivable up to $500 million (average outstanding was $492 and $496 million during 1993 and 1992, respectively). New receivables are sold under the agreements as previously sold receivables are collected. During 1993, this represented an average collection period of 47 days or a replacement of receivables of approximately eight times. At both December 31, 1993 and 1992, customer accounts receivable on the Consolidated Balance Sheet have been reduced by $500 million reflecting the sales. The Company acts as an agent for the purchaser in the collection and administration of the receivables.

Note 9. Inventories

December 31	1993	1992
Raw materials	$ 504	$ 614
Work in process	635	619
Finished products	824	904
Supplies and containers	51	54
	2,014	2,191
Less—		
Progress payments	(154)	(201)
Reduction to LIFO cost basis	(115)	(119)
	$1,745	$1,871

Inventories valued at LIFO amounted to $316 million at December 31, 1993 and $298 million at December 31, 1992, which amounts were below estimated replacement cost by $115 and $119 million, respectively.

Note 10. Other Current Assets

December 31	1993	1992
Current-deferred taxes	$468	$482
Other	119	106
	$587	$588

Note 11. Investments and Long-term Receivables

December 31	1993	1992
Affiliates	$395	$326
Marketable securities	90	50
Long-term receivables	68	70
	$553	$446

The Company has a 50 percent partnership interest in two joint ventures accounted for under the equity method, UOP and Paxon Polymer Company (Paxon). The UOP joint venture is in the process technology and catalyst business while the Paxon joint venture manufactures and sells high-density polyethylene resins. During 1991 UOP recorded a Streamlining and Restructuring provision of $120 million for the write-down to realizable value of the assets of the fluid catalytic cracking business. The Company's share of the equity of the joint ventures exceeds its carrying value for these investments by $127 million, which is being amortized over the remaining useful lives of the related assets.

Combined selected financial data for these two entities are summarized as follows:

Years ended December 31	1993	1992	1991
Net sales	$1,238	$1,225	$1,288
Streamlining and restructuring	—	—	120
Income from operations	151	142	26
Income before cumulative effect of changes in accounting principles (a)	149	149	43
Net income (a)(b)	90	149	43

December 31	1993	1992
Current assets	$ 819	$ 800
Total assets	1,505	1,741
Current liabilities	224	226
Noncurrent liabilities	350	260
Preferred capital	—	238
Equity	931	1,017

(a) No U.S. taxes have been provided by the entities on partnership income as the individual partners are responsible for their proportionate share of U.S. taxes payable.
(b) Reflects the adoption of FASB No. 106 ($37 million) and the adoption of FASB No. 112 ($22 million).

Note 12. Property, Plant & Equipment

December 31	1993	1992
Land and land improvements	$ 321	$ 301
Machinery and equipment	5,296	4,982
Buildings	1,241	1,173
Office furniture and equipment	634	594
Transportation equipment	145	146
Construction in progress	531	433
	8,168	7,629
Less—Accumulated depreciation and amortization	(4,074)	(3,732)
	$ 4,094	$ 3,897

Note 13. Accrued Liabilities

December 31	1993	1992
Customer advance payments/deposits	$ 244	$ 130
Insurance	163	168
Postemployment benefits	166	—
Retiree medical benefits	125	121
Streamlining and restructuring	170	498
Wages	296	295
Other	760	736
	$1,924	$1,948

Note 14. Long-term Debt and Credit Agreements

December 31	1993	1992
Employee stock ownership refunding notes, 7.02% and 7.19%, due 1995-1997	$ 200	$ 200
Employee stock ownership floating rate notes, 2.876%-3.70%, due 1994-1999	218	260
9⅞% debentures due June 1, 2002	250	250
9.20% debentures due February 15, 2003	100	100
Medium term notes, 8.28%-9.28%, due 1995-2001	153	153
Zero coupon bonds and money multiplier notes, 12.95%-13.518%, due 1995-2009	257	238
9½% debentures due June 1, 2016	100	100
	1,278	1,301
Capitalized lease obligations, 3.5%-14.38%, maturing at various dates through 2016	49	47
Foreign currency bonds:		
Deutsche Mark 125,000,000 7½% bonds due 1994 (a)	—	77
Swiss Franc 85,000,000 6% bonds due 1994 (b)	—	58
	—	135
Industrial development bond obligations, 2.63%-6.85%, maturing at various dates through 2017	112	116
Other long-term debt, 2.0%-14.75%, maturing at various dates through 2006	165	180
Sub-total	1,604	1,779
Less—Unamortized discount	(2)	(2)
	$1,602	$1,777

(a) The Company has foreign currency and interest rate swap agreements to hedge principal and interest payments, which result in a 67 million Dutch Guilder ($39 million) obligation with an effective floating interest rate of 9.68 percent at December 31, 1992 and a $41 million obligation with an effective floating interest rate of 3.5 percent at December 31, 1993 and 3.625 percent at December 31, 1992.
(b) The Company had a foreign currency and interest rate swap agreement to hedge principal and interest payments, which, net of related foreign currency forward exchange contracts, resulted in a Dutch Guilder obligation of 113 million ($62 million) with an effective floating interest rate of 9.51 percent at December 31, 1992.

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

At December 31, 1993	Long-term Debt(1)
1994	$ 137
1995	203
1996	175
1997	111
1998	195
Thereafter	918
	1,739
Less—Current portion	(137)
	$1,602

(1) Amounts are net of repurchases.

The only material financial instruments which are not carried in the Consolidated Balance Sheet at amounts which approximate fair values are certain debt instruments. The carrying value of long-term debt and related current maturities (excluding capitalized lease obligations), is $1,687 and $1,906 million and the fair value is $1,945 and $2,100 million at December 31, 1993 and 1992, respectively. The fair value of the long-term debt is estimated based on the quoted market price for the issues (if traded) or based on the current rates offered to the Company for debt of the same remaining maturity and characteristics.

The Company entered into two new credit agreements (3 Year and 364 Day Credit Agreements) dated July 7, 1993, with commitments aggregating $900 million, with a group of 21 banks. These agreements replaced a $1.11 billion arrangement. The funds available under the Credit Agreements may be used for any corporate purpose. Loans under the $450 million 3 Year Credit Agreement are required to be repaid no later than July 7, 1996. Annually, the Company may request that the maturity of the 3 Year Credit Agreement be extended by another year. The Company intends to request an extension of the agreement in 1994. The banks' commitments to lend under the $450 million 364 Day Credit Agreement terminate on July 5, 1994 and any loans then outstanding will be converted to term loans maturing on July 5, 1995. The Company intends to renegotiate this agreement in 1994. The Company has agreed to pay facility fees of .10 percent per annum and .15 percent per annum on the aggregate commitments for the 364 Day and 3 Year Credit Agreements, respectively, subject to increase or decrease in the event of changes in the Company's long-term debt ratings. The Credit Agreements do not contain restrictions on the Company's ability to pay dividends or requirements that the Company maintain a specific net worth. They do contain other customary conditions and events of default, the failure to comply with, or occurrence of which, would prevent any further borrowings and would generally require the settlement of any outstanding borrowings under either Credit Agreement. Such conditions include the absence of any material adverse change in the ability of the Company to pay its indebtedness when due, and such events of default include (a) non-payment of Credit Agreement debt and interest thereon, (b) non-compliance with the terms of the covenants, (c) cross-default with other debt in certain circumstances, (d) bankruptcy and (e) defaults upon obligations under the Employee Retirement Income Security Act.

Interest on borrowings under the Credit Agreements would be determined, at the Company's option, by (a) an auction bidding procedure; (b) the highest of the average floating base rate of two reference banks, one-half percent above the average CD rate, or one-half percent above the Federal funds rate; or (c) .225 and .275 percent for the 3 Year and 364 Day Credit Agreements, respectively, and if either Credit Agreement is drawn down in excess of 50 percent of its total amount, .2875 and .3375 percent for the 3 Year and 364 Day Credit Agreements, respectively, over the average LIBOR or CD rate of three reference banks. The spreads over the LIBOR or CD rates are subject to increase or decrease if the Company's long-term debt ratings change. The Company had no balance outstanding under the Credit Agreements at December 31, 1993. They have also served as support for the issuance of commercial paper and certain notes under the Company's Employee Stock Ownership funding program. At December 31, 1993 the Company had outstanding $164 million of commercial paper and $259 million of notes supported by the Credit Agreements.

Note 15. Lease Commitments

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

At December 31, 1993	Lease Payments
1994	$ 83
1995	62
1996	45
1997	35
1998	31
Thereafter	229
Total	$485

Rent expense of $128, $131 and $146 million was included in costs and expenses for 1993, 1992 and 1991, respectively.

Note 16. 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 500,000,000 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 of Directors (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. The Company has remaining authority to repurchase from time to time up to 16.5 million shares of common stock.

Each share of common stock is accompanied by a share purchase right (a Right) which entitles shareowners to buy one newly issued share of common stock at an exercise price of $150, subject to adjustment. The Rights will be exercisable only if a person or group acquires stock representing 20 percent or more of the power to vote generally in the election of directors (becomes an acquiring person) or announces a tender or exchange offer which would result in such person or group becoming an acquiring person. Upon exercise after a person or a group becomes an acquiring person, each Right (other than Rights held by the acquiring person) will entitle the holder to purchase a number of shares of common stock

of the Company having a market value of two times the exercise price. If the Company is acquired in a merger or other business combination, each Right will entitle the holder to purchase, at the then exercise price, a number of shares of common stock of the acquiring company having a market value of two times such exercise price. If circumstances warrant, the Board may decrease from 20 percent to as low as 15 percent the threshold used in determining when a person or group becomes an acquiring person or the conditions of exercise of the Rights, provided that the Board may not reduce the thresholds to or below the existing level of ownership of a shareowner. On February 7, 1994 the Board determined to redeem the Rights at $0.05 a Right.

	Shares Outstanding (in millions)	Common Stock/ Paid-in Capital	Treasury Stock
Balance December 31, 1990	269.4	$2,747	$(1,578)
Used for Dividend Reinvestment Plan	.4	—	10
Used for employee benefit plans	6.3	—	140
Other	.2	—	5
Balance December 31, 1991	276.3	2,747	(1,423)
Purchased under repurchase programs	(5.3)	—	(152)
Used for Dividend Reinvestment Plan	.2	—	3
Used for employee benefit plans (including related tax benefits)	12.6	35	236
Balance December 31, 1992	283.8	2,782	(1,336)
Purchased under repurchase programs	(6.7)	—	(220)
Used for Dividend Reinvestment Plan	.1	—	3
Used for employee benefit plans (including related tax benefits)	6.6	29	116
Balance December 31, 1993	283.8	$2,811	$(1,437)

Note 17. Stock Options and Awards

In April 1993 shareowners at the Annual Meeting approved a new 10-year stock plan for employees of the Company and affiliates (1993 Stock Plan). In addition, the Company has a 1985 Stock Plan for employees. Under both plans, the Company may grant incentive and non-qualified stock options, stock appreciation rights (SARs), restricted shares and restricted units (Units) to officers and other employees. 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. The 1993 Stock Plan provides for the annual grant of awards in an amount not in excess of 1.5 percent of the total shares issued (includes shares held in treasury) on 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. Units have been granted to certain employees, which entitle the holder to receive shares of common stock. At December 31, 1993 there were 1,097,076 Units outstanding, including 138,002 Units granted in 1993, the restrictions on which generally lapse over periods not exceeding nine years from date of grant. 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. 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.

Stock options	Number of Shares
Outstanding at December 31, 1990	18,313,580
Granted at $14.35-$20.66 per share	5,843,500
Less—	
Exercised at $10.12-$18.69 per share	986,804
Lapsed or cancelled	675,090
Surrendered upon exercise of SARs	219,062
Outstanding at December 31, 1991	22,276,124
Granted at $22.07-$27.82 per share	5,934,198
Less—	
Exercised at $10.12-$23.41 per share	8,823,506
Lapsed or cancelled	286,290
Surrendered upon exercise of SARs	270,262
Outstanding at December 31, 1992	18,830,264
Granted at $29.13-$36.94 per share	5,949,990
Less—	
Exercised at $10.34-$34.35 per share	4,986,618
Lapsed or cancelled	145,190
Surrendered upon exercise of SARs	30,000
Outstanding at December 31, 1993, $13.75-$36.94 per share	19,618,446
Exercisable at December 31, 1993	8,648,464
Available for grant at December 31, 1992	6,098,790
Available for grant at December 31, 1993	5,540,800

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 retained earnings.

The Company also has a Restricted Stock Plan for Non-Employee Directors, under which each non-employee director receives a one-time grant of 3,000 shares of common stock, subject to certain restrictions.

Note 18. Cumulative Foreign Exchange Translation Adjustment

December 31	1993	1992	1991
Balance at beginning of year	$ 58	$65	$ 98
Translation adjustment and impact of hedges and intercompany balances	(65)	(7)	(33)
	$ (7)	$58	$ 65

Note 19. 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, safety and health 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 on the completion of feasibility studies or the settlement of claims, but in no event later than the Company's commitment to a plan of action. Although the Company does not currently possess sufficient information to reasonably estimate the amounts of the liabilities to be recorded upon future comple-

tion of studies, they may be significant to the consolidated results of operations.

On September 19, 1991, The B.F. Goodrich Company (Goodrich) filed a lawsuit against the Company in the U.S. District Court for Delaware alleging infringement by the Company of two patents relating to aircraft brakes and seeking injunctive relief and damages. The allegation against the Company relates only to brakes for the Boeing 777, which is to be introduced in 1995, and not to any other brake program of the Company. The Company received an opinion of outside patent counsel that the Goodrich patents are invalid. The Company believes it will prevail in the litigation. In any event, the Company would be able to compete for 777 business with an alternative design clearly not covered by the patents. At trial in October 1993, Goodrich claimed damages of approximately $350 million before trebling. The Company believes this damage claim is without merit. Post trial briefing and argument will not be completed until at least the end of March 1994.

While the ultimate results of the Goodrich litigation and the other lawsuits, investigations and claims described above cannot be determined, management does not expect that these matters will have a material adverse effect on the consolidated 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. Additionally, the Company has issued financial and contract performance guarantees with respect to several refuse-to-energy projects owned or operated by Resco Holdings Inc., a subsidiary of Wheelabrator Technologies, Inc. The Company is indemnified by Resco Holdings Inc. for any payments which the Company may be required to make under these obligations. Management does not expect these guarantees will have a material adverse effect on the consolidated results of operations or the financial position of the Company.

Note 20. Supplemental Cash Flow Information

Cash and cash equivalents includes cash on hand and on deposit and highly liquid debt instruments with maturities generally of three months or less. Cash payments during the years 1993, 1992 and 1991 included interest of $180, $241 and $233 million and income taxes of $130, $115 and $118 million, respectively.

In October 1993, the Company and Knorr-Bremse AG formed an alliance to which both companies contributed their European operations which provide air-brake controls and related products to the heavy truck industry. The Company owns 35 percent of the venture and Knorr-Bremse owns the balance and manages the operations. The transaction had the following non-cash impact on the Company's 1993 balance sheet:

	Amount
Current assets	$(49)
Property, plant and equipment—net	(28)
Investments and long-term receivables	51
Other noncurrent assets	(13)
Current liabilities	29
Noncurrent liabilities	10

Note 21. Oil and Gas Investment

During 1992 the Company disposed of its remaining investments in Union Texas Petroleum Holdings, Inc. (Union Texas) resulting in a pretax gain of $357 million (after-tax $221 million, or $0.78 a share). The Company received approximately $585 million, after underwriters' discount, from the disposition of its approximate 39 percent interest in the common stock of Union Texas. In addition, the Company received $355 million from the redemption at face value of $200 million of preferred shares and $155 million of warrants of Union Texas. The Company received dividends from its preferred investment in Union Texas of $30 million in 1992 and $41 million in 1991.

In 1991 Union Texas completed the sales of its U.S. offshore oil and gas business for $476 million, as well as its North American onshore oil and gas and U.S. gas processing businesses for $395 million which sales resulted in the Company recording a gain of $69 million (after-tax $46 million, or $0.17 a share).

Selected financial data for Union Texas are summarized as follows:

Year ended December 31	1991
Net sales	$977
Income from operations	184
Income before extraordinary item	280
Net income	333

Note 22. 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 (programs). 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 $2 thousand 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.

In 1993, 1992 and 1991 the Company's cost for providing other postretirement benefits aggregated $153, $166 and $120 million, respectively, excluding the cumulative impact of adopting FASB No. 106 in 1992. Effective January 1, 1992, the Company adopted the provisions of FASB No. 106 for its U.S. medical and life insurance programs which increased expense by $38 million, which is included in the 1992 cost. The Company uses the services of an enrolled actuary to calculate such amounts.

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered health care benefits was 13 percent for 1992, decreasing to 12 percent in 1993 and reducing gradually to 6 percent in 2000 and remaining at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates

by 1 percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1993 by $130 million and the aggregate of the service and interest cost component of net periodic postretirement benefit cost for the year then ended by $11 million. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7.25 percent and 8.25 percent at December 31, 1993 and 1992, respectively.

Net periodic postretirement benefit cost for 1993 and 1992 included the following components:

Years ended December 31	1993	1992
Service cost-benefits attributed to service during the period	$ 23	$ 22
Interest cost on accumulated postretirement benefit obligation	137	143
Net amortization	(7)	—
	153	165
Foreign plans	—	1
Net periodic postretirement benefit cost	$153	$166

Presented below are the plans' status and amounts recognized in the Company's Consolidated Balance Sheet at December 31, 1993 and 1992:

December 31	1993	1992
Accumulated postretirement benefit obligation:		
Retirees	$1,279	$1,224
Fully eligible active plan participants	200	155
Other active plan participants	418	343
	1,897	1,722
Unrecognized prior service cost	132	105
Unrecognized net loss	(215)	(43)
Accrued postretirement benefit cost	$1,814	$1,784

Note 23. 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 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. As of year-end 1993 approximately 55 percent of the assets of U.S. plans were held in equity securities, with the balance primarily in fixed income securities.

Pension expense in 1993, 1992 and 1991 was $104, $102 and $94 million, respectively. 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 1993, 1992 and 1991 included the following components:

Years ended December 31	1993	1992	1991
Service cost-benefits earned during the period	$ 115	$ 113	$ 105
Interest cost on projected benefit obligation	369	360	340
Actual return on plan assets	(663)	(320)	(824)
Net amortization and deferral	269	(69)	456
Net periodic pension cost for defined benefit plans	90	84	77
Foreign plans and other	14	18	17
Net periodic pension cost	$ 104	$ 102	$ 94

The assumed rate of return for the Company's U.S. defined benefit pension plans was 9 percent in 1993, 1992 and 1991. The assumed discount rate used in calculating the projected benefit obligations at December 31, 1993, 1992 and 1991 was 7.25 percent, 8.25 percent and 8.5 percent, respectively. In addition, the assumed annual increase in compensation over employee's estimated remaining working lives was 5.5 percent for each of the respective years.

Presented below are the plans' funded status and amounts recognized in the Company's Consolidated Balance Sheet at December 31, 1993 and 1992 for its significant defined benefit pension plans:

	1993		1992	
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	$3,471	$ 731	$3,038	$ 682
Nonvested	256	74	247	57
Accumulated benefit obligation	$3,727	$ 805	$3,285	$ 739
Projected benefit obligation	$4,396	$ 857	$3,847	$ 782
Less—Fair value of assets	4,227	678	3,934	639
Over (under) funded plans	(169)	(179)(a)	87	(143)
Unrecognized transition (asset)	(11)	(7)	(13)	(20)
Unrecognized net (gain) loss	360	2	158	(30)
Unrecognized prior service cost	(2)	63	(1)	58
Prepaid (accrued) pension cost	$ 178	$(121)	$ 231	$(135)

(a) Included in this amount is $(134) million for unfunded foreign and supplemental domestic pension plans.

Note 24. Geographic Areas—Financial Data

		United States (1)	Canada	Europe	Other Int'l	Adjust. and Elim.	Total
Net sales (2)	**1993**	**$9,220**	**$225**	**$1,897**	**$485**	**$ —**	**$11,827**
	1992	8,978	331	2,295	438	—	12,042
	1991	8,908	350	2,079	494	—	11,831
Income (loss) before cumulative effect of changes in accounting principles (3)	**1993**	**570**	**26**	**55**	**5**	**—**	**656**
	1992	512	32	6	(15)	—	535
	1991	(115)	(29)	(91)	(38)	—	(273)
Assets	**1993**	**9,045**	**199**	**1,439**	**548**	**(402)**	**10,829**
	1992	8,677	177	1,940	501	(539)	10,756
	1991	8,273	191	1,913	481	(476)	10,382
Liabilities	**1993**	**7,703**	**98**	**707**	**333**	**(402)**	**8,439**
	1992	7,374	113	1,293	264	(539)	8,505
	1991	6,130	149	1,390	206	(476)	7,399

Sales between geographic areas approximate market and are not significant.
(1) Corporate Office income, expenses, assets and liabilities are included in the United States column.
(2) Included in United States net sales are export sales of $1,699, $1,810 and $1,729 million for each of the respective years.
(3) Includes in 1993 after-tax nonrecurring items of a gain for the United States of $13 million and a loss for Europe of $12 million. Includes in 1992 an after-tax provision to cover Streamlining and Restructuring charges for the United States of $163, Europe of $56 and Other Int'l. of $8 million. Also included in the United States column in 1992 is the after-tax gain on the disposition of the Union Texas common stock of $221 million. Includes in 1991 an after-tax provision to cover Streamlining and Restructuring charges for the United States of $486, Canada of $41, Europe of $101 and Other Int'l. of $33 million. Also included in the United States column in 1991 is the after-tax gain on the sale of assets by Union Texas of $46 million.

Note 25. Segment Financial Data

		Aerospace	Automotive	Engineered Materials	Corporate and Unallocated(1)	Total
Net sales (2)	**1993**	**$4,530**	**$4,506**	**$2,791**	**$ —**	**$11,827**
	1992	4,937	4,499	2,601	5	12,042
	1991	5,269	4,095	2,459	8	11,831
Research and development expense	**1993**	**127**	**63**	**113**	**10**	**313**
	1992	122	64	124	10	320
	1991	151	97	124	9	381
Depreciation and amortization	**1993**	**184**	**156**	**153**	**21**	**514**
	1992	186	162	135	13	496
	1991	167	160	127	16	470
Income (loss) from operations (3)	**1993**	**402**	**432**	**309**	**(189)**	**954**
	1992	187	174	201	(147)	415
	1991	272	(207)	9	(365)	(291)
Income (loss) before cumulative effect of changes in accounting principles (3)(4)	**1993**	**224**	**226**	**269**	**(63)**	**656**
	1992	105	76	190	164	535
	1991	87	(203)	14	(171)	(273)
Capital expenditures	**1993**	**139**	**205**	**354**	**20**	**718**
	1992	162	202	301	26	691
	1991	216	184	262	6	668
Identifiable assets	**1993**	**4,502**	**2,838**	**2,502**	**987**	**10,829**
	1992	4,380	3,082	2,295	999	10,756
	1991	4,146	2,782	1,949	1,505	10,382

Intersegment sales approximate market and are not significant.
(1) The "Corporate and Unallocated" column includes amounts for businesses sold and Corporate items. Income (loss) before cumulative effect of changes in accounting principles includes amounts (including preferred dividends) for Union Texas, accounted for on the equity basis, of $—, $261 and $103 million for each of the respective years. Income (loss) before cumulative effect of changes in accounting principles for 1992 reflects the gain on the disposition of the common stock of Union Texas of $221 million, or $0.78 a share. Identifiable assets include an investment in Union Texas of $—, $— and $591 million, and other Corporate assets of $987, $999 and $914 million for each of the respective years.
(2) Sales to the U.S. Government and its agencies, mainly for the Aerospace segment, were $1,096, $1,170 and $1,317 million for each of the respective years.
(3) Includes in 1993 a pre- and after-tax provision to cover the current year's impact of the adoption of FASB No. 112 for Aerospace of $8 and $5 million, Automotive of $5 and $3 million, Engineered Materials of $4 and $2 million and Corporate and Unallocated of $1 and $1 million, respectively. Includes in 1993 pre- and after-tax impact of nonrecurring items for Aerospace of a charge of $6 and $4 million, a gain of $81 and $42 million for Automotive, a charge of $5 and $3 million for Engineered Materials and a charge of $54 and $34 million for Corporate and Unallocated, respectively. Includes in 1992 a pre- and after-tax provision to cover the current year's impact of the adoption of FASB No. 106 and FASB No. 109 for Aerospace of $44 and $9 million, Automotive of $13 and $6 million, Engineered Materials of $4 and $— million and Corporate and Unallocated of $(10) and $10 million, respectively. Includes in 1992 a pre- and after-tax provision to cover Streamlining and Restructuring charges for Aerospace of $213 and $122 million, Automotive of $95 and $65 million, Engineered Materials of $40 and $25 million and Corporate and Unallocated of $20 and $15 million, respectively. In 1993, a reclassification of the reported 1992 pre- and after-tax provision for Streamlining and Restructuring of $48 and $30 million was made reducing Corporate and Unallocated and increasing Aerospace. Includes in 1991 a pre- and after-tax provision to cover Streamlining and Restructuring charges for Aerospace of $133 and $101 million, Automotive of $334 and $257 million, Engineered Materials of $148 and $149 million and Corporate and Unallocated of $232 and $154 million, respectively.
(4) A finance charge is made by Corporate Office to the segments on the basis of relative capitalization, 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. Unaudited Quarterly Financial Information

	1993					1992				
	Mar. 31	June 30	Sept. 30	Dec. 31	Year	Mar. 31	June 30	Sept. 30	Dec. 31	Year
Net sales	$2,901	$3,055	$2,812	$3,059	$11,827	$2,979	$3,075	$2,936	$3,052	$12,042
As originally reported: (a)										
Gross profit	548	590	555	585		523	560	537	533	
Net income	149	170	168	178		127	145	140	138(b)	
Per share	.52	.60	.59	.63		.46	.52	.50	.49(b)	
1993 and 1992 restatements of changes in accounting principles: (a)										
Gross profit	(1)	(1)	—	—		(12)	(11)	(11)	—	
Cumulative after-tax effect	(245)	—	—	—		(1,247)	—	—	—	
Per share	(.86)	—	—	—		(4.47)	—	—	—	
Quarterly after-tax effect	(248)	(3)	(3)	—		(1,252)	(5)	(5)	—	
Per share	(.87)	(.01)	(.01)	—		(4.49)	(.02)	(.02)	—	
As restated: (a)										
Gross profit	547	589	555	585	2,276	511	549	526	533	2,119
Income before cumulative effect of changes in accounting principles	146	167	165	178	656	122	140	135	138(b)	535
Per share	.51	.59	.58	.63	2.31	.44	.50	.48	.49(b)	1.90
Net income (loss)	(99)	167	165	178	411	(1,125)	140	135	138(b)	(712)
Per share	(.35)	.59	.58	.63	1.45	(4.03)	.50	.48	.49(b)	(2.52)
Dividends paid	.145	.145	.145	.145	.58	.125	.125	.125	.125	.50
Market price (c)										
High	34.63	35.25	37.50	40.13	40.13	27.38	30.63	28.25	31.00	31.00
Low	28.75	30.88	32.13	34.88	28.75	20.50	24.88	25.13	25.00	20.50

(a) FASB No. 112 was adopted in the fourth quarter of 1993, effective as of January 1, 1993. FASB Nos. 106 and 109 were adopted in the fourth quarter of 1992, effective as of January 1, 1992. As a result, the first three quarters of both years were restated. For further information, such accounting changes are discussed in Notes 1 and 22 of Notes to Financial Statements.

(b) Includes a provision of $368 million (after-tax $227 million, or $0.80 a share) covering costs for Streamlining and Restructuring. Also includes an after-tax gain of $221 million, or $0.78 a share, on the sale of common stock of Union Texas. See Notes 4 and 21 of Notes to Financial Statements for further information.

(c) From composite tape—stock is primarily traded on The New York Stock Exchange.

Report of Independent Accountants

Price Waterhouse

Morristown, NJ
February 3, 1994 except for
Note 1 (Subsequent Events),
which is as of February 7, 1994

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 consolidated subsidiaries at December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, 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.

In 1993, as discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" effective as of January 1, 1993. In 1992, as further discussed in Note 1, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" effective as of January 1, 1992.

Price Waterhouse

Selected Financial Data

(Dollars in millions except per share amounts)

Years ended December 31	1993	1992	1991	1990	1989	1988	1987
For the Year(a)							
Net sales	$11,827	$12,042	$11,831	$12,343	$11,942	[illegible]	[illegible]
Income (loss) from continuing operations	656(b)	535 (c)	(273)(c)	462	528	463(c)	[illegible]
Net income (loss)	411(d)	(712)(d)	(273)	462	528	463	656
Per share of common stock:							
Earnings (loss) from continuing operations	2.31	1.90	(1.00)	1.67	1.78	1.55	1.53
Net earnings (loss)	1.45	(2.52)	(1.00)	1.67	1.78	1.55	1.95
Dividends	.58	.50	.80	.90	.90	.90	[illegible]
At Year-End(a)							
Net working capital	$ 1,078	$ 1,414	$ 526	$ 892	$ 1,065	$ 1,040	$ 722
Property, plant and equipment—net	4,094	3,897	3,638	3,584	3,321	3,214	3,330
Total assets	10,829	10,756	10,382	10,456	10,342	10,069	10,321
Long-term debt	1,602	1,777	1,914	2,051	1,903	2,044	2,017
Shareowners' equity	2,390	2,251	2,983	3,380	3,412	3,268	3,129
Book value per share of common stock	8.42	7.93	10.79	12.55	11.77	11.05	10.44
Average investment(e)	4,506	4,939	6,771	6,723	6,520	6,629	6,859
Common shares outstanding (in millions)	283.8	283.8	276.3	269.4	290.0	295.9	299.9
Common shareowners of record	84,248	84,254	91,492	97,210	102,042	111,402	109,322
Employees(f)	86,400	89,300	98,300	105,800	107,100	109,550	115,300
Financial Statistics(g)							
Return on sales (income from operations)	8.1	3.4	(2.5)	5.9	8.0	5.7	6.8
Return on sales (after-tax)	5.5	4.4	(2.3)	3.7	4.4	3.9	4.6
Return on average investment (after-tax)	15.7	13.5	(1.3)	9.6	11.0	10.3	10.1
Return on average shareowners' equity (after-tax)	30.6	26.4	(8.4)	13.9	15.6	14.5	14.5
Interest coverage ratio	5.1	3.3	(.9)	2.6	3.0	2.8	3.6
Long-term debt as a percent of total capital	37.9	40.5	34.9	33.6	30.8	33.2	33.9
Total debt as a percent of total capital	42.7	44.7	43.9	40.4	35.7	35.9	39.0
Financial Statistics(g)(h)							
Return on sales (income from operations)	7.9	6.5	4.7	5.9	8.0	7.4	6.8
Return on sales (after-tax)	5.5	4.5	2.9	3.7	4.4	4.3	3.9
Return on average investment (after-tax)	15.6	13.6	7.8	9.6	11.0	10.9	8.9
Return on average shareowners' equity (after-tax)	30.5	26.7	10.5	13.9	15.6	15.9	12.2
Interest coverage ratio	5.0	3.3	2.1	2.6	3.0	2.9	3.2
Long-term debt as a percent of total capital	37.9	40.5	34.9	33.6	30.8	33.2	33.9
Total debt as a percent of total capital	42.7	44.7	43.9	40.4	35.7	35.9	39.0

(a) Share and per share data have been restated to reflect the two-for-one stock split described in Note 1 of Notes to Financial Statements.

(b) Includes in 1993 the current year's after-tax provision for the adoption of FASB No. 112 of $11 million, or $0.04 a share.

(c) Includes in 1992 the effect of a provision for Streamlining and Restructuring as well as a gain on the sale of common stock of Union Texas resulting in a net charge of $11 million (after-tax $6 million, or $0.02 a share) as discussed in Notes 4 and 21 of Notes to Financial Statements, respectively. In 1991, includes the effect of a provision for Streamlining and Restructuring as well as gains on asset sales by Union Texas resulting in a net charge of $838 million (after-tax $615 million, or $2.25 a share) as discussed in Notes 4 and 21 of Notes to Financial Statements, respectively. In 1988, includes an after-tax provision of $125 million, or $0.42 a share, to cover Streamlining and Restructuring charges, an after-tax gain of $36 million, or $0.12 a share, from the sale of the Company's investment in Akebono Brake Industry Company Ltd. and an after-tax gain of $81 million, or $0.27 a share, from nonrecurring items. Includes in 1987 the effect of the sale of common stock by Union Texas which resulted in the Company recording a gain of $108 million (after-tax $82 million, or $0.24 a share), reflecting the Company's share of an increase in Union Texas' equity.

(d) Includes in 1993 the cumulative after-tax provision for the adoption of FASB No. 112 of $245 million, or $0.86 a share. Includes in 1992 the cumulative after-tax provision for the adoption of FASB Nos. 106 and 109 of $1,247 million, or $4.42 a share. Such accounting changes are discussed in Note 1 of Notes to Financial Statements.

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

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

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

(h) The returns and interest coverage ratio exclude the impact of nonrecurring items in 1993, provisions for Streamlining and Restructuring charges in 1992, 1991 and 1988, gain on 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.

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Frederic M. Poses
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Nancy A. Garvey
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Chairman of the Board and Chief Executive Officer
AlliedSignal Inc.

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Chairman and Chief Executive Officer
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The Palmer Group
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Chairman and Chief Executive Officer
The Prudential Insurance Company of America
(insurance and financial services)

(Numbers next to each Director's name refer to the Committees on which he or she serves.)

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Russell E. Palmer, Chairman

[2] **Corporate Responsibility Committee**
Robert D. Kilpatrick, Chairman

[3] **Executive Committee**
Lawrence A. Bossidy, Chairman

[4] **Management Development and Compensation Committee**
Delbert C. Staley, Chairman

[5] **Nominating and Board Affairs Committee**
Robert P. Luciano, Chairman

[6] **Retirement Plans Committee**
Robert C. Winters, Chairman

[7] **Technology Committee**
Thomas P. Stafford, Chairman

Shareowner Information

Annual Meeting

The Annual Meeting of Shareowners will be held at 10 a.m. on Monday, April 25, 1994, at AlliedSignal's corporate headquarters, 101 Columbia Road, Morris Township, New Jersey.

Dividends/ Shareowner Matters

AlliedSignal's Dividend Reinvestment Plan provides for the automatic reinvestment of Common Stock dividends at market price. Participants also may add cash for the purchase of additional shares of Common Stock without payment of any brokerage commission or service charge.

For more information about the plan or for answers to questions about dividend checks, stock transfers or other shareowner matters, write:

Shareholder Relations
AlliedSignal Inc.
P. O. Box 50000
Morristown, New Jersey 07962
(800) 255-4332
(201) 455-2127

Form 10-K

Shareowners may request a copy of Form 10-K, which the company files with the Securities and Exchange Commission, by contacting:

Corporate Publications
AlliedSignal Inc.
P. O. Box 2245
Morristown, New Jersey 07962
(201) 455-5402

Stock Exchange Listings

AlliedSignal's Common Stock is listed on the New York, Chicago and Pacific Stock Exchanges under the symbol ALD. It is also listed on the Amsterdam, Basel, Frankfurt, Geneva, London, Paris, Tokyo and Zurich Stock Exchanges.

Transfer Agent/ Registrar

The Bank of New York
101 Barclay Street
New York, New York 10286

Brand Names/ Trademarks

Throughout this 1993 Annual Report product and service references in *italics* with Initial Capitals represent trademarks, service marks or brand names owned by or associated with AlliedSignal Inc.

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Morristown,
New Jersey 07962-2245
U.S.A.

AlliedSignal's
Aerospace, Automotive
and Engineered Materials
businesses serve vital
industries in major
markets around the world.
The company has 86,400
employees at some 400
facilities in 40 countries
and territories.