

liabilities, as part of the Specialty Chemicals & Electronic Solutions segment. PFC manufactures and distributes active and intermediate

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

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

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

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

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

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

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

U.S. GOVERNMENT SALES

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