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

FORM 10-K

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

For the fiscal year ended December 31, 1996
OR

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

For the transition period from to

Commission file number 1-8974

ALLIEDSIGNAL INC.

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code (201)455-2000

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1 per share*	New York Stock Exchange
	Chicago Stock Exchange
	Pacific Stock Exchange
Money Multiplier Notes due 1998-2000	New York Stock Exchange
9 7/8% Debentures due June 1, 2002	New York Stock Exchange
9.20% Debentures due February 15, 2003	New York Stock Exchange
Zero Coupon Serial Bonds due 1997-2009	New York Stock Exchange
9 1/2% Debentures due June 1, 2016	New York Stock Exchange

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* The common stock is also listed for trading on the Amsterdam, Basle, Frankfurt, Geneva, London, Paris and Zurich stock exchanges.

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [x]
The aggregate market value of the voting stock held by nonaffiliates of the Registrant was approximately $18.9 billion at December 31, 1996.
There were 282,814,625 shares of Common Stock outstanding at December 31, 1996.

Documents Incorporated by Reference

Part I and II: Annual Report to Shareowners for the Year Ended December 31, 1996.

Part III: Proxy Statement for Annual Meeting of Shareowners to be held April 28, 1997.

ALLIEDSIGNAL INC.

CROSS REFERENCE SHEET

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* To be included in a definitive Proxy Statement to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 1996.

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

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(a) These items are omitted since the Registrant will file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A involving the election of directors not later than 120 days after December 31, 1996. Certain other information relating to the Executive Officers of the Registrant appears at pages 14 and 15 of this Report.

PART I.

ITEM 1. BUSINESS

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

AlliedSignal is an advanced technology and manufacturing company serving customers worldwide with aerospace and automotive products, chemicals, fibers, plastics and advanced materials. The Company's operations are conducted under three business segments: Aerospace, Automotive and Engineered Materials.

AEROSPACE

The Aerospace segment is among the world's largest manufacturers and suppliers of advanced technology products and services for the military, commercial and general aviation, and space markets.

Following is a description of the major Aerospace businesses:

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
Engines	Turbine propulsion engines	TFE731 turbofan TPE331 turboprop TFE1042 turbofan LF507 turbofan CFE738 turbofan T53, T55 LT101 turboshaft T800 turboshaft AGT1500 turboshaft TF40 turboshaft	Business, regional and military trainer aircraft Commercial and military helicopters Military vehicles Commercial and military marine craft	Pratt & Whitney Canada Rolls-Royce/Allison Engine Company Turbomeca
	Auxiliary power units (APUs)	Airborne auxiliary power units Jet fuel starters Secondary power systems Ground power units	Commercial and military aircraft Ground power	Pratt & Whitney Canada Sundstrand
	Repair and overhaul	Engine and APU repair, overhaul and spare part sales	Commercial and military aircraft, marine and land propulsion vehicles.	Airlines Independent service providers
Aerospace Equipment Systems	Environmental control systems(ECS)	Air conditioning systems Bleed air control systems Cabin pressure systems Environmental and thermal control for spacecraft Smoke detection systems ECS and component repair, overhaul and spare part sales	Commercial, business and general aviation aircraft Military aircraft Spacecraft	Hamilton Standard Intertechnique Liebherr Nord Micro Parker Hannifin Sundstrand
	Engine systems and accessories	Electronic, hydromechanical and pneumatic gas turbine engine controls Digital electronic engine controls for military battle tanks Fuel flow metering components Pressure transducers Engine controls and accessories repair, overhaul and parts sales	Commercial, military, regional and general aviation aircraft engines Spacecraft Military battle tanks	ABG Semca Chandler-Evans Hamilton Standard Lockheed Martin Lucas

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
	Power management and generation systems	Electric, hydraulic and pneumatic power generation systems Power distribution and power management systems Pumps, starters, converters, controls, electrical actuation for flight surfaces Pumps, starters, converters, generators and actuators repair, overhaul and parts sales	Commercial and military aircraft Ground vehicles	Auxilec Lucas Parker Bertea Smiths Sundstrand
	Landing systems	Wheels and brakes Friction products Brake control systems Wheel and brake overhaul services	Commercial and military aircraft	Aircraft Braking Systems Dunlop B.F. Goodrich Messier-Bugatti
Commercial Avionics Systems	Avionics systems	Flight safety systems: Enhanced Ground Proximity Warning Systems (EGPWS) Traffic Alert and Collision Avoidance Systems (TCAS) Windshear detection and weather radar systems Flight data and cockpit voice recorders Communication and navigation systems Flight controls Flight management systems Data management and aircraft performance monitoring systems Air-to-ground telephones Cockpit displays Global positioning systems	Commercial, business and general aviation Government aviation	Garmin Honeywell Narco Rockwell/Collins Sextant Trimble
Electronic Systems	Avionics systems	Automatic flight control systems Cockpit display systems Navigation systems Identification systems Integrated systems Vehicle management systems	Military aviation Launch vehicles Space subsystems	Honeywell Kaiser Lear Astronics Lockheed Martin Rockwell/Collins Smiths
	Automatic test systems	Computer-controlled automatic test systems Functional testers and ancillaries	U.S. Government and international logistics centers Military aviation	GDE Systems Honeywell Litton Lockheed Martin Northrop Grumman
	Guidance systems	Inertial sensors/systems and star sensors/ systems for guidance, stabilization, navigation and control	Military and commercial vehicles Commercial spacecraft and launch vehicles Energy Transportation Missiles Munitions Underwater	Astronautics-Kearfott Ball Honeywell Litton Rockwell/Collins

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
	Tactical command, control, communications, computers and intelligence	Combat identification systems ('Identification Friend or Foe' (IFF)) Commercial information security equipment Satellite communication terminals (SATCOM) Secured communication equipment (INFOSEC)	Military aviation Military communications Civil communications Commercial information security	GM Hughes/ Magnavox Harris Litton Lockheed Martin Motorola Raytheon/ E-Systems Rockwell/Collins Thomson-CSF/ Hazeltine
	Radar systems	Aircraft precision landing Ground surveillance Target detection devices	Global and U.S. airspace agencies Military aviation Military missiles	GM Hughes Motorola Raytheon Rockwell Thomson-CSF
	Underwater detection systems	Acoustic towed arrays Dipping sonars Mine countermeasures Mine warfare systems	Military aviation Submarines and surface ships	GM Hughes Lockheed Martin Northrop Grumman Raytheon STN/Atlas Thomson-CSF
Government Services	Management and technical services	Maintenance/operation of space systems and facilities Systems engineering, integration and training services Management of data processing facilities	U.S. and foreign government space and communications facilities	Computer Sciences Dyncorp Lockheed Martin Raytheon SAIC

The Aerospace segment serves key military and commercial components of the aviation, defense and space markets with a broad array of systems, subsystems, components and services. It designs, develops, manufactures, markets and services hundreds of products found on all types of aircraft, from single-piston engine aircraft, business aircraft and wide-bodied 'jumbos' flown by the world's commercial airlines, to trainers, transports, bombers, fighters and helicopters used by the U.S. and other countries for national defense. The Company's global business consists primarily of original equipment (OE) sales and an extensive aftermarket business, including spare parts, maintenance and repair, and retrofitting. Worldwide customers include the U.S. and foreign governments, all of the major airframe and engine manufacturers, including Boeing, McDonnell Douglas, Lockheed Martin, Airbus Industrie, Aero International (Regional), Raytheon, Israeli Aircraft Industries, Northrop Grumman, British Aerospace, Cessna, Fairchild/Dornier, Dassault, Gulfstream, Bombardier, Rockwell International, Pratt & Whitney, General Electric and Rolls-Royce, as well as the world's leading airlines and business aircraft and general aviation aircraft operators, and dealers and distributors of general aviation products. The Company also provides field engineering management and technical support services to Boeing, the National Aeronautics and Space Administration (NASA), the U.S. Department of Defense (DoD), the U.S. Department of Energy, other federal civilian agencies as well as state and local governments and other commercial entities.

The Company is affected by U.S. Government budget constraints for defense and space programs as well as the level of production of commercial, business and general aviation aircraft which are impacted by business cycles and world economic conditions. Growth in the Company's commercial business for aerospace products is expected, over the long term, to help mitigate the reductions in U.S. defense spending. Moreover, aerospace sales are not dependent on any one key defense program or commercial customer. However, contract awards by aircraft manufacturers can be canceled or reduced if aircraft orders are cut back. Aerospace's products and services are sold in competition with those of a large number of other companies, some of which have substantial financial resources and significant technological capabilities.

In 1996, world defense spending flattened after declining in prior years. The Company believes that the cyclical downturn for the commercial aircraft industry reached bottom in 1995. A slight improvement was seen in the second half of 1996 and this growth is expected to significantly accelerate in 1997. Most major U.S. and international airlines operated in an improving economic

environment. The modest turnaround for the airline industry that began in the second half of 1993, continued in 1994 and strengthened significantly in 1995 and 1996. The regional airlines experienced strong traffic growth and new regional aircraft orders were higher in 1996. The high-end business aviation market showed moderate growth and the commercial aftermarket spare parts and repair and overhaul business showed strong growth during 1996.

Sales to the U.S. Government, acting through its various departments and agencies and through prime contractors, amounted to $1,833 million for 1996 and $1,806 million for 1995, which includes sales to the DoD of $1,237 million in 1996 and $1,205 million in 1995. Approximately 55% and 54% of sales to the U.S. Government in 1996 and 1995, respectively, were made under fixed-price contracts in which the Company agrees to perform a contract for a fixed price and retains for itself any benefits of cost savings or must bear the burden of cost overruns.

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

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

The Company, as are other government contractors, is subject to government investigations of business practices and compliance with government procurement regulations. Although such regulations provide that a contractor may be suspended or debarred from government contracts under certain circumstances, and the outcome of pending government investigations cannot be predicted with certainty, management is not currently aware of any such investigations that it expects will have a material adverse effect on the Company. In addition, the Company carries out proactive compliance programs focused on areas of potential exposure.

Orders for certain products sold to general and commercial aviation customers mainly consist of relatively short-term and frequently renewed commitments. Government procurement agencies generally issue contracts covering relatively long periods of time. Total backlog for products and services for both government and commercial contracts was $4,514 million at December 31, 1996 and $4,523 million at December 31, 1995 of which U.S. and foreign government orders were $1,906 million and $1,871 million for the respective years. The Company anticipates that approximately $3,562 million of the total 1996 backlog will be filled during 1997.

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

AUTOMOTIVE

The Automotive segment designs, engineers, manufactures and distributes systems and components for worldwide vehicle manufacturers and aftermarket customers.

Following is a description of the major Automotive businesses:

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS	MAJOR MARKETS	COMPETITORS
Automotive Aftermarket	Filters	Oil, air, fuel, transmission and coolant filters PCV valves	Automotive and heavy vehicle aftermarket channels	AC/Delphi/GM Knecht Labinal Mann & Hummel Purolator/Mark IV Wix/Dana

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS	MAJOR MARKETS	COMPETITORS
	Electronic components	Spark plugs Glow plugs Wire and cable Oxygen sensors	Automotive aftermarket channels	AC/Delphi/GM Belden/Cooper Bosch Champion/Cooper Rockwell/Collins Eyquem NGK
	Brake components	Disc pads and brake linings Disc and drum brakes Brake hydraulic components Brake fluid Brake components	Automotive and heavy vehicle aftermarket channels and original equipment service (OES)	Abex/Cooper EIS/Standard Motor Ferodo/T&N Girling/Lucas Lockheed/AP Mintex, Textar/BBA Raybestos/Echlin Teves/ITT
	Steering components	Ball-joints Rack & pinions Power-steering pumps Power-steering components	Automotive and heavy vehicle aftermarket channels and OES	Quinton Hazel/Echlin ZF
Safety Restraint Systems	Seat belt systems	Seat belt assemblies Pretensioners Seat-integrated belts	Automotive and heavy vehicle original equipment manufacturers (OEMs)	Autoliv Takata TRW
	Air bag systems	Air bag modules: Driver Passenger Inflators Cushions	Automotive and heavy vehicle OEMs	Morton International Takata TRW
Turbocharging Systems	Charge-air systems	Turbochargers Charge-air coolers Aluminum cooling modules Superchargers Remanufactured components	Automotive and heavy vehicle OEMs Engine manufacturers Aftermarket distributors and dealers	Behr/McCord Holset IHI KKK Mitsubishi/MHI Modine Schwitzerc Valeo
Friction Materials	Brake friction materials	Disc brake pads Drum brake linings Brake blocks	Automotive and heavy vehicle OEMs, OES and aftermarket channels Railway and commercial/ military aircraft OEMs and brake manufacturers	Abex/Cooper Akebono BBA Group Delphi/GM Echlin Ferodo/T&N JBI Nisshinbo Sumitomo Teves/ITT
Truck Brake Systems (joint venture)	Air brake systems	Anti-lock braking systems (ABS) Air compressors Air valves Air dryers Actuators Truck electronics Competitive remanufactured products	On-highway medium and heavy truck, bus and trailer OEMs Off-highway equipment OEMs Aftermarket distributors and dealers/OES	Cummins/Holset Echlin/Midland-Grau Rockwell WABCO
Filters & Spark Plugs	Filters	Oil, air, transmission and fuel filters	Automotive and heavy vehicle OEMs and OES channels	AC/Delphi/GM Champion Labs/U.I.S. Purolator/Mark IV Wix/Dana
	Spark plugs	Spark plugs	Automotive and heavy vehicle OEMs, OES and aftermarket channels	AC/Delphi/GM Bosch Champion/Cooper NGK Nippondenso

On April 12, 1996, the Company sold a major component of its worldwide braking business to Robert Bosch Gmbh, a privately held German company, for $1.5 billion in cash, subject to certain post-closing adjustments. Included in the sale were the worldwide light-vehicle and medium-heavy

truck hydraulic braking and ABS businesses. These businesses had 1995 sales of approximately $2.0 billion. Excluded from the sale were the brake friction materials business, brake-related sales to the independent aftermarket and the truck brake systems business which is part of a joint venture with Knorr-Bremse AG of Germany.

In February 1997, the Company and Knorr-Bremse AG, agreed in principle to purchase the heavy-truck air brake systems business of Echlin Inc. in the United States and Europe, as well as Echlin's U.S.-based commercial vehicle friction materials and aftermarket brake shoe relining operations. The businesses to be acquired have sales of about $320 million. The proposed acquisition is subject to review by government agencies in the U.S. and Europe.

Automotive operations are located in the U.S., Australia, Brazil, Canada, China, France, Germany, India, Ireland, Italy, Japan, Malaysia, Mexico, South Korea, Spain and the United Kingdom. Distribution and marketing are conducted in these and numerous other countries as well. The segment's operations outside the U.S. are conducted through various foreign companies in which it has interests ranging from minor to complete control. International operations also include the exporting of U.S. manufactured products and licensing activities. Internationally, products are marketed under the Bendix, Fram, Autolite, Garrett and Jurid trademarks.

Excluding the impact of the divested braking business from both years, worldwide passenger car and truck OE sales accounted for approximately 50% and 48% in 1996 and 1995, respectively, of the total sales of the Automotive segment with aftermarket sales, including OES sales, accounting for the balance. In 1996 and 1995, Automotive operations outside the U.S. accounted for $1,583 and $1,531 million, respectively, or 43% in both years, of total Automotive sales. Total worldwide sales for 1996 and 1995 to the Company's five largest automotive manufacturing customers amounted to $1,099 and $1,016 million, or 30% and 28%, respectively, of total Automotive sales.

The Automotive segment's products are sold in highly competitive markets to customers who demand performance, quality and competitive prices. Virtually all automotive components are sold in competition with other independent suppliers or with the captive component divisions of the vehicle manufacturers. While the Company's competitive position varies among its products, the Company believes it is a significant factor in each of its major product markets.

ENGINEERED MATERIALS

The Engineered Materials segment manufactures chemicals, fibers, plastics and advanced materials with applications for numerous industries, including automotive, carpeting, refrigeration, construction, electronics, computers and utilities.

Following is a description of the major Engineered Materials businesses:

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
Polymers	Carpet fiber	Nylon filament and staple yarns	Residential, commercial and various specialty markets	BASF Beaulieu Du Pont Monsanto Novalis
	Industrial fiber	Industrial nylon and polyester yarns	Passenger car and truck tires Auto and light truck seatbelts and airbags Broad woven fabrics Ropes and mechanical rubber goods Luggage	Akzo Du Pont Hoechst/Celanese Kolon Rhone-Poulenc Tong Yang

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
	Chemical intermediates	Caprolactam Phenol Acetone Ammonium sulfate Hydroxylamine Alphamethyl styrene Cyclohexanol Cyclohexanone Adipic acid	Nylon for fibers, engineered resins and film Methyl methacrylate (MMA) Phenol resins Fertilizer ingredients Specialty chemicals Vitamins Carbonization	BASF DSM Du Pont Enichem Monsanto Phenol Chemie Rhone-Poulenc Ube
	Engineering plastics	Thermoplastic nylon resins Thermoplastic resin alloys and blends Post-consumer recycled PET resins Recycled nylon resins	Food and pharmaceutical packaging Engine housings (e.g., electric hand tools, chain saws) Automotive body components Office furniture Electrical and electronics	BASF Bayer Du Pont General Electric Hoechst/Celanese Monsanto
	Textile nylon	Fine denier nylon yarns	Hosiery Lingerie Active wear Recreational equipment Luggage	BASF Du Pont/Akra FCFC Fibra Nylstar
	Spectra performance materials	Spectra'r' (extended chain polyethylene) Spectra Shield'r' (polyethylene) Shield composites Spectra Fusion'r' (fishing line) Gold Shield'r' (Aramid)	Cordage for commercial, fishing and recreational use Sports equipment composites Bullet resistant vests, helmets and heavy armor Cut resistant industrial gloves Sailcloth	Akzo DSM Du Pont OCF
Electronic Materials	Multilayer circuitry materials	Laminates Prepregs Copper foil	Military Telecommunications Automotive Computers Consumer electronics	ADI/Isola Nanya Nelco Polyclad
	Copper-clad rigid laminates for circuitry	Laminates	Military Telecommunications Automotive Computers Consumer electronics	ADI/Isola General Electric Nanya Nelco Polyclad
	Advanced microelectronic materials	Materials for computer chip manufacturing	Semiconductors Microelectronics	Tokyo-Ohka
	Amorphous metals	Amorphous metal ribbons and components	Electrical distribution transformers High frequency electronics Metal joining Theft deterrent	Allegheny-Ludlum Steel Armco Steel Kawasaki Steel Nippon Steel Toshiba Vacuum Smelze
Specialty Chemicals	Performance additives	Low-molecular weight polyethylene Polymer additives	Textiles Plastics Adhesives Polish Coatings Inks Cosmetics	BASF Eastman Chemical Hoechst/Celanese Mitsui
	Performance chemicals	Custom chemicals Specialty silanes Crosslinking agents Fine organic and inorganic chemicals Technical preservatives Pigments and dyes Electronic and	Agricultural and pharmaceutical intermediates Metal, glass, plastic processing Coatings, adhesives and sealants Photographics, graphics and	BASF DSM

laboratory chemicals	security printing Other industrial applications

MAJOR BUSINESSES	PRODUCT CLASSES	MAJOR PRODUCTS/SERVICES	MAJOR MARKETS	COMPETITORS
	Hydrofluoric acid (HF)	Anhydrous and aqueous hydrofluoric acid Ultra-high purity hydrofluoric acid	Fluorocarbons Steel Oil refining Chemical intermediates Electronics	Du Pont Norfluor Quimaco Fluor
	Fluorocarbons	Genetron'r' refrigerants, aerosol and insulation foam blowing agents Genesolv'r' solvents Oxyfume sterilant gases	Refrigeration Air conditioning Polyurethane foam Rigid-board insulation Electronics Optical Metalworking Hospitals Medical equipment manufacturers	Atochem Du Pont ICI
	Fluorine specialties	Sulfur hexafluoride (SF6) Boron trifluoride (BF3) Iodine pentafluoride (IF5) Antimony pentafluoride (SbF5)	Resins Lubricants Fibers catalysts	Air Products Asahi Glass Atochem Ausimont Kanto Denka Kogyo Solvay Fluor
	Nuclear services	UF6 conversion services	Nuclear fuel Electric utilities	British Nuclear Fuels Cameco (Canada) Cogema (France) Tennex (Russia)
	UOP (joint venture): Process technology Refining products Gas processing processes and equipment	Processes Catalysts Molecular sieves Adsorbents Design of process plants and equipment	Petroleum, petrochemical, gas processing and chemical industries	ABB Lummus Global Criterion IFP (France) Procatalyse (France) Stone & Webster Zeochem

Engineered Materials' three major businesses are aligned around markets, customers and common technologies. Brand identity, service to customers and quality are important competitive factors in the market and there is considerable price competition.

The Montreal Protocol (Protocol), which was signed by the United States, regulates worldwide chlorofluorocarbons (CFC) production and consumption. With few exceptions, the Protocol required 100% elimination of fully halogenated CFC production by industrialized countries as of December 31, 1995. The amended U.S. Clean Air Act also regulates CFCs and similarly required that most U.S. production of CFCs be phased out by the end of 1995. The Company completed its efforts to develop environmentally safer fluorocarbon products and replaced its CFC product line. The Company has commercialized key CFC substitute products in various applications, including automotive air conditioning and residential, commercial and industrial refrigeration. The Company is continuing its research and development efforts in view of the changing regulatory environment in which it operates. The Company cannot predict the impact of possible future regulatory issues.

Engineered Materials operations are mainly located in the U.S., France and Germany. Polymers and Specialty Chemicals manufacturing facilities are also located in the Netherlands; Electronic Materials maintains facilities in Southeast Asia, including Taiwan, Singapore, Thailand and South Korea. Engineered Materials also has significant exports worldwide.

The Engineered Materials segment also includes the following other businesses: carbon materials, environmental catalysts and specialty films. The carbon materials business produces binder pitch for electrodes for the aluminum and carbon industries, creosote oils as preservatives for the wood products and carbon black markets, refined naphthalene as a chemical intermediate, and driveway sealer tar and roofing pitch for the construction industry. The environmental catalysts business is a major worldwide supplier of catalysts used in catalytic converters for automobiles. In November 1994, the Company and General Motors Corporation formed a joint venture to produce coated automotive catalytic converter substrates. Major products in the specialty films business include cast nylon (Capran'r'), biaxially oriented nylon film (Capran Emblem'r') and fluoropolymer film (Aclar'r'). Specialty film markets include food, pharmaceutical, and other packaging and industrial applications.

SEGMENT FINANCIAL DATA

Note 25 (Segment Financial Data) of Notes to Financial Statements in the Company's 1996 Annual Report to shareowners is incorporated herein by reference.

DOMESTIC AND FOREIGN FINANCIAL DATA

Note 26 (Geographic Areas -- Financial Data) of Notes to Financial Statements in the Company's 1996 Annual Report to shareowners is incorporated herein by reference.

OTHER RECENT DEVELOPMENTS

The Company has undertaken certain repositioning actions that require employee and asset relocation, plant integration and capital improvements. The repositioning actions are generally expected to be completed by 1998.

FOREIGN ACTIVITIES

The Company's foreign businesses are subject to the usual risks attendant upon investments in foreign countries, including nationalization, expropriation, limitations on repatriation of funds, restrictive actions by local governments and changes in foreign currency exchange rates.

The Company's principal foreign manufacturing operations are in Australia, Brazil, Canada, France, Germany, Ireland, Italy, Japan, Mexico, Portugal, South Korea, Spain, Singapore, Taiwan, the Netherlands and the United Kingdom. The Company maintains sales and business offices in these and various other countries, including Austria, Belgium, China, Denmark, Finland, Hong Kong, India, New Zealand, Norway, Sweden and Turkey as well as warehousing, distribution and aircraft repair and overhaul facilities to support foreign operations and export sales. Further information about foreign activities is discussed in the segment narratives.

RAW MATERIALS

The principal raw materials used by the Company's segments include: Aerospace -- carbon fiber; electronic, optical and mechanical component parts and assemblies; electronic and electromechanical devices and metallic products; Automotive -- castings, forgings, steel and bar stock, copper, aluminum, platinum and titanium and Engineered Materials -- cumene, natural gas, sulfur, terephthalic acid, ethylene and ethylene glycol, fluorspar, HF, carbon tetrachloride, chloroform, nylon resins, fiberglass, copper foil, platinum, rhodium and coal tar pitch. The Company is producing virtually all of its HF and nylon resin requirements. The principal raw materials used in the Company's operations are generally readily available. The Company is dependent on its suppliers and subcontractors in order to meet commitments to its customers, and many major components and product equipment items are procured or subcontracted with a number of domestic and foreign companies. The Company maintains a qualification and performance surveillance process to control risk associated with such reliance on third parties. The Company believes that sources of supply for raw materials and components are generally adequate.

PATENTS AND TRADEMARKS

The Company owns approximately 9,500 patents or pending patent applications and is licensed under other patents covering certain of its products and processes. It believes that, in the aggregate, the rights under such patents and licenses are generally important to its operations, but does not consider that any patent or patent license agreement or group of them related to a specific process or product is of material importance in relation to the Company's total business.

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

RESEARCH AND DEVELOPMENT

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

Research and development expense totaled $345, $353 and $318 million in 1996, 1995 and 1994, respectively. Customer-sponsored (principally the U.S. Government) research and development activities amounted to an additional $536, $536 and $486 million in 1996, 1995 and 1994, respectively.

ENVIRONMENT

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

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

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

Capital expenditures for environmental control facilities at existing operations were $43 million in 1996. The Company estimates that during each of the years 1997 and 1998 such capital expenditures will be in the $55 to $60 million range. In addition to capital expenditures, the Company has incurred and will continue to incur operating costs in connection with such facilities.

Reference is made to Management's Discussion and Analysis at page 21 of the Company's 1996 Annual Report to shareowners, incorporated herein by reference, for further information regarding environmental matters.

EMPLOYEES

The Company had an aggregate of 76,600 salaried and hourly employees at December 31, 1996. Approximately 53,200 were located in the United States, and, of these employees, about 25% were unionized employees represented by various local or national unions.

ITEM 2. PROPERTIES

The Company has 339 locations consisting of plants, research laboratories, sales offices and other facilities. The plants are generally located to serve large marketing areas and to provide accessibility to raw materials and labor pools. The properties are generally maintained in good operating condition. Utilization of these plants may vary with government spending and other business conditions; however, no major operating facility is significantly idle. The facilities, together with planned

expansions, are expected to meet the Company's needs for the foreseeable future. The Company owns or leases warehouses, railroad cars, barges, automobiles, trucks, airplanes and materials handling and data processing equipment. It also leases space for administrative and sales staffs. The Company's headquarters and administrative complex are located at Morris Township, New Jersey.

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

AEROSPACE

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

AUTOMOTIVE

Greenville, AL
Torrance, CA
Fostoria, OH
Greenville, OH
Jackson, TN
Maryville, TN
Conde, France
Thaon-Les-Vosges, France
Colleferro, Italy
Glinde, Germany
Skelmersdale, United Kingdom

ENGINEERED MATERIALS

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

ITEM 3. LEGAL PROCEEDINGS

The first and second paragraphs of Note 21 (Commitments and Contingencies) of Notes to Financial Statements at page 35 of the Company's 1996 Annual Report to shareowners are incorporated herein by reference.

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

Not Applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

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

NAME, AGE, DATE FIRST ELECTED AN OFFICER	BUSINESS EXPERIENCE
Lawrence A. Bossidy (a), 61 1991	Chairman of the Board since January 1992. Chief Executive Officer of the Company since July 1991.
John W. Barter, 50 1985	Executive Vice President and President, AlliedSignal Automotive since October 1994. Senior Vice President and Chief Financial Officer from July 1988 to September 1994.
Daniel P. Burnham, 50 1991	Executive Vice President and President, AlliedSignal Aerospace since January 1992.
Frederic M. Poses, 54 1988	Executive Vice President and President, AlliedSignal Engineered Materials since April 1988.

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(a) Also a director.

(table continued on next page)

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NAME, AGE, DATE FIRST ELECTED AN OFFICER	BUSINESS EXPERIENCE
Peter M. Kreindler, 51 1992	Senior Vice President, General Counsel and Secretary since December 1994. Senior Vice President and General Counsel from March 1992 to November 1994. Senior Vice President and General Counsel-Elect from January 1992 to February 1992.
Donald J. Redlinger, 52 1991	Senior Vice President -- Human Resources and Communications since February 1995. Senior Vice President -- Human Resources from January 1991 to January 1995.
Paul R. Schindler, 55 1993	Senior Vice President -- International since August 1993. Chairman of Imperial Chemical Industries Asia/Pacific (chemical manufacturer) from April 1991 to July 1993.
James E. Sierk, 58 1991	Senior Vice President -- Quality and Productivity since January 1991.
Richard F. Wallman, 45 1995	Senior Vice President and Chief Financial Officer since March 1995. Vice President and Controller of International Business Machines Corp. (IBM) (manufacturer of information-handling systems) from April 1994 to February 1995. General Assistant Controller of IBM from October 1993 to March 1994. Assistant Controller -- Sales & Marketing of Chrysler Corporation (automobile manufacturer) from April 1989 to September 1993.
Kenneth W. Cole, 49 1989	Vice President -- Government Relations since January 1989.
Catharine M. deLacy, 39 1995	Vice President, Health, Safety and Environmental since July 1995. Vice President -- Health, Safety and Environmental of Occidental Petroleum Corporation (oil and gas explorer, developer, producer and marketer) from April 1993 to June 1995. Director -- Environmental Affairs & Technical Support of Occidental Petroleum Corporation from May 1990 to March 1993.
Robert F. Friel, 41 1996	Vice President and Treasurer since September 1996. Vice President Finance and Administration, AlliedSignal Engines from June 1992 to August 1996. Assistant Treasurer from March 1989 to May 1992.
Nancy A. Garvey, 47 1994	Vice President and Controller since September 1996. Vice President and Treasurer from February 1994 to August 1996. Staff Vice President -- Investor Relations from November 1989 to January 1994.
Larry E. Kittelberger, 48 1996	Vice President and Chief Information Officer since August 1995 (Executive Officer since February 1996). Corporate Chairman -- Information Officer Leadership Committee of Tenneco Inc. (diversified industrial concern) from June 1989 to July 1995.
Frederick H. McClintock, 60 1996	Vice President -- Materials Management since February 1996. Vice President -- Materials Management AlliedSignal Aerospace from March 1992 to January 1996. Owner and operator of Global Supply Institute (consulting business) from June 1990 to February 1992.

PART II.

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

Market and dividend information for the Registrant's common stock is contained in Note 27 (Unaudited Quarterly Financial Information) of Notes to Financial Statements at page 38 of the Company's 1996 Annual Report to shareowners, and such information is incorporated herein by reference.

The number of record holders of the Registrant's common stock is contained in the statement 'Selected Financial Data' at page 39 of the Company's 1996 Annual Report to shareowners, and such information is incorporated herein by reference.

On July 10, 1996, the Company acquired Electron Vision Inc. in exchange for 148,941 shares of common stock. Because the fairness of this transaction had been approved by the California Department of Corporations, the transaction was exempt from registration pursuant to Section 3(a)(10) of the Securities Act of 1933, as amended (the 'Act').

On October 3, 1996, in exchange for 143,355 shares of its common stock, the Company acquired the assets of Lori, Inc. from The Nordam Group Inc. ('Nordam'). Because Nordam is an 'accredited investor' within the meaning of Rule 501(a)(3) under the Act, the common shares of the Company transferred to Nordam in this transaction were not registered under the Act, in reliance on Rule 506 under the Act.

ITEM 6. SELECTED FINANCIAL DATA

The information included under the captions 'For the Year' and 'At Year-End' in the statement 'Selected Financial Data' at page 39 of the Company's 1996 Annual Report to shareowners is incorporated herein by reference.

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

'Management's Discussion and Analysis' on pages 19 through 25 of the Company's 1996 Annual Report to shareowners is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements, together with the report thereon of Price Waterhouse LLP dated January 31, 1997 appearing on pages 26 through 38 of the Company's 1996 Annual Report to shareowners, are incorporated herein by reference. With the exception of the aforementioned information and the information incorporated by reference in Items 1, 3, 5, 6 and 7, the 1996 Annual Report to shareowners is not to be deemed filed as part of this Form 10-K Annual Report.

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

Not Applicable

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to directors of the Registrant, as well as information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, will be contained in a definitive Proxy Statement involving the election of directors which the Registrant will file with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after December 31, 1996, and such information is incorporated herein by reference. Certain other information relating to Executive Officers of the Registrant appears at pages 14 and 15 of this Form 10-K Annual Report.

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not Applicable

PART IV.

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

(a)(2.) Consolidated Financial Statement Schedules

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

(a)(3.) Exhibits

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

EXHIBIT NO.	DESCRIPTION
10.2	Deferred Compensation Plan for Non-Employee Directors of AlliedSignal Inc., as amended
10.3	Retirement Plan for Non-Employee Directors of AlliedSignal Inc., as amended
13	Pages 19 through 39 (except for the data included under the captions 'Financial Statistics' on page 39) of the Company's 1996 Annual Report to shareowners
21	Subsidiaries of the Registrant
23	Consent of Independent Accountants
24	Powers of Attorney
27	Financial Data Schedule

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

(b) Reports on Form 8-K

During the three months ended December 31, 1996, reports on Form 8-K were filed on November 26 and December 16, in each case reporting, under Item 9, unregistered sales of the Company's Common Stock in reliance on Regulation S under the Act.

SIGNATURES

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

AlliedSignal Inc.

February 28, 1997

By: /s/ NANCY A. GARVEY

Nancy A. Garvey
Vice President and Controller

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

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

*By: /s/ RICHARD F. WALLMAN

(Richard F. Wallman
Attorney-in-fact)

February 28, 1997

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
3(i)	Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 99.1 to the Company's Form 10-Q for the quarter ended March 31, 1993)
3(ii)	By-laws of the Company, as amended (incorporated by reference to Exhibit 99.2 to the Company's Form 10-Q for the quarter ended March 31, 1993)
4	The Company is a party to several long-term debt instruments under which, in each case, the total amount of securities authorized does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. Pursuant to paragraph 4(iii)(A) of Item 601(b) of Regulation S-K, the Company agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.
9	Omitted (Inapplicable)
10.1	Master Support Agreement, dated as of February 26, 1986 as amended and restated as of January 27, 1987, as further amended as of July 1, 1987 and as again amended and restated as of December 7, 1988, by and among the Company, Wheelabrator Technologies Inc., certain subsidiaries of Wheelabrator Technologies Inc., The Henley Group, Inc. and Henley Newco Inc. (incorporated by reference to Exhibit 10.1 to the Company's Form 10-K for the year ended December 31, 1988)
10.2*	Deferred Compensation Plan for Non-Employee Directors of AlliedSignal Inc., as amended (filed herewith)
10.3*	Retirement Plan for Non-Employee Directors of AlliedSignal Inc., as amended (filed herewith)
10.4*	Stock Plan for Non-Employee Directors of AlliedSignal Inc., as amended (incorporated by reference to Exhibit C to the Company's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934)
10.5*	1985 Stock Plan for Employees of Allied-Signal Inc. and its Subsidiaries, as amended (incorporated by reference to Exhibit 19.3 to the Company's Form 10-Q for the quarter ended September 30, 1991)
10.6*	AlliedSignal Inc. Incentive Compensation Plan for Executive Employees, as amended (incorporated by reference to Exhibit B to the Company's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934)
10.7*	Supplemental Non-Qualified Savings Plan for Highly Compensated Employees of AlliedSignal Inc. and its Subsidiaries, as amended (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 1995)
10.8*	1982 Stock Option Plan for Executive Employees of Allied Corporation and its Subsidiaries, as amended (incorporated by reference to Exhibit 19.4 to the Company's Form 10-Q for the quarter ended September 30, 1991)
10.9*	AlliedSignal Inc. Severance Plan for Senior Executives, as amended (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 1994)
10.10*	Salary Deferral Plan for Selected Employees of AlliedSignal Inc. and its Affiliates, as amended (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 1995)

EXHIBIT NO.	DESCRIPTION
10.11*	1993 Stock Plan for Employees of AlliedSignal Inc. and its Affiliates (incorporated by reference to Exhibit A to the Company's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934)
10.12*	Amended and restated Agreement dated May 6, 1994 between the Company and Lawrence A. Bossidy (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended June 30, 1994)
10.13	Five-Year Credit Agreement dated as of June 30, 1995 as amended by and between AlliedSignal Inc., a Delaware corporation, the banks, financial institutions and other institutional lenders listed on the signature pages thereof (the 'Lenders'), Citibank, N.A., as agent, and ABN Amro Bank N.V. and Morgan Guaranty Trust Company of New York, as co-agents, for the Lenders (incorporated by reference to Exhibit 10.1 to the Company's Forms 10-Qs for the quarters ended June 30, 1995 and June 30, 1996)
10.14	364-Day Credit Agreement dated as of June 30, 1995 as amended by and between AlliedSignal Inc., a Delaware corporation, the banks, financial institutions and other institutional lenders listed on the signature pages thereof (the 'Lenders'), Citibank, N.A., as agent, and ABN Amro Bank N.V. and Morgan Guaranty Trust Company of New York, as co-agents, for the Lenders (incorporated by reference to Exhibit 10.2 to the Company's Forms 10-Qs for the quarters ended June 30, 1995 and June 30, 1996)
11	Omitted (Inapplicable)
12	Omitted (Inapplicable)
13	Pages 19 through 39 (except for the data included under the captions 'Financial Statistics' on page 39) of the Company's 1996 Annual Report to shareowners (filed herewith)
16	Omitted (Inapplicable)
18	Omitted (Inapplicable)
21	Subsidiaries of the Registrant (filed herewith)
22	Omitted (Inapplicable)
23	Consent of Independent Accountants (filed herewith)
24	Powers of Attorney (filed herewith)
27	Financial Data Schedule (filed herewith)
28	Omitted (Inapplicable)
99	Omitted (Inapplicable)

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

STATEMENT OF DIFFERENCES

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

Deferred Compensation Plan for Non-Employee Directors of AlliedSignal Inc.

(As Amended Effective January 1, 1997)

1. ELIGIBILITY

Each member of the Board of Directors (the "Board") of AlliedSignal Inc. (the "Corporation") who is not an employee of the Corporation or any of its subsidiaries (a "Director") is eligible to participate in the Deferred Compensation Plan for Non-Employee Directors of AlliedSignal Inc. (the "Plan").

2. DEFINITIONS

(a) Committee. The Nominating and Board Affairs Committee of the Board or any successor.

(b) Common Stock. The publicly traded common stock of the Corporation or any successor.

(c) Compensation. All amounts payable for services as a Director, including amounts payable for services as a member or chairman of a committee of the Board.

(d) Elective Deferrals. Compensation deferred by a Director under the Plan after December 31, 1996 (other than Non-Elective Deferrals and Lump-Sum Compensation, as defined below).

(e) Lump-Sum Compensation. A one-time lump-sum amount for each Director serving on December 31, 1996 who elected such amount in satisfaction of any benefits under the Retirement Plan for Non-Employee Directors of AlliedSignal Inc. (the "Retirement Plan"), which amount is automatically deferred under the Plan.

(f) Non-Elective Deferrals. Effective January 1 of each year after 1996, $15,000 of annual Compensation for Directors not eligible for a benefit under the Retirement Plan, which amount is automatically deferred under the Plan.

(g) Pre-1997 Elective Deferrals. Compensation deferred by a Director under the Plan prior to January 1, 1997.

(h) Retirement. As used in the Plan, the term "retirement" or "retire" shall include any termination of a Director's Board service except, in the case of Lump-Sum Compensation, any termination which the Board determines to have resulted from gross cause. "Gross cause" means fraud, misappropriation or intentional misconduct damaging to the property or business of the Corporation or any of its subsidiaries, or commission of a crime.

(i) Secretary. The Secretary of the Corporation.

3. INVESTMENT OPTIONS

Amounts deferred under the Plan shall be invested as described below.

(a) Pre-1997 Elective Deferrals. These amounts have been credited to a deferred compensation account (the "Director's account") either (i) in cash with interest as described in paragraphs 5(b) and (c) below or (ii) in shares of Common Stock, as elected by the Director, and will remain in the form elected until paid out.

(b) Elective Deferrals. A Director may elect to have these amounts credited to the Director's account in cash (i) with interest as described in paragraph 5(c) below or (ii) which is valued as if invested in one or more of the funds available for investments by participants in the AlliedSignal Savings Plan as described in paragraph 5(g) below. All such amounts will be paid out in cash.

(c) Non-Elective Deferrals. These amounts will be credited to the Director's account on January 1 of each year in the form of equivalent shares of Common Stock, calculated based on the mean between the highest and lowest sales prices of the Common Stock as reported on the New York Stock Exchange Composite Tape for the immediately preceding December 31 (or, if there were no sales on such day, for the last preceding day on which there were sales) and valued as described in paragraph 5(f) below. For any person who becomes a Director after January 1, a pro rata portion of the annual amount based on the number of days remaining in the calendar year will be credited to the Director's account on the Director's first day of service in the form of equivalent shares of Common Stock, calculated based on such mean for the first day of service (or, if there were no sales on such day, for the last preceding day on which there were sales). All such amounts will be paid out in cash after retirement from the Board.

(d) Lump-Sum Compensation. This amount will be credited to the Director's account, effective January 1, 1997, either (i) 100% in the form of equivalent shares of Common Stock, calculated based on the mean between the highest and lowest sales prices of the Common Stock as reported on the New York Stock Exchange Composite Tape for

December 31, 1996 and valued as described in paragraph 5(f) below, or (ii) 50% in the form of equivalent shares of Common Stock, calculated and valued as described in (i), and 50% in cash with interest at the rate of 10% per annum, as elected by the Director prior to January 1, 1997. All such amounts will be paid out in cash after retirement from the Board.

4. PARTICIPATION

(a) Elective Deferrals.

(i) Time of Election. Prior to the beginning of any calendar year, each Director who is not then participating in the Plan (other than by virtue of Non-Elective Deferrals and/or Lump-Sum Compensation) may elect to participate in the Plan by directing that all or any part of the Director's Compensation which otherwise would have been payable currently for services as a Director during such calendar year shall be credited to the Director's account as Elective Deferrals. Any person who shall become a Director during any calendar year may elect, before the Director's term begins, to defer payment of all or any part of the Director's Compensation for the remainder of such calendar year.

(ii) Form and Duration of Election. An election to make Elective Deferrals shall be made by written notice executed by the Director and filed with the Secretary. Such election shall continue in effect for succeeding calendar years unless the Director terminates such election by written notice filed with the Secretary. Any such termination shall become effective as of the end of the calendar year in which such notice is given and only with respect to Compensation payable for services as a Director thereafter. Amounts credited to the Director's account prior to the effective date of termination shall not be affected by such termination and shall be distributed only in accordance with the terms of the Plan.

(iii) Adjustment of Future Deferrals. Prior to the beginning of any calendar year, a Director participating in the Plan may file another written notice with the Secretary electing to change the amount of Elective Deferrals to be credited to the Director's account for services as a Director commencing with such calendar year. Amounts credited to the Director's account prior to the effective date of such change shall not be affected by such change and shall be distributed only in accordance with the terms of the Plan,

(iv) Adjustment of Investment Options. A Director may elect to change the investment options with respect to those portions of the Director's account applicable to Elective Deferrals which are valued as if invested in one or more of

the funds available for investments by participants in the AlliedSignal Savings Plan. Any such election to reallocate amounts among the investment funds shall be made by written notice executed by the Director and filed with the Secretary, may be made no more often than once each calendar quarter during the 30-day period beginning on the third business day following an earnings release by the Corporation, and shall be effective on the first business day following receipt by the Secretary.

(b) Non-Elective Deferrals. No participation election is required for Non-Elective Deferrals since the crediting of such amounts to the Director's account will be automatic.

(c) Lump-Sum Compensation. No participation election is required for Lump-Sum Compensation since the crediting of such amounts to the Director's account, in accordance with the irrevocable investment option elected by the Director prior to January 1, 1997, will be automatic.

5. THE DIRECTOR'S ACCOUNT

(a) All Compensation which a Director has elected to defer under the Plan shall be credited to the Director's account consistent with the Director's investment options, as described in paragraph 3. All credits shall be made as unfunded book entries and the Director shall not have any interest in any amounts credited to the Director's account until distributed in accordance with the Plan.

(b) Amounts credited to the Director's account in cash for services as a Director during 1993 or any prior calendar year shall accrue amounts equivalent to interest commencing on the date such amounts would otherwise have been paid, at a rate per annum for each calendar quarter fixed by the Treasurer of the Corporation at the commencement of such calendar quarter based upon the sum of (i) the average quoted rate for three-month U.S. Treasury Bills for the last full week of the preceding calendar quarter, and (ii) a rate per annum of three percent.

(c) Amounts credited to the Director's account in cash for services as a Director during 1994 or any subsequent calendar year, other than cash amounts referred to in Paragraph 5(g), Lump-Sum Compensation and Non-Elective Deferrals, shall accrue amounts equivalent to interest commencing on the date such amounts would otherwise have been paid, at the same rates per annum as those fixed for deferrals with respect to the relevant calendar years under the AlliedSignal Inc. Incentive Compensation Plan for Executive Employees, as amended from time to time.

(d) Amounts credited to the Director's account in cash as a result of the conversion of shares or equivalent shares to cash pursuant to paragraph 7(a) shall accrue amounts equivalent to interest commencing on the date of such conversion, at the higher of the two rates provided under paragraphs 5(b) and (c), regardless of the calendar year or years to which the underlying deferral of shares or equivalent shares relates. The determination of which rate is higher shall be made each calendar quarter and, for purposes of such determination, the rate provided under paragraph 5(c) for cash amounts deferred with respect to the then current calendar year shall be compared to the rate provided under paragraph 5(b) for the then current calendar quarter.

(e) Amounts determined pursuant to this paragraph 5 shall be compounded at the end of each calendar quarter and credited to the Director's account. Amounts credited to the Director's account in cash shall continue to accrue amounts equivalent to interest in accordance with paragraphs 5(b), (c) or (d) until distributed in accordance with the Plan.

(f) Amounts credited to the Director's account in shares or equivalent shares of Common Stock shall accrue amounts equivalent to cash or stock dividends as declared by the Board. For Pre-1997 Elective Deferrals, such equivalent amounts shall continue to accrue amounts equivalent to interest or dividends. For Non-Elective Deferrals and Lump-Sum Compensation, such equivalent amounts shall be credited to the Director's account as if reinvested in Common Stock. Amounts credited to the Director's account in equivalent shares of Common Stock shall be valued on the same basis as investments by participants in the AlliedSignal Common Stock Fund under the AlliedSignal Savings Plan, as indicated in paragraph 5(g).

(g) Amounts credited to the Director's account in cash but which are valued as if invested in one or more of the funds available for investment by participants in the AlliedSignal Savings Plan shall be valued on the same basis as investments by participants in such funds (excluding any charge for expenses and, with respect to the AlliedSignal Common Stock Fund, excluding any liquidity reserves and assuming reinvestment of dividend equivalents).

6. DISTRIBUTION FROM ACCOUNTS

(a) Form of Election.

(i) Pre-1997 Elective Deferrals. The aggregate amount of Pre-1997 Elective Deferrals credited to a Director's account shall be distributed in accordance with the Director's distribution election in effect at the time such amounts were credited to the Director's account, as modified effective January 1, 1997 by a Director's special one-time election to take advantage of the Federal

Source Tax Law (4 U.S.C. ss.114). If no distribution election was in effect, such amounts shall be paid on the first business day of the calendar year immediately following the year in which the Director ceases to be a Director.

(ii) Elective Deferrals. At the time a Director makes a participation election pursuant to paragraph 4(a), the Director shall also file with the Secretary a written election with respect to the distribution of the aggregate amount credited to the Director's account pursuant to such participation election. A Director may elect to receive such amount in one lump-sum payment or in a number of approximately equal installments (provided the payout period does not exceed 10 years). The Director may also elect to have the lump-sum payment or the first installment paid (A) on the first business day of the calendar year immediately following the year in which the Director ceases to be a Director, (B) on the first business day of such calendar year as the Director may elect, or (C) as soon as practicable following the Director's death. Except in the case of the Director's death, in which event paragraph 8 shall govern, subsequent installments shall be paid on the first business day of each succeeding installment period until the entire amount credited to the Director's account shall have been paid. Absent such an election, except in the case of death, the amount of Elective Deferrals in the Director's account shall be paid on the first business day of the calendar year immediately following the year in which the Director ceases to be a Director.

(iii) Lump-Sum Compensation. The aggregate amount credited to a Director's account as Lump-Sum Compensation shall be distributed in accordance with the distribution election filed by the Director with the Secretary prior to January 1, 1997. Such distribution election shall have included an election to receive such amount in one lump-sum payment or in a number of approximately equal installments (provided the payout period does not exceed 10 years), and an election to have the lump-sum payment or the first installment paid (A) on the first business day of the calendar year immediately following the year in which the Director ceases to be a Director, (B) on the first business day of a calendar year which is such number of years following retirement as the Director may elect, or (C) as soon as practicable following the Director's death. Except in the case of the Director's death, in which event paragraph 8 shall govern, subsequent installments shall be paid on the first business day of each succeeding installment period until the entire amount credited to the Director's account shall have been paid. Absent such an election, except in the case of death, the amount of Lump-Sum Compensation in the Director's account shall be paid on the first business day of the calendar year immediately following the year in which the Director ceases to be a Director.

(iv) Non-Elective Deferrals. Although no participation election is required for Non-Elective Deferrals, each Director prior to the beginning of any calendar year may file with the Secretary a written election with respect to the distribution of the aggregate amount of Non-Elective Deferrals credited to the Director's account for the next calendar year. Any person who shall become a Director during any calendar year may file with the Secretary before the Director's term begins a written election with respect to the distribution of the aggregate amount of Non-Elective Deferrals credited to the Director's account for the remainder of such calendar year. Any such election shall continue in effect for Non-Elective Deferrals credited to the Director's account in succeeding calendar years, unless the Director files a new written election prior to the beginning of any calendar year. A Director may elect to receive such amount in one lump-sum payment or in a number of approximately equal installments (provided the payout period does not exceed 10 years). The Director may also elect to have the lump-sum payment or the first installment paid (A) on the first business day of the calendar year immediately following the year in which the Director ceases to be a Director of the Corporation, (B) on the first business day of a calendar year which is such number of years following retirement as the Director may elect, or (C) as soon as practicable following the Director's death. Except in the case of the Director's death, in which event paragraph 8 shall govern, subsequent installments shall be paid on the first business day of each succeeding installment period until the entire amount credited to the Director's account shall have been paid. Absent such an election, except in the case of death, the amount of Non-Elective Deferrals credited to the Director's account shall be paid on the first business day of the calendar year immediately following the year in which the Director ceases to be a Director.

(b) Adjustment of Method of Distribution of Future Deferrals. Whether or not a Director has filed a notice pursuant to paragraph 4(a)(iii) electing to change the amount of Elective Deferrals to be credited to the Director's account, a Director participating in the Plan may, prior to the beginning of any calendar year, file another written notice with the Secretary electing to change the method of distribution of the aggregate amount of Elective Deferrals credited to the Director's account for services as a Director commencing with such calendar year. Amounts credited to the Director's account prior to the effective date of such change shall not be affected by such change and shall be distributed only in accordance with the election in effect at the time such amounts were credited to the Director's account.

(c) Aggregate Amounts. References to the aggregate amounts credited to the Director's account include accrued amounts equivalent to interest and dividends.

7. CHANGE IN CONTROL

(a) Conversion of Shares. Notwithstanding anything to the contrary in the Plan, shares of Common Stock and equivalent shares of Common Stock credited to a Director's account shall be converted to cash, as soon as practicable following a Change in Control but in no event later than 90 days after the Change in Control, in an amount equal to the total number of shares or equivalent shares of Common Stock, and fractional interests thereof, credited to the Director's account, multiplied by the Multiplication Factor. "Multiplication Factor" shall mean (A) in the case of an acquisition of Common Stock described in paragraph 7(d)(i), the Acquisition Price per Share, (B) in the event of the occurrence of an Offer as defined in paragraph 7(d)(ii), the Offer Price per Share, (C) in the case of an event described in paragraph 7(d)(iii), the Merger Price per Share, or (D) in the case of a change in the composition of the Board as described in paragraph 7(d)(iv), the highest Fair Market Value per Share of the Common Stock for any day during (i) the ninety-day period ending on or within 89 days following the date of the Change in Control which the Committee, in its sole discretion, shall select prior to the Change in Control, or (ii) if the Committee shall not have selected a ninety-day period pursuant to clause (i) of this sentence prior to the Change in Control, the ninety-day period ending on the 45th day following the date of the Change in Control. "Acquisition Price per Share" shall mean the greater of (A) the highest price per share stated on the Schedule 13D or any amendment thereto filed by the holder of 30% or more of the Corporation's voting power which gives rise to the Change in Control, and (B) the highest Fair Market Value per Share of Common Stock during the ninety-day period ending on the date the Change in Control occurs. "Offer Price per Share" shall mean the greater of (A) the highest price per share of Common Stock paid in any Offer, which Offer is in effect at any time during the ninety-day period ending on the date on which the Change in Control occurs, or (B) the highest Fair Market Value per Share of Common Stock during such ninety-day period. Any securities or property which are part or all of the consideration paid for shares of Common Stock in the Offer shall be valued in determining the Offer Price per Share at the higher of (A) the valuation placed on such securities or property by the corporation, person or other entity making such Offer or (B) the valuation placed on such securities or property by the Committee. "Merger Price per Share" shall mean the greater of (A) the fixed or formula price for the acquisition of shares of Common Stock occurring pursuant to such event described in paragraph 7(d)(iii) if such fixed or formula price is determinable on the date on which the Change in Control occurs, and (B) the highest Fair Market Value per Share of Common Stock during the ninety-day period ending on the date on which the Change in Control occurs. Any securities or property which are part or all of the consideration paid for shares of Common Stock pursuant to such event shall be valued in determining the Merger Price per Share at the higher of (A) the valuation placed on such securities or property by the corporation, person or other entity which is a party with the Corporation to an event described in paragraph 7(d)(iii), or (B) the valuation

placed on such securities or property by the Committee. For purposes of this paragraph (7)(a), "Fair Market Value per Share of Common Stock" for any day shall be the mean between the highest and lowest sales prices of Common Stock as reported on the New York Stock Exchange Composite Tape for such day.

(b) Interest Equivalents. Notwithstanding anything to the contrary in the Plan, in the event of a Change in Control (i) the Plan may not be amended to reduce the formulas contained in paragraph 5 which determine the rate at which amounts equivalent to interest accrue with respect to cash amounts credited to a Director's account, including cash amounts attributable to the conversion of shares or equivalent shares in a Director's account pursuant to paragraph 7(a), and (ii) the Plan Administrator referred to in paragraph 10(c) shall fix rates under the formulas contained in paragraph 5 in lieu of the Treasurer of the Corporation.

(c) Payment on a Change in Control. In the event of a Change in Control, the aggregate amount credited to the Director's account under the Plan shall be paid in one lump-sum payment as soon as practicable following the Change in Control but in no event more than 90 days after the Change in Control. Notwithstanding the foregoing, any election with respect to Pre-1997 Elective Deferrals in which a Director did not elect a lump-sum payment on a Change in Control shall remain in effect.

(d) Definition of Change in Control. For purposes of the Plan, a Change in Control is deemed to occur at the time (i) when any entity, person or group (other than the Corporation, any subsidiary or any savings, pension or other benefit plan for the benefit of employees of the Corporation or its subsidiaries) which theretofore beneficially owned less than 30% of the Common Stock then outstanding acquires shares of Common Stock in a transaction or series of transactions that results in such entity, person or group directly or indirectly owning beneficially 30% or more of the outstanding Common Stock, (ii) of the purchase of shares of Common Stock pursuant to a tender offer or exchange offer (other than an offer by the Corporation) for all, or any part of, the Common Stock ("Offer"), (iii) of a merger in which the Corporation will not survive as an independent, publicly owned corporation, a consolidation, or a sale, exchange or other disposition of all or substantially all of the Corporation's assets, (iv) of a substantial change in the composition of the Board during any period of two consecutive years such that individuals who at the beginning of such period were members of the Board cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by the stockholders of the Corporation, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period, or (v) of any transaction or other event which the Committee, in its discretion, determines to be a Change in Control for purposes of the Plan.

8. DISTRIBUTION ON DEATH

If a Director should die before all amounts credited to the Director's account shall have been paid in accordance with the Director's prior elections, the balance in such account (including all unpaid installments if installment payments had been elected by the Director under paragraph 6) shall be paid as soon as practicable following the Director's death to the beneficiary designated in writing by the Director and filed with the Secretary of the Corporation. The payable balance shall be paid to the estate of the Director if (a) no such designation has been made or (b) the designated beneficiary shall have predeceased the Director and no further designation has been made. A Director may change the designated beneficiary at any time during the Director's lifetime by filing a subsequent designation in writing with the Secretary of the Corporation.

9. PAYMENT IN THE EVENT OF HARDSHIP

Upon receipt of a request from a Director or a Director's designated beneficiary, delivered in writing to the Secretary, the Committee may cause the Corporation to accelerate payment promptly of all or any part of the unpaid balance credited to the Director's account (other than amounts credited as Lump-Sum Compensation and Non-Elective Deferrals) if it finds in its sole discretion that continued deferral of such amount would result in hardship to the Director or the person otherwise entitled to receive it. For this purpose, "hardship" means an unanticipated financial emergency that is caused by an event beyond the control of the Director or other person entitled to receive payment and that would result in severe financial hardship to such person if acceleration of payment were not permitted.

10. MISCELLANEOUS

(a) The right of a Director to receive any amount credited to the Director's account shall not be transferable or assignable by the Director, except by will or by the laws of descent and distribution. To the extent that any person acquires a right to receive any amount credited to a Director's account hereunder, such right shall be no greater than that of an unsecured general creditor of the Corporation. Except as expressly provided herein, any person having an interest in any amount credited to a Director's account under the Plan shall not be entitled to payment until the date the amount is due and payable. No person shall be entitled to anticipate any payment by assignment, alienation, sale, pledge, encumbrance or transfer in any form or manner prior to actual or constructive receipt thereof.

(b) The Corporation shall not be required to reserve or otherwise set aside funds or shares of Common Stock for the payment of its obligations hereunder. With

respect to Pre-1997 Elective Deferrals, the Corporation shall make available as and when required a sufficient number of shares of Common Stock to meet the needs of the Plan. To the extent that registration of such shares under the Securities Act of 1933 shall be required prior to their resale, the Corporation undertakes to either file a registration statement relating to such shares or include such shares in another registration statement to be filed within a reasonable time.

(c) Prior to a Change in Control, the Committee shall interpret the Plan and make all determinations deemed necessary or desirable for the Plan's implementation. The determination of the Committee shall be conclusive. The Committee may obtain such advice or assistance as it deems appropriate from persons not serving on the Committee. The Senior Vice President responsible for Human Resources or other appropriate officer of the Corporation shall, prior to any Change in Control, name as Plan Administrator any person or entity (including, without limitation, a bank or trust company). Following a Change in Control, the Plan Administrator shall interpret the Plan and make all determinations deemed necessary or desirable for the Plan's implementation. The determination of the Plan Administrator shall be conclusive. The Corporation shall provide the Plan Administrator with such records and information as are necessary for the proper administration of the Plan. The Plan Administrator shall rely on such records and other information as the Plan Administrator shall in its judgment deem necessary or appropriate in determining the eligibility of a Director and the amount payable to a Director under the Plan.

(d) The Board may at any time amend or terminate the Plan provided that no amendment or termination shall impair the rights of a Director with respect to amounts then credited to the Director's account.

(e) Each Director participating in the Plan will receive a statement at least quarterly indicating the amounts credited to the Director's account as of the end of the preceding calendar quarter.

(f) If adjustments are made to outstanding shares of Common Stock as a result of stock dividends, split-ups, recapitalizations, mergers, consolidations and the like, an appropriate adjustment will also be made in the number of shares or equivalent shares of Common Stock credited to the Director's account.

Retirement Plan for Non-Employee Directors of AlliedSignal Inc.

(As Amended Effective January 1, 1997)

1. Eligibility

Each member of the Board of Directors (the "Board") of AlliedSignal Inc. (the "Corporation") who is not an employee of the Corporation or any of its subsidiaries and who at the time of retirement from the Board, as defined in paragraph 6(f), shall have served five years on the Board, the Board of Directors of Allied Corporation (the "Allied Board"), the Board of Directors of The Signal Companies, Inc. (the "Signal Board") or the board of directors of any corporation acquired by the Corporation, Allied Corporation ("Allied") or The Signal Companies, Inc. ("Signal") if the Director was a non-employee director of the acquired corporation at the time of acquisition (an "Acquired Corporation Board"), or any combination thereof, as a non-employee director and shall have attained at least age 60 (an "Eligible Director") shall, unless the Eligible Director elects otherwise pursuant to paragraph 6(g), be eligible to receive a retirement benefit under the Retirement Plan for Non-Employee Directors of AlliedSignal Inc. (the "Plan"). Notwithstanding the foregoing, an Eligible Director shall not include (a) any individual who becomes a member of the Board after December 31, 1996, or (b) any members of the Board on December 31, 1996 who waived their rights to any benefits under the Plan in exchange for the crediting of a lump-sum amount in satisfaction thereof to their accounts under the Deferred Compensation Plan for Non-Employee Directors of AlliedSignal Inc., effective January 1, 1997.

2. Amount of Benefit

(a) An Eligible Director who at the time of retirement from the Board shall have attained age 70 shall be entitled to receive, for the remainder of the Director's lifetime, a retirement benefit at an annual rate equal to the annual Board retainer in effect for non-employee directors of the Board at the time of such retirement.

(b) An Eligible Director who at the time of retirement from the Board shall have attained age 60 but not age 70 shall be entitled to receive, for a period of time equal to the number of months such Director served as a non-employee director on the Board, the Allied Board, the Signal Board or any Acquired Corporation Board, or any combination thereof, a retirement benefit at an annual rate equal to the

annual Board retainer in effect for non-employee directors of the Board at the time of such retirement.

3. Time of Payment

(a) Except as otherwise provided in paragraphs 3(b) and 3(c), the retirement benefit determined in accordance with paragraph 2 shall be paid to an Eligible Director commencing upon such Director's retirement from the Board (a "Retired Director") in as nearly equal as possible quarterly installments at the same time as quarterly installments of the annual Board retainer are paid to non-employee directors serving on the Board at the time of the payment. If such payments are made to current directors more frequently than quarterly, then amounts due under the Plan shall be paid on such more frequent basis. If an Eligible Director elects not to receive such payments or a Retired Director elects to stop receiving such payments prior to the receipt of all payments due under the Plan, such Director shall so advise the Corporation and may not thereafter elect to receive or resume receipt of such payments.

(b) Each member of the Board may irrevocably elect to receive a lump-sum payment of the present value of the retirement benefit, as determined in accordance with paragraphs 2 and 3(d), which remains payable, in the event the individual becomes a Retired Director on or before the second anniversary date of a Change in Control. Such lump-sum payment shall be made to the Retired Director within the 90-day period following the later of the Change in Control or such Director's retirement from the Board. Such election may be made by filing a written notice with the Secretary of the Corporation before a Change in Control but not after the later of September 30, 1990 or 30 days after becoming a member of the Board.

(c) Each Retired Director may irrevocably elect to receive a lump-sum payment of the present value of the retirement benefit, as determined in accordance with paragraphs 2 and 3(d), which remains payable, in the event of a Change in Control. Such lump-sum payment shall be paid to the Retired Director within the 90-day period following the Change in Control. A surviving spouse of a deceased Retired Director may irrevocably elect to receive a lump-sum payment of the amount payable to the surviving spouse pursuant to paragraph 5, in the event of a Change in Control. Such election by a Retired Director or by the surviving spouse of a deceased Retired Director may be made by filing a written notice with the Secretary of the Corporation before a Change in Control but not after September 30, 1990.

(d) For purposes of determining the present value of a Retired Director's retirement benefit under paragraphs 3(b) and 3(c), and of a surviving spouse's benefit under paragraph 5, the Pension Benefit Guaranty Corporation immediate annuity rate and the UP 1984 mortality table in effect immediately before the Change in Control shall be used.

(e) For purposes of the Plan, a Change in Control is deemed to occur at the time (i) when any entity, person or group (other than the Corporation, any subsidiary or any savings, pension or other benefit plan for the benefit of employees of the Corporation or its subsidiaries) which theretofore beneficially owned less than 30% of the Corporation's Common Stock ("Common Stock") then outstanding acquires shares of Common Stock in a transaction or series of transactions that results in such entity, person or group directly or indirectly owning beneficially 30% or more of the outstanding Common Stock, (ii) of the purchase of shares of Common Stock pursuant to a tender offer or exchange offer (other than an offer by the Corporation) for all, or any part of, the Common Stock, (iii) of a merger in which the Corporation will not survive as an independent, publicly owned corporation, a consolidation, or a sale, exchange or other disposition of all or substantially all of the Corporation's assets, (iv) of a substantial change in the composition of the Board of Directors during any period of two consecutive years such that individuals who at the beginning of such period were members of the Board of Directors cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by the stockholders of the Corporation, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period, or (v) of any transaction or other event which the Nominating and Board Affairs Committee of the Board or any successor thereto ("Committee"), in its discretion, determines to be a Change in Control for purposes of the Plan.

4. Competition

A Retired Director who receives payment under the Plan, whether in installments or in a lump sum, shall not engage in any activity in competition with the Corporation's business for the applicable period with respect to which the Retired Director receives such payment pursuant to paragraph 2.

5. Payments on Death

In the event of the death of a Retired Director prior to receiving payments pursuant to paragraph 3(a) for a period equal to the lesser of (a) the total number of

months of such Director's service on the Board, the Allied Board, the Signal Board or any Acquired Corporation Board, or any combination thereof, as a non-employee director or (b) 120 months, such Retired Director's surviving lawful spouse, if any, will be entitled to such payments for the remainder of such lesser period or until such spouse's death, whichever occurs first. In the event of a Change in Control, the surviving spouse of a Retired Director shall receive a lump-sum payment of the present value of the amounts which remain payable under the preceding sentence, provided that either (i) the surviving spouse of a deceased Retired Director made an election pursuant to paragraph 3(c) or (ii) the Retired Director, had he survived, would have been entitled to receive a lump-sum payment pursuant to either paragraph 3(b) or 3(c). Such lump-sum payment shall be paid to the surviving spouse within the 90-day period following the Change in Control. Except as set forth herein, nothing in the Plan shall create any benefit, cause of action, right of sale, transfer, assignment, pledge, encumbrance, or other such right in any heirs or the estate of any Retired Director. In the event of the death of an Eligible Director prior to such Director's retirement from the Board, no payments will be due under the Plan.

6. Miscellaneous

(a) The right to receive any payment under the Plan shall not be transferable or assignable.

(b) The Corporation shall not be required to set aside funds for the payment of its obligations under the Plan.

(c) The Board may at any time amend or terminate the Plan provided that no amendment or termination shall impair the rights of an Eligible Director to receive upon retirement from the Board the payments which would have been made to such Director had the Plan not been amended or terminated (based upon such Director's service on the Board, the Allied Board, the Signal Board or any Acquired Corporation Board, or any combination thereof, to the date of such amendment or termination) or the rights of a Retired Director (or such Director's surviving spouse) to receive any remaining payments due under the Plan.

(d) Nothing in the Plan shall be deemed to create any obligation on the part of the Board to nominate any Director for reelection by the Corporation's shareholders.

(e) Prior to a Change in Control, the Committee shall interpret the Plan and make all determinations deemed necessary or desirable for the Plan's

implementation. The determination of the Committee shall be conclusive. The Committee may obtain such advice or assistance as it deems appropriate from persons not serving on the Committee. The Senior Vice President responsible for Human Resources or other appropriate officer of the Corporation shall, prior to any Change in Control, name as Plan Administrator any person or entity (including, without limitation, a bank or trust company). Following a Change in Control, the Plan Administrator shall interpret the Plan and make all determinations deemed necessary or desirable for the Plan's implementation. The determination of the Plan Administrator shall be conclusive. The Corporation shall provide the Plan Administrator with such records and information as are necessary for the proper administration of the Plan. The Plan Administrator shall rely on such records and other information as the Plan Administrator shall in its judgment deem necessary or appropriate in determining any Director's eligibility for and amount of retirement benefits under the Plan.

(f) As used in the Plan, "retirement from the Board" shall include any termination of service (other than by death) of an Eligible Director except any termination which the Committee or, if applicable, the Plan Administrator determines to have resulted from gross cause. "Gross Cause" means fraud, misappropriation of or intentional misconduct damaging to the property or business of the Corporation or any of its subsidiaries, or commission of a crime.

(g) Payments in respect of an Eligible Director under the Plan shall be in lieu of any payments based upon service as a non-employee director otherwise provided in respect of such Eligible Director under any other retirement plan or arrangement of Allied, Signal or any corporation acquired by the Corporation, Allied or Signal unless the Eligible Director elects by written notice to the Secretary of the Corporation to receive payments under such other plan or arrangement in lieu of payments under the Plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS
AlliedSignal Inc.

1996 COMPARED WITH 1995

RECORD EARNINGS IN 1996 REFLECT THE COMPANY'S SUCCESS IN FOCUSING ITS STRATEGIC THRUSTS ON GROWTH AND PRODUCTIVITY. Growth was driven by introducing new products, entering new markets, gaining more business from existing customers and winning new customers. Growth was also achieved through acquisitions, mainly in the fourth quarter of 1995. Productivity was greatly improved through continued initiatives for excellence in manufacturing and advances in product design, engineering, outsourcing and supply base management.

IN APRIL 1996, THE COMPANY SOLD ITS WORLDWIDE HYDRAULIC AND ANTI-LOCK BRAKING SYSTEMS (ABS) BUSINESSES (BRAKING BUSINESS). The braking business had 1995 sales and income from operations of approximately $2.0 billion and $154 million, respectively. The Company received consideration of $1.5 billion, subject to certain post-closing adjustments. It is expected that the proceeds will ultimately be used to grow the Company's higher-margin businesses and to pursue acquisitions that will expand or complement the Company's business portfolio. The sale of the braking business resulted in a gain of $655 million (after-tax $368 million, or $1.30 per share). Excluded from the sale were brake friction materials, brake-related sales to the independent aftermarket and the medium- and heavy-duty truck brake systems business which is part of a joint venture with Knorr-Bremse AG.

IN THE SECOND QUARTER OF 1996, THE COMPANY RECORDED A PRETAX CHARGE OF $622 MILLION (AFTER-TAX $359 MILLION, OR $1.27 PER SHARE) RELATING TO THE COST OF ACTIONS TO REPOSITION SOME OF ITS MAJOR BUSINESS UNITS AND TO RECOGNIZE ADDITIONAL ENVIRONMENTAL REMEDIATION LIABILITIES AS WELL AS OTHER CHARGES. The repositioning actions will enhance the Company's competitiveness and productivity. The actions include consolidating production facilities, rationalizing manufacturing capacity and optimizing operational capabilities. The components of the repositioning charge include asset write-downs of $136 million, severance costs of $127 million and other exit costs of $14 million. The repositioning actions are generally expected to be completed by 1998 and will not materially impact the Company's liquidity. Upon completion, the repositioning actions are expected to generate additional annual income from operations of approximately $200 million. The charge to recognize additional environmental liabilities amounted to $175 million. See Note 3 of Notes to Financial Statements for additional information.

THE BOARD OF DIRECTORS APPROVED AN INCREASE OF 16% IN THE QUARTERLY COMMON STOCK DIVIDEND, FROM $0.225 TO $0.26 PER SHARE. The dividend increase will be effective with the first quarter of 1997. The Company had previously increased its regular quarterly dividend by 15% in the first quarter of 1996.

RESULTS OF OPERATIONS. The Company's net income reached the billion-dollar milestone for the first time as businesses continued to grow and increase productivity.

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

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

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

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

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

A partial offset was significantly higher earnings from the UOP process technology joint venture (UOP).

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

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

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

NET INCOME IN 1996 of $1,020 million, or $3.61 per share, was 17% higher than last year's net income of $875 million, or $3.09 per share. Adjusted for special items in both years, net income for 1996 was $1,011 million, or $3.58 per share, an increase of 16% over 1995 net income. The higher adjusted net income in 1996 was the result of a substantial improvement in the operating performance by the Aerospace segment and higher earnings by the Engineered Materials segment. The Automotive segment had moderately lower earnings.

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

AEROSPACE	NET SALES	NET INCOME	ADJUSTED NET INCOME
1996	$5,714	$ 206	$ 385
1995	5,084	303	303
INCREASE (DECREASE)	$ 630	$ (97)	$ 82

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

The Company's 1996 sales to the Department of Defense (DoD), as a prime contractor and subcontractor, increased 3% compared with 1995 despite reductions in U.S. defense spending. Sales to the DoD accounted for 22% of Aerospace's total sales, a decrease of 2 percentage points compared with 1995. Sales to the commercial and foreign government markets increased 18%, while sales to the National Aeronautics and Space Administration (NASA) and other U.S. Government agencies declined 1% in 1996.

Aerospace adjusted net income improved to $385 million from $303 million, an increase of $82 million, or 27%, compared with the same period last year. Strong sales growth and productivity resulted in substantially higher earnings for Engines, Equipment Systems and Electronic Systems. Government Services also had significant gains, but Commercial Avionics Systems had substantially reduced earnings due to lower sales, manufacturing difficulties and certain repositioning expenses excluded from the 1996 provision.

The U.S. defense budget is expected to continue to decline for a number of years, but at a progressively slower rate. A number of the Company's military and space programs may be stretched out, curtailed or canceled. However, the Company does not expect that its defense-related sales will decline as rapidly as the defense budget because of opportunities to grow in certain markets and the Company's strong competitive position on various programs. The Company's ability to successfully retain and compete for such business is highly dependent on continually advancing its technology base, management proficiency, strategic alliances and cost-effective performance.

The Company believes that the cyclical downturn for the commercial aircraft industry reached bottom in 1995. A slight improvement was seen in the second half of 1996 and this growth is expected to significantly accelerate in 1997. Regional airlines experienced strong traffic growth and new regional aircraft orders were higher in 1996. The business aviation market showed moderate growth and the commercial aftermarket spare parts and repair and overhaul business showed strong growth during 1996.

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

At December 31, 1996 and 1995, the Company had firm orders for its aerospace products from the U.S. and foreign governments of $1,906 and $1,871 million, respectively. Total backlog, including commercial contracts, at year-end 1996 and 1995 was $4,514 and $4,523 million, respectively. The Company anticipates that approximately $3,562 million of the total 1996 backlog will be filled during 1997.

AUTOMOTIVE	NET SALES	NET INCOME	ADJUSTED NET INCOME
1996	$ 4,240	$ 521	$ 202
1995	5,549	146	217
INCREASE (DECREASE)	$ (1,309)	$ 375	$ (15)

Automotive sales of $4,240 million in 1996 were $1,309 million, or 24%, lower than last year. However, excluding the divested braking business, Automotive sales increased $85 million, or 2%. Safety Restraint Systems, primarily air bags, and Turbocharging Systems had significantly higher sales volumes in Europe, reflecting strong demand. Growth by Turbochargers reflected the continued preference by European customers for turbocharged, diesel-powered cars, although turbocharger sales were lower in Japan and North America. Filters and Spark Plugs had significantly higher

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

1994	1995	1996
12.8	14.3	14.0

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

1994	1995	1996
759	875	1,020

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

1994	1995	1996
2.68	3.09	3.61

sales in part due to new product introductions and higher original equipment sales. Sales of Friction Materials increased slightly, mainly in North America. European Aftermarket sales were significantly impacted by weak economic conditions and North American Aftermarket sales were slightly higher. Sales of Truck Brake Systems in North America were lower primarily because of decreasing medium- and heavy-duty truck production.

Automotive adjusted net income decreased to $202 million from $217 million a year ago, a $15 million, or 7%, decrease. The decrease reflects the absence of net income from the divested braking business. Excluding the braking business, Automotive income increased substantially. Reductions in distribution costs for the North American Aftermarket business as well as significant sales gains and manufacturing improvements for Filters and Spark Plugs contributed to the net income growth. Higher sales resulting from additional production capacity for Turbochargers and Safety Restraints also resulted in significant income gains.

ENGINEERED MATERIALS	NET SALES	NET INCOME	ADJUSTED NET INCOME
1996	$ 4,013	$ 361	$ 432
1995	3,713	473	402
INCREASE (DECREASE)	$ 300	$ (112)	$ 30

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

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

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

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

	1994	1995	1996
Capital expenditures	639	746	755
Company-funded R&D	318	353	345
Total	957	1,099	1,100

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

1994	1995	1996
30.4	25.6	22.2

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

1994	1995	1996
28.9	26.7	26.6

Remedial response and voluntary cleanup expenditures were $87 and $72 million in 1996 and 1995, respectively, and are currently estimated to increase to approximately $95 million in 1997. 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.

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

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

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

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

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

FINANCIAL CONDITION. Continued strong operating cash flows, the proceeds from the sale of the braking business and additional borrowing capacity leaves the Company well positioned to pursue its strategic growth and productivity initiatives.

TOTAL ASSETS at December 31, 1996 were $12,829 million, an increase of $364 million, or 3%, from December 31, 1995. Cash and cash equivalents and short-term investments at year-end 1996 were $1,766 million, an increase of $1,226 million compared with December 31, 1995, primarily reflecting the proceeds received from the sale of the braking business. Cash flows from operating activities of $1,196 million decreased by $20 million, or 2%, compared with last year. The current ratio at year-end 1996 was 1.6x, up significantly from 1.3x last year. The Company's working capital turnover was down slightly to 5.0x at December 31, 1996 from 5.2x a year earlier.

THE MAXIMUM AMOUNT OF BORROWING available under the Company's revolving credit agreements (Credit Agreements) was $750 million. The Credit Agreements support the issuance of commercial paper. There was $470 and $58 million of commercial paper outstanding at the end of 1996 and 1995, respectively. Commercial paper borrowing reached a high of $1,271 million during 1996.

TOTAL DEBT at year-end 1996 of $1,931 million decreased $79 million. Long-term debt of $1,317 million was reduced by $49 million during the year. The Company's total debt as a percent of capital was 29.5% at December 31, 1996, down from 33.7% at year-end 1995. Long-term debt as a percent of capital was 22.2% at year-end 1996, down from 25.6% at

year-end 1995. See Note 15 of Notes to Financial Statements for details of long-term debt and a discussion of the Credit Agreements.

THE COMPANY REPURCHASED 7.0 MILLION SHARES OF COMMON STOCK for $409 million in 1996. Common stock was repurchased to meet expected requirements for shares issued under employee benefit plans and a shareowner dividend reinvestment plan. At year-end 1996, the Company had 75.4 million shares of common stock held in treasury carried at $1,953 million. In December 1996, the Board of Directors voted to increase the Company's common share repurchase authority by 50 million shares. As of year-end 1996, the Company was authorized to repurchase 51.2 million shares of common stock.

The Board of Directors also voted to seek shareowner approval at the 1997 Annual Meeting of an amendment to the Company's certificate of incorporation which would increase the number of authorized common shares to one billion from 500 million. If approved by shareowners, the additional shares would be available for stock splits, acquisitions and other purposes.

CAPITAL EXPENDITURES during 1996 were $755 million, an increase of $9 million from the $746 million spent in 1995. Spending by the segments and Corporate since 1994 is shown in Note 25 of Notes to Financial Statements. The Company's total capital expenditures in 1997 are currently projected at approximately $740 million. These expenditures are expected to be financed by internally generated funds. Approximately 66% of the projected 1997 expenditures are planned for expansion and cost reduction, 26% for replacement and maintenance and 8% for environmental projects.

1995 COMPARED WITH 1994

IN 1995, THE COMPANY DEDICATED SUBSTANTIAL RESOURCES TO LINKING A PROGRESSION OF INNOVATIVE PROCESS IMPROVEMENTS TO FOCUS MORE ON CUSTOMER SATISFACTION. The initiatives focus the Company's efforts to provide its customers with a quality product, delivered on time, without defects, at a highly competitive price. The Company continued to grow its businesses through the introduction of new products, market expansion, niche acquisitions and globalization. The Company accelerated its aggressive global growth strategy, and international customers provided 40% of the Company's total 1995 sales. These process improvements and growth initiatives contributed to strong operating results in 1995 despite increased customer-driven price constraints and unfavorable results by Automotive's ABS business.

IN 1995, THE COMPANY TOOK FURTHER ACTIONS TO IMPROVE PROFITABILITY, INTRODUCED SEVERAL NEW PRODUCTS AND GLOBALIZED A NUMBER OF KEY BUSINESSES THROUGH INTERNAL GROWTH AND ACQUISITIONS:

Aerospace made a significant contribution toward making aircraft safer with the development of an early warning system for windshear and an enhanced ground proximity warning system. In addition, the Company's TCAS, initially developed for large aircraft, had strong sales to the regional airlines in 1995. In January 1996, the Company completed the acquisition of Northrop Grumman Corporation's precision products business, based in Norwood, Massachusetts. The acquired business, which has annual sales of approximately $39 million, is expected to bolster Aerospace's navigation and guidance systems business for military and space applications. During 1995, the Company also increased its investment in Europe's leading supplier of aircraft heat exchange equipment to 83% by purchasing an additional 34% interest.

Automotive decided to exit the light-vehicle ABS business. See Note 3 of Notes to Financial Statements for additional information. In addition, a reduction in the Automotive workforce was announced and largely completed in the fourth quarter of 1995. The reduction eliminates approximately 3,100 salaried and hourly full-time-equivalent positions. Also in 1995, a new joint venture began manufacturing hybrid inflators for driver- and passenger-side air bag modules that are being assembled at the Company's new plant in Italy. Production also began at a new turbocharger plant in Shanghai, China.

Engineered Materials purchased Hoechst AG's 95.8% interest in Riedel-de Haen, a German specialty chemicals manufacturer in October 1995. Riedel-de Haen manufactures chemicals for the pharmaceutical and electronics industries, as well as the coatings, photo dyes and specialty pigments markets. Annual sales approximate $250 million. Also in October, the Company acquired a nylon plastics and industrial fibers manufacturing facility in Rudolstadt, Germany with annual sales of approximately $60 million. The Company plans to invest about $100 million during the next three years to expand and upgrade the facility. In November 1995, the Company acquired Bridgestone/Firestone's 50 million-pound industrial polyester fiber plant in Hopewell, Virginia. With anticipated modernization, the Company believes that the Hopewell plant will have annual sales of approximately $100 million. In December 1995, the Company exited its HDPE business. Paxon transferred the HDPE business to Exxon. See Note 4 of Notes to Financial Statements for additional information.

RESULTS OF OPERATIONS. Record sales and net income were achieved in 1995 as gains were realized in all business segments through growth, strong demand and productivity initiatives.

NET SALES in 1995 were $14,346 million, an increase of 12% over 1994. Of the $1,529 million increase, $613 million was the result of strong volume gains by the Engineered Materials and Aerospace segments and $760 million from the consolidation of recent acquisitions, offset in part by a $91 million reduction for disposed businesses. Favorable foreign exchange rate fluctuations in the Automotive segment increased sales by $181 million and higher selling prices in the Engineered Materials segment increased sales by $66 million. Automotive sales increased $627 million, or 13%, Engineered Materials improved $441 million, or 13%, and Aerospace had a $461 million, or 10%, gain.

COST OF GOODS SOLD as a percent of sales increased from 80.4% in 1994 to 81.2%

in 1995 as the current year includes a provision of $115 million relating to the revaluation of the Company's ABS assets to their fair market value and certain other closure costs. Excluding this provision, cost of goods sold as a percent of sales was 80.4% in 1995.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES as a percent of net sales decreased from 10.7% in 1994 to 10.5% in 1995. Expenses increased by $137 million, or 10%, reflecting in part the impact of acquisitions.

GAIN ON SALE OF BUSINESS reflects the pretax gain of $71 million on the transfer of the HDPE business to Exxon in December 1995.

INCOME FROM OPERATIONS of $1,260 million in 1995 improved by $108 million, or 9%, compared with last year. Excluding the impact of the 1995 special items, income from operations improved by $152 million, or 13%. Engineered Materials and Aerospace income from operations both increased 20%; Automotive had a 1% decrease. Operating margins increased slightly, from 9.0% in 1994 to 9.1% in 1995, and productivity increased 5.2% over last year reflecting manufacturing and materials management initiatives and unit sales increases. See the detailed discussion of net income below for information by industry segment.

EQUITY IN INCOME OF AFFILIATED COMPANIES of $191 million increased by $62 million, or 48%, compared with last year mainly because of improved joint venture earnings for Paxon, UOP, Knorr-Bremse's European truck brake systems business and Converdyn conversion services.

OTHER INCOME (EXPENSE), a $22 million loss, improved by $5 million, or 19%, compared with a loss of $27 million in 1994 primarily reflecting a gain on the sale of an investment and lower foreign exchange losses. Higher minority interest was a partial offset.

INTEREST AND OTHER FINANCIAL CHARGES of $168 million increased by $25 million, or 17%, from 1994, largely due to higher average interest rates and an increased level of debt.

NET INCOME in 1995 was $875 million, or $3.09 per share, an increase of 15% compared with $759 million, or $2.68 per share, for 1994. The higher income in 1995 was the result of strong operating performance by the Engineered Materials and Aerospace segments and a small increase by Automotive.

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

AEROSPACE	NET SALES	NET INCOME
1995	$ 5,084	$ 303
1994	4,623	260
INCREASE	$ 461	$ 43

Aerospace sales increased 10% reflecting the acquisition of Textron's Lycoming Turbine Engine Division (Lycoming Engine) in October 1994, continued strong demand for safety-related Commercial Avionics Systems, such as predictive windshear, ground proximity warning, global positioning and TCAS, and higher sales of APUs. TCAS sales were particularly strong as U.S. operators of 10-to-30-seat aircraft complied with the U.S. Federal Aviation Administration's mandate to install TCAS by the end of 1995. Commercial and military aftermarket showed strong growth. Equipment Systems repair and overhaul services and environmental control systems also had higher sales. This increase was somewhat offset by lower sales for Electronic Systems, where comparisons were adversely affected by one-time contract settlements in 1994 and the closeout of certain programs.

The Company's 1995 sales to the DoD, as a prime contractor and subcontractor, declined 7% compared with 1994 because of reduced defense spending. Sales to the DoD accounted for 24% of Aerospace total sales, a decrease of 4 percentage points compared with 1994. Sales to the commercial and foreign government markets increased 19%, while sales to NASA and other U.S. government agencies increased 2% in 1995.

Aerospace net income improved 17% compared with last year. Synergies from the Lycoming Engine acquisition, process improvements, organizational efficiencies, higher sales of APUs and continued strong demand for safety-related Commercial Avionics Systems contributed to significantly higher income. Profit margins benefited by the early product development and marketing of the safety-related avionics systems. Strong sales of higher margin commercial and military aftermarket products also contributed to higher income. Equipment Systems had higher earnings from improved sales of environmental control systems as well as from increased repair and overhaul business. Earnings related to Government Services also improved, but Electronic Systems had lower income primarily due to earnings related to one-time contract settlements in 1994 and manufacturing difficulties.

At December 31, 1995 and 1994, the Company had firm orders for its aerospace products from the U.S. and foreign governments of $1,871 and $1,803 million, respectively. Total backlog, including commercial contracts, at year-end 1995 and 1994 was $4,523 and $4,730 million, respectively.

AUTOMOTIVE	NET SALES	NET INCOME	ADJUSTED NET INCOME
1995	$5,549	$ 146	$217
1994	4,922	215	215
INCREASE (DECREASE)	$ 627	$ (69)	$ 2

Automotive sales were up 13% compared with 1994 reflecting improvements in all major business units. Automotive sales benefited from the acquisition of the Budd Company's Wheel and Brake Division, as well as growing demand for brake systems in Europe. Although North American vehicle production volumes decreased slightly in 1995, North American brake systems content per vehicle increased as a result of key business wins with the Ford Motor Company and the Chrysler Corporation. ABS sales were significantly lower during the year. The acquisition of the seat belt business of the General Safety Corporation in late 1994 resulted in significant sales gains. Safety Restraint Systems also experienced increased sales due to higher air bag demand in North America and the startup of an air bag plant in Italy. European spark plug sales increased largely due to the acquisition of a spark plug plant in the U.K. in 1994. Record production levels of heavy trucks translated into increased sales for North American Truck Brake Systems and Turbocharging Systems. The continuation of the trend toward producing turbocharged, diesel-powered cars in Europe and penetration into the Asian market also favorably impacted turbocharger sales. Turbocharger plants continued to operate at capacity levels. The segment's sales improvement also reflected the impact of favorable foreign exchange rate fluctuations.

Automotive adjusted net income improved 1% compared with 1994. Net income was substantially higher for North American Safety Restraint Systems principally reflecting materials management and operational initiatives and for the European Aftermarket largely due to cost savings, improved distribution and pricing improvements. Turbocharging Systems and Truck Brake Systems had significantly higher income on strong sales growth. In addition, Turbocharging Systems experienced higher operating margins due to Operational Excellence and other manufacturing initiatives. Rapid growth in the European

turbodiesel passenger car market and growth initiatives in the Asia/Pacific region strained Automotive's turbocharger manufacturing capacity. Process improvements and a planned expansion are expected to alleviate the capacity constraints. Offsets included significant losses for ABS and reduced profit margins on light-vehicle brake systems in North America.

ENGINEERED MATERIALS	NET SALES	NET INCOME	ADJUSTED NET INCOME
1995	$ 3,713	$ 473	$ 402
1994	3,272	330	330
INCREASE	$ 441	$ 143	$ 72

Engineered Materials sales increased 13% compared with 1994. Sales were higher for all Engineered Materials business units, especially Polymers, Electronic Materials and Specialty Chemicals. In the Polymers business, sales were significantly higher because of price improvement for intermediate chemicals and increased sales volumes and prices for industrial polyester, especially in Europe. Plastics had strong sales growth in all product lines. The carpet fibers business experienced price pressure and lower volumes throughout the fourth quarter of 1995 as the industry attempted to reduce high levels of inventory. Electronic Materials had significantly higher sales volumes of laminate and advanced microelectronic materials mainly in the U.S. and Asia/Pacific region. Specialty Chemicals improved due to increased sales of performance chemicals in part reflecting the acquisition of Riedel-de Haen in late 1995.

Engineered Materials adjusted net income increased 22% compared with the same period last year. Net income was substantially higher for Polymers as a result of price improvement for intermediate chemicals, increased sales volumes and prices for plastics and higher sales volumes of industrial polyester fibers. Carpet fibers and textile nylon also had higher income largely the result of productivity improvements. Electronic Materials had higher income on significantly higher sales. Specialty Chemicals improved substantially due to increased net income from UOP and higher sales of performance chemicals. Fluorine Products had slightly lower net income in part because of lower selling prices and costs associated with the transition to mandated CFC substitutes in the U.S. and other developed countries. Income from CFC substitutes was higher as the Company's proprietary refrigerants gained acceptance among OEMs. Environmental catalysts and carbon materials also had income gains. There was also a substantial increase in net income from the Paxon joint venture.

REGARDING ENVIRONMENTAL MATTERS, remedial response and voluntary cleanup expenditures were $72 and $66 million in 1995 and 1994, respectively. During 1995, the Company charged $25 million against pretax income for remedial response and voluntary cleanup costs. At December 31, 1995, the recorded liability for environmental matters was $454 million. In addition, in 1995 the Company incurred operating costs for ongoing businesses of approximately $65 million and capital expenditures of $44 million relating to compliance with environmental regulations.

FINANCIAL CONDITION. Significant improvement in operating cash flows and strong earnings growth resulted in continued improvement in the Company's financial condition.

TOTAL ASSETS at December 31, 1995 were $12,465 million, an increase of $1,144 million from December 31, 1994 primarily due to acquisitions. Cash and cash equivalents at year-end 1995 were $540 million, an increase of $32 million compared with December 31, 1994. Cash flows from operating activities of $1,216 million increased by $173 million, or 17%, compared with last year because of improved earnings and lower trade accounts receivable partially offset by higher inventories to meet the Company's increased sales level. The current ratio at year-end 1995 was 1.3x, down slightly from 1.4x last year. The Company's working capital turnover was also down slightly to 5.2x at December 31, 1995 from 5.5x a year earlier.

THE MAXIMUM AMOUNT OF BORROWING available under the Company's Credit Agreements was reduced by the Company in June 1995 from $900 million to $750 million because the floating rate Employee Stock Ownership Plan notes were refinanced in 1995 and are no longer supported by the Credit Agreements. The Credit Agreements support the issuance of commercial paper. There was $58 million of commercial paper outstanding at year-end 1995 and no commercial paper outstanding at the end of 1994. Commercial paper borrowings reached a high of $900 million during 1995.

TOTAL DEBT at year-end 1995 of $2,010 million increased $323 million primarily as a result of increased short-term borrowings mainly due to acquisitions. Long-term debt of $1,366 million was reduced by $58 million during the year. The Company's total debt as a percent of capital was 33.7% at December 31, 1995, down from 34.1% at year-end 1994. Long-term debt as a percent of capital was 25.6% at year-end 1995, down from 30.4% at year-end 1994. See Note 15 of Notes to Financial Statements for details of long-term debt and a discussion of the Credit Agreements.

THE COMPANY REPURCHASED 5.5 MILLION SHARES OF COMMON STOCK for $239 million in 1995. Common stock was repurchased to meet expected requirements for shares issued under employee benefit plans and a shareowner dividend reinvestment plan. At year-end 1995, the Company had 75.5 million shares of common stock held in treasury carried at $1,658 million.

CAPITAL EXPENDITURES during 1995 were $746 million, an increase of $107 million from the $639 million spent in 1994 mainly due to capacity expansions in the

Engineered Materials segment. Spending by the segments and Corporate since 1994 is shown in Note 25 of Notes to Financial Statements.

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

CONSOLIDATED STATEMENT OF INCOME
AlliedSignal Inc.

YEARS ENDED DECEMBER 31 (DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS)	1996	1995	1994
NET SALES	$13,971	$14,346	$12,817
COST OF GOODS SOLD	11,606	11,654	10,299
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,511	1,503	1,366
GAIN ON SALE OF BUSINESS	(655)	(71)	--
TOTAL COSTS AND EXPENSES	12,462	13,086	11,665
INCOME FROM OPERATIONS	1,509	1,260	1,152
EQUITY IN INCOME OF AFFILIATED COMPANIES	143	191	129
OTHER INCOME (EXPENSE)	87	(22)	(27)
INTEREST AND OTHER FINANCIAL CHARGES	(186)	(168)	(143)
INCOME BEFORE TAXES ON INCOME	1,553	1,261	1,111
TAXES ON INCOME	533	386	352
NET INCOME	$ 1,020	$ 875	$ 759
EARNINGS PER SHARE OF COMMON STOCK(1)	$ 3.61	$ 3.09	$ 2.68

(1) EARNINGS PER SHARE OF COMMON STOCK ARE BASED UPON THE FOLLOWING WEIGHTED AVERAGE NUMBER OF SHARES: 1996, 282,830,064 SHARES; 1995, 283,437,773 SHARES AND 1994, 283,446,399 SHARES. THERE IS NO MATERIAL DILUTIVE EFFECT ON EARNINGS PER SHARE OF COMMON STOCK DUE TO COMMON STOCK EQUIVALENTS.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31 (DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS)	1996	1995	1994
BALANCE AT BEGINNING OF YEAR	$ 2,315	$1,613	$ 1,023
NET INCOME	1,020	875	759
OTHER	141	44	11
COMMON STOCK DIVIDENDS (1996--$.90 PER SHARE; 1995--$.78 PER SHARE; 1994--$.6475 PER SHARE)	(262)	(217)	(180)
BALANCE AT END OF YEAR	$ 3,214	$ 2,315	$ 1,613

THE "NOTES TO FINANCIAL STATEMENTS" ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED BALANCE SHEET
AlliedSignal Inc.

DECEMBER 31 (DOLLARS IN MILLIONS)	1996	1995
ASSETS		
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	$ 1,465	$ 540
SHORT-TERM INVESTMENTS	301	--
ACCOUNTS AND NOTES RECEIVABLE	1,661	1,751
INVENTORIES	1,946	1,991
OTHER CURRENT ASSETS	466	608
TOTAL CURRENT ASSETS	5,839	4,890
INVESTMENTS AND LONG-TERM RECEIVABLES	473	479
PROPERTY, PLANT AND EQUIPMENT -- NET	4,219	4,742
COST IN EXCESS OF NET ASSETS OF ACQUIRED COMPANIES -- NET	1,418	1,572
OTHER ASSETS	880	782
TOTAL ASSETS	$12,829	$12,465
LIABILITIES		
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE	$ 1,187	$ 1,385
SHORT-TERM BORROWINGS	32	397
COMMERCIAL PAPER	470	58
CURRENT MATURITIES OF LONG-TERM DEBT	112	189
ACCRUED LIABILITIES	1,895	1,775
TOTAL CURRENT LIABILITIES	3,696	3,804
LONG-TERM DEBT	1,317	1,366
DEFERRED INCOME TAXES	610	551
POSTRETIREMENT BENEFIT OBLIGATIONS OTHER THAN PENSIONS	1,787	1,864
OTHER LIABILITIES	1,239	1,288
SHAREOWNERS' EQUITY		
CAPITAL--COMMON STOCK--AUTHORIZED 500,000,000 SHARES (PAR VALUE $1 PER SHARE):		
--ISSUED 358,228,742 SHARES	358	358
--ADDITIONAL PAID-IN CAPITAL	2,547	2,489
COMMON STOCK HELD IN TREASURY, AT COST:		
1996--75,414,117 SHARES; 1995--75,459,178 SHARES	(1,953)	(1,658)
CUMULATIVE FOREIGN EXCHANGE TRANSLATION ADJUSTMENT	2	61
UNREALIZED HOLDING GAIN ON MARKETABLE SECURITIES	12	27
RETAINED EARNINGS	3,214	2,315
TOTAL SHAREOWNERS' EQUITY	4,180	3,592
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	$12,829	$12,465

THE "NOTES TO FINANCIAL STATEMENTS" ARE AN INTEGRAL PART OF THIS STATEMENT.

CONSOLIDATED STATEMENT OF CASH FLOWS
AlliedSignal Inc.

YEARS ENDED DECEMBER 31 (DOLLARS IN MILLIONS)	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME	$1,020	$875	$759
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
GAIN ON SALE OF BUSINESS	(655)	(71)	--
REPOSITIONING AND OTHER CHARGES	622	115	(180)
DEPRECIATION AND AMORTIZATION (INCLUDES GOODWILL)	602	612	560
UNDISTRIBUTED EARNINGS OF EQUITY AFFILIATES	(33)	(59)	(10)
DEFERRED INCOME TAXES	213	198	180
DECREASE (INCREASE) IN ACCOUNTS AND NOTES RECEIVABLE	(163)	134	(195)
DECREASE (INCREASE) IN INVENTORIES	(87)	(141)	134
DECREASE (INCREASE) IN OTHER CURRENT ASSETS	134	35	(65)
INCREASE IN ACCOUNTS PAYABLE	117	16	113
(DECREASE) IN ACCRUED LIABILITIES	(77)	(245)	(56)
NET TAXES PAID ON GAIN ON SALE OF BRAKING BUSINESS	(49)	--	--
OTHER	(448)	(253)	(197)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,196	1,216	1,043
CASH FLOWS FROM INVESTING ACTIVITIES			
EXPENDITURES FOR PROPERTY, PLANT AND EQUIPMENT	(755)	(746)	(639)
PROCEEDS FROM DISPOSALS OF PROPERTY, PLANT AND EQUIPMENT	77	46	54
DECREASE IN INVESTMENTS AND LONG-TERM RECEIVABLES	20	27	32
(INCREASE) IN OTHER INVESTMENTS	(12)	(4)	(8)
CASH PAID FOR ACQUISITIONS	(114)	(499)	(531)
PROCEEDS FROM SALES OF BUSINESSES	1,358	72	130
(INCREASE) IN SHORT-TERM INVESTMENTS	(301)	--	--
DECREASE IN MARKETABLE SECURITIES	--	--	90
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	273	(1,104)	(872)
CASH FLOWS FROM FINANCING ACTIVITIES			
NET INCREASE (DECREASE) IN COMMERCIAL PAPER	412	58	(164)
NET INCREASE (DECREASE) IN SHORT-TERM BORROWINGS	(356)	253	64
PROCEEDS FROM ISSUANCE OF COMMON STOCK	147	104	43
PROCEEDS FROM ISSUANCE OF LONG-TERM DEBT	48	108	7
PAYMENTS OF LONG-TERM DEBT	(124)	(147)	(215)
REPURCHASES OF COMMON STOCK	(409)	(239)	(103)
CASH DIVIDENDS ON COMMON STOCK	(262)	(217)	(180)
REDEMPTION OF COMMON STOCK PURCHASE RIGHTS	--	--	(7)
NET CASH (USED FOR) FINANCING ACTIVITIES	(544)	(80)	(555)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	925	32	(384)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	540	508	892
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,465	$ 540	$ 508

THE "NOTES TO FINANCIAL STATEMENTS" ARE AN INTEGRAL PART OF THIS STATEMENT.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATED FINANCIAL STATEMENTS include the accounts of AlliedSignal Inc. and its majority-owned subsidiaries. The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain reclassifications were made to prior year amounts to conform with the 1996 presentation.

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

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

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

COST IN EXCESS OF NET ASSETS OF ACQUIRED COMPANIES is being amortized on a straight-line basis over appropriate periods ranging from 20 to 40 years. The cumulative amount of goodwill amortized at December 31, 1996 and 1995 is $423 and $407 million, respectively.

RECOGNITION OF CONTRACT REVENUES primarily relates to Aerospace operations. Under fixed-price contracts, sales and related costs are recorded as deliveries are made. Sales and related costs under cost-reimbursable contracts are recorded as costs are incurred. Anticipated future losses on contracts are charged to income when identified. Contracts which are part of a program are evaluated on an overall program basis.

ENVIRONMENTAL expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments are made or remedial efforts are probable and the costs can be reasonably estimated. The timing of these accruals is generally no later than the completion of feasibility studies. The liabilities for environmental costs recorded in Accrued Liabilities and Other Liabilities at December 31, 1996 and 1995 were $120 and $410 million and $90 and $364 million, respectively.

INTEREST RATE AND FOREIGN CURRENCY FORWARD, OPTION AND SWAP AGREEMENTS are accounted for as a hedge of the related asset, liability, firm commitment or anticipated transaction when designated and effective as a hedge of such items. Agreements qualifying for hedge accounting are accounted for as follows:

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

Gains and losses on foreign currency forward agreements and combination options (options purchased and written as a unit) used to hedge assets and liabilities, or net investments in foreign subsidiaries, are recognized in Other Income (Expense) or Cumulative Foreign Exchange Translation Adjustment.

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

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

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

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

NOTE 2 ACQUISITIONS

In 1995, the Company acquired The Budd Company's Wheel & Brake Division (Budd Wheel & Brake) for approximately $160 million in cash. Budd Wheel & Brake manufactures rotors, hubs, drums and related assemblies for passenger cars and light trucks; steel disc wheels for heavy trucks; demountable rims; and hub and drum assemblies for medium- and heavy-duty vehicles and had 1994 sales of over $300 million. Budd Wheel & Brake was sold in 1996 as part of the sale of the Company's worldwide hydraulic and anti-lock braking systems (ABS) businesses (braking business). In addition, the Company acquired a 95.8% interest in Riedel-de Haen AG from Hoechst AG for $245 million in cash. Riedel-de Haen AG is a specialty chemicals manufacturer located in Germany. The business had 1994 sales of approximately $250 million.

In 1994, the Company acquired the Lycoming Turbine Engine Division of Textron Inc. (Lycoming Engine) for $375 million in cash and the assumption of certain liabilities. During 1995, the Company received $28 million in final settlement of the purchase price. The business had 1994 sales of $550 million. Lycoming Engine manufactures turbofan engines for regional airlines; helicopter engines for commercial, military and utility aircraft; military tank engines and marine propulsion engines.

The Company also made smaller acquisitions in 1996, 1995 and 1994.

NOTE 3 REPOSITIONING AND OTHER CHARGES

In the second quarter of 1996, the Company recorded a pretax charge of $277 million relating to the costs of actions to reposition some of its major business units. The repositioning actions are intended to enhance the Company's competitiveness and productivity and include consolidating production facilities, rationalizing manufacturing capacity and optimizing operational capabilities. As a result, approximately 6,100 positions will be eliminated in some plants and 2,900 positions will be added in others, for a net reduction of 3,200 positions. The components of the repositioning charge include asset write-downs of $136 million, severance costs of $127 million and other exit costs of $14 million. The repositioning actions are generally expected to be completed by 1998. In 1996, cash expenditures for repositioning actions were approximately $10 million, primarily for severance costs.

In the second quarter of 1996, the Company adopted the provisions of the American Institute of Certified Public Accountants' Statement of Position 96-1, "Environmental Remediation Liabilities" (SOP 96-1). SOP 96-1 provides additional guidance regarding the manner in which existing authoritative accounting literature is to be applied to the specific circumstances of recognizing, measuring and disclosing environmental remediation liabilities. The adoption of SOP 96-1 resulted in a pretax charge of $175 million, and is accounted for as a change in estimate. The Company also recorded other charges primarily related to changes made in employee benefit programs and in connection with customer and former employee claims.

Repositioning and other charges totaling $637 million are included as part of Cost of Goods Sold for 1996. Other Income (Expense) for 1996 includes a $15 million credit for repositioning and other charges representing the minority interest share of such charges. The total pretax impact of the repositioning and other charges for 1996 is $622 million (after-tax $359 million, or $1.27 per share).

Cost of Goods Sold in 1995 includes a provision of $115 million (after-tax $71 million, or $0.25 per share) relating to management's decision to exit the ABS business. The provision consists of the revaluation of the Company's ABS assets to their fair market value and certain other closure costs.

NOTE 4 GAIN ON SALE OF BUSINESS

In April 1996, the Company sold its braking business to Robert Bosch GmbH, a privately-held German company. The braking business had 1995 sales and income from operations of approximately $2.0 billion and $154 million, respectively. The Company received consideration of $1.5 billion, subject to certain post-closing adjustments. The sale of the braking business resulted in a pretax gain of $655 million (after-tax $368 million, or $1.30 per share).

In December 1995, the Company transferred the assets of its high-density polyethylene (HDPE) business joint venture, Paxon Polymer Company, L.P. (Paxon), to Exxon Chemical Company (Exxon). The transfer of the HDPE business to Exxon resulted in a pretax gain of $71 million (after-tax $71 million, or $0.25 per share).

NOTE 5 OTHER INCOME (EXPENSE)

YEARS ENDED DECEMBER 31	1996	1995	1994
INTEREST INCOME AND OTHER	$ 94	$ 35	$ 29
MINORITY INTERESTS	(18)	(36)	(30)
FOREIGN EXCHANGE GAIN (LOSS)	11	(21)	(26)
	$ 87	$(22)	$(27)

NOTE 6 INTEREST AND OTHER FINANCIAL CHARGES

YEARS ENDED DECEMBER 31	1996	1995	1994
TOTAL INTEREST AND OTHER FINANCIAL CHARGES	$209	$189	$166
LESS-- CAPITALIZED INTEREST	(23)	(21)	(23)
	$186	$168	$143

NOTE 7 TAXES ON INCOME

YEARS ENDED DECEMBER 31	1996	1995	1994
INCOME BEFORE TAXES ON INCOME			
UNITED STATES	$1,099	$1,101	$ 973
FOREIGN	454	160	138
	$1,553	$1,261	$1,111

YEARS ENDED DECEMBER 31	1996	1995	1994
TAXES ON INCOME			
UNITED STATES	$359	$347	$297
FOREIGN	174	39	55
	$533	$386	$352

YEARS ENDED DECEMBER 31	1996	1995	1994
TAXES ON INCOME CONSIST OF:			
CURRENT:			
UNITED STATES	$190	$118	$98
STATE	41	25	34
FOREIGN	89	44	40
	320	187	172
DEFERRED:			
UNITED STATES	133	192	129
STATE	(5)	12	36
FOREIGN	85	(5)	15
	213	199	180
	$533	$386	$352

YEARS ENDED DECEMBER 31	1996	1995	1994
THE PRINCIPAL ITEMS ACCOUNTING FOR THE DIFFERENCE IN TAXES ON INCOME COMPUTED AT THE U.S. STATUTORY RATE AND AS RECORDED ON AN OVERALL BASIS ARE AS FOLLOWS:			
STATUTORY U.S. FEDERAL INCOME TAX RATE	35.0%	35.0%	35.0%
TAXES ON FOREIGN EARNINGS OVER (UNDER) U.S. TAX RATE	.4	(1.7)	(.6)
ASSET BASIS DIFFERENCES	(.1)	(2.0)	(3.3)
NONDEDUCTIBLE AMORTIZATION	2.1	1.1	1.0
STATE INCOME TAXES	1.3	1.6	3.9
TAX BENEFITS OF FOREIGN SALES CORPORATION	(1.9)	(1.5)	(1.4)
DIVIDENDS RECEIVED DEDUCTION	(.2)	(.1)	(.1)
ESOP DIVIDEND TAX BENEFIT	(.7)	(.8)	(.9)
ALL OTHER ITEMS-- NET	(1.6)	(1.0)	(1.9)
	34.3%	30.6%	31.7%

DECEMBER 31	1996	1995
DEFERRED INCOME TAXES		
INCLUDED IN THE FOLLOWING BALANCE SHEET ACCOUNTS:		
OTHER CURRENT ASSETS	$ 309	$ 431
OTHER ASSETS	178	180
ACCRUED LIABILITIES	(18)	(16)
DEFERRED INCOME TAXES	(610)	(551)
	$(141)	$ 44

DECEMBER 31	1996	1995
DEFERRED TAX ASSETS (LIABILITIES)		
THE TEMPORARY DIFFERENCES AND CARRYFORWARDS WHICH GIVE RISE TO DEFERRED TAX ASSETS AND LIABILITIES ARE AS FOLLOWS:		
PROPERTY, PLANT AND EQUIPMENT BASIS DIFFERENCES	$(733)	$(719)
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	764	761
POSTEMPLOYMENT BENEFITS	69	71
INVESTMENT AND OTHER ASSET BASIS DIFFERENCES	(474)	(346)
NONRECURRING ITEMS	179	133
OTHER ACCRUED ITEMS	424	378
FOREIGN NET OPERATING LOSSES	188	241
U.S. CAPITAL LOSS	--	14
DEFERRED FOREIGN GAIN	(50)	--
UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	(67)	(64)
ALL OTHER ITEMS-- NET	(404)	(373)
	(104)	96
VALUATION ALLOWANCE	(37)	(52)
	$(141)	$44

The foreign net operating losses relate to several countries. Such losses are available to reduce income tax payments in the future, subject to varying expiration rules.

Deferred income taxes have not been provided on approximately $326 million of undistributed earnings of foreign affiliated companies, which are considered to be permanently reinvested. Any U.S. taxes payable on foreign earnings which may be remitted, however, will be substantially offset by foreign tax credits.

NOTE 8 SHORT-TERM INVESTMENTS

Short-term investments consist of marketable debt and equity securities classified as available-for-sale and carried at their quoted market value. The fair values of marketable debt and equity securities were $155 million ($155 million, at cost) and $128 million ($130 million, at cost), respectively, at December 31, 1996. The Company also had other short-term investments held for sale of $18 million at December 31, 1996, carried at cost, which approximates market value.

NOTE 9 ACCOUNTS AND NOTES RECEIVABLE

DECEMBER 31	1996	1995
TRADE	$1,330	$1,477
OTHER	362	308
	1,692	1,785
LESS -- ALLOWANCE FOR DOUBTFUL ACCOUNTS AND REFUNDS	(31)	(34)
	$1,661	$1,751

The Company is a party to agreements under which it can sell undivided interests in designated pools of trade accounts receivable up to $575 million (average outstanding was $517 and $500 million during 1996 and 1995, respectively). New receivables are sold under the agreements as previously sold receivables are collected. During 1996, this represented an average collection period of 45 days or a replacement of receivables of approximately eight times. At both December 31, 1996 and 1995, customer accounts receivable on the Consolidated Balance Sheet have been reduced by $500 million reflecting such sales. The Company acts as an agent for the purchasers in the collection and administration of the receivables.

NOTE 10 INVENTORIES

DECEMBER 31	1996	1995
RAW MATERIALS	$ 538	$ 650
WORK IN PROCESS	762	769
FINISHED PRODUCTS	814	747
SUPPLIES AND CONTAINERS	88	98
	2,202	2,264
LESS --		
PROGRESS PAYMENTS	(126)	(145)
REDUCTION TO LIFO COST BASIS	(130)	(128)
	$1,946	$1,991

Inventories valued at LIFO amounted to $223 million at December 31, 1996 and $286 million at December 31, 1995, which amounts were below estimated replacement cost by $130 and $128 million, respectively.

NOTE 11 OTHER CURRENT ASSETS

DECEMBER 31	1996	1995
CURRENT-- DEFERRED TAXES	$309	$431
OTHER	157	177
	$466	$608

NOTE 12 INVESTMENTS AND LONG-TERM RECEIVABLES

DECEMBER 31	1996	1995
AFFILIATES(1)	$379	$382
LONG-TERM RECEIVABLES	94	97
	$473	$479

(1) INCLUDES UNREALIZED HOLDING GAINS OF $23 AND $44 MILLION AT DECEMBER 31, 1996 AND 1995, RESPECTIVELY, ON EQUITY SECURITIES CLASSIFIED AS AVAILABLE-FOR-SALE.THE COST BASIS OF THE EQUITY SECURITIES WAS $21 AND $25 MILLION AT DECEMBER 31, 1996 AND 1995, RESPECTIVELY.

At December 31, 1996, the Company had a 50% partnership interest in UOP, a joint venture accounted for under the equity method. UOP is in the process technology and catalyst business. Prior to December 28, 1995, the Company also had a 50% partnership interest in Paxon, a joint venture accounted for under the equity method. On that date, Paxon transferred the HDPE business to Exxon. Paxon manufactures and sells high-density polyethylene resins.

Combined selected financial data for these two entities are summarized as follows (Paxon amounts are not included in the 1995 balance sheet below):

YEARS ENDED DECEMBER 31	1995	1994
NET SALES	$1,516	$1,251
INCOME FROM OPERATIONS	265	165
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE(1)	219	147
NET INCOME(1)(2)	219	132

DECEMBER 31	1995
CURRENT ASSETS	$419
TOTAL ASSETS	986
CURRENT LIABILITIES	373
NONCURRENT LIABILITIES	325
EQUITY	288

(1) 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.

(2) REFLECTS IN 1994 THE ADOPTION OF FASB NO. 106 ($15 MILLION).

NOTE 13 PROPERTY, PLANT & EQUIPMENT

DECEMBER 31	1996	1995
LAND AND LAND IMPROVEMENTS	$ 331	$ 370
MACHINERY AND EQUIPMENT	5,760	6,528
BUILDINGS	1,415	1,545
OFFICE FURNITURE AND EQUIPMENT	868	781
TRANSPORTATION EQUIPMENT	153	173
CONSTRUCTION IN PROGRESS	449	388
	8,976	9,785
LESS -- ACCUMULATED DEPRECIATION AND AMORTIZATION	(4,757)	(5,043)
	$4,219	$4,742

NOTE 14 ACCRUED LIABILITIES

DECEMBER 31	1996	1995
CUSTOMER ADVANCE PAYMENTS/DEPOSITS	$ 127	$ 182
INSURANCE	102	113
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	135	122
WAGES	315	267
OTHER	1,216	1,091
	$1,895	$1,775

NOTE 15 LONG-TERM DEBT AND CREDIT AGREEMENTS

DECEMBER 31	1996	1995
EMPLOYEE STOCK OWNERSHIP PLAN REFUNDING NOTES, 6.957% AND 7.016%, DUE 1997	$ --	$ 44
EMPLOYEE STOCK OWNERSHIP PLAN FLOATING RATE NOTES, 4.39% - 5.11%, DUE 1997 - 1999	164	203
6.75% NOTES DUE AUGUST 15, 2000	100	100
97/8% DEBENTURES DUE JUNE 1, 2002	250	250
9.20% DEBENTURES DUE FEBRUARY 15, 2003	100	100
MEDIUM TERM NOTES, 8.93% - 9.28%, DUE 1997 - 2001	116	129
ZERO COUPON BONDS AND MONEY MULTIPLIER NOTES, 13.0% - 14.26%, DUE 1997 - 2009	229	214
91/2% DEBENTURES DUE JUNE 1, 2016	100	100
INDUSTRIAL DEVELOPMENT BOND OBLIGATIONS, 4.0% - 6.75%, MATURING AT VARIOUS DATES THROUGH 2026	103	105
OTHER (INCLUDING CAPITALIZED LEASES), 1.07% - 15.3%, MATURING AT VARIOUS DATES THROUGH 2016	156	122
	1,318	1,367
LESS-- UNAMORTIZED DISCOUNT	(1)	(1)
	$1,317	$1,366

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

AT DECEMBER 31, 1996	LONG-TERM DEBT(1)
1997	$ 112
1998	247
1999	165
2000	172
2001	38
THEREAFTER	695
	1,429
LESS -- CURRENT PORTION	(112)
	$1,317

(1) AMOUNTS ARE NET OF REPURCHASES.

The Company has two credit agreements (Credit Agreements) with a group of 20 banks (Five-Year and 364-Day Credit Agreements) with commitments aggregating $750 million. The funds available under the Credit Agreements may be used for any corporate purpose. Loans under the $375 million Five-Year Credit Agreement are required to be repaid no later than June 30, 2001. Annually, the Company may request that the maturity of the Five-Year Credit Agreement be extended by another year. The Company intends to request an extension of this agreement in 1997. The banks' commitments to lend under the $375 million 364-Day Credit

Agreement terminate on June 27, 1997. The Company intends to renegotiate this agreement in 1997. The Company has agreed to pay facility fees of 0.07% per annum and 0.05% per annum on the aggregate commitments for the Five-Year and 364-Day Credit Agreements, respectively, subject to increase or decrease on the Five-Year Agreement in the event of changes in the Company's long-term debt ratings. The Credit Agreements do not restrict the Company's ability to pay dividends or require the Company to maintain a specific net worth. However, they do contain other customary conditions and events of default, the failure to comply

with, or occurrence of, would prevent any further borrowings and would generally require the repayment of any outstanding borrowings under 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. Additionally, each of the banks has the right to terminate its commitment to lend under the Credit Agreements if any person or group acquires beneficial ownership of 30% or more of the Company's voting stock or during any 12-month period individuals who were directors of the Company at the beginning of the period cease to constitute a majority of the Board of Directors (the Board).

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 floating base rate of the agent bank, 0.5% above the average CD rate, or 0.5% above the Federal funds rate; or (c) a spread (equal to 15.5 and 17.5 basis points for the Five-Year and 364-Day Credit Agreements, respectively), over the average Eurocurrency rate of three reference banks. The spread over the Eurocurrency rate on the Five-Year Agreement is subject to increase or decrease if the Company's long-term debt ratings change. The Company had no balance outstanding under the Credit Agreements at December 31, 1996. The Credit Agreements presently serve as support for the issuance of commercial paper.

NOTE 16 LEASE COMMITMENTS

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

AT DECEMBER 31, 1996	LEASE PAYMENTS
1997	$ 63
1998	58
1999	54
2000	45
2001	40
THEREAFTER	147
	$407

Rent expense of $98, $121 and $135 million was included in costs and expenses for 1996, 1995 and 1994, respectively.

NOTE 17 FINANCIAL INSTRUMENTS

The Company, as a result of its global operating and financing activities, is exposed to changes in interest rates and foreign currency exchange rates which may adversely affect its results of operations and financial condition. In seeking to minimize the risks and/or costs associated with such activities, the Company manages exposure to changes in interest rates and foreign currency exchange rates through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The instruments utilized include forward, option and swap agreements. The Company does not use financial instruments for trading or other speculative purposes. The Company had no leveraged financial instruments at December 31, 1996 and 1995.

At December 31, 1996 and 1995, interest rate swap agreements effectively changed $300 million of fixed-rate debt at an average rate of 9.53% in both years to U.S. commercial paper based floating rate debt with an effective average rate of 7.94% and 8.24%, respectively. Based on their terms, these agreements will be terminated by the counterparty if short-term interest rates drop below a predetermined level. Other interest rate swaps at December 31, 1996 and 1995 effectively changed $66 and $74 million, respectively, of London Interbank Offer Rate (LIBOR) based floating rate debt at an average rate of 4.76% and 5.26%, respectively, to fixed rate debt with an effective average rate of 7.00% and 6.92%, respectively. The Company's interest rate swaps mature through the year 2000.

The Company's exposure to changes in foreign currency exchange rates arises from intercompany loans utilized to finance foreign subsidiaries, receivables, payables and firm commitments arising from international transactions. The Company attempts to have all such transaction exposures hedged with internal natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through derivative financial instruments with third parties using forward or option agreements. The Company currently also uses derivative financial instruments to hedge the Company's exposure to changes in foreign currency exchange rates for the translated U.S. dollar value of the net income of a number of foreign subsidiaries. Forward and option agreements used to hedge net income are marked to market and recognized immediately in income. The Company's principal currency exposures relate to the French franc, the German deutsche mark, the British pound and the U.S. dollar. At December 31, 1996, the Company held or had written foreign currency forward and option agreements, maturing through 1998. The Company only writes foreign currency options in combination with purchased options as an integral transaction and economic alternative to using forward agreements.

Financial instruments expose the Company to counterparty credit risk for nonperformance and to market risk for changes in interest and currency rates. The Company manages exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties and procedures to monitor the amount of credit exposure. The Company's financial instrument counterparties are substantial investment or commercial banks with significant experience with such instruments. The Company also has procedures to monitor the impact of market risk on the fair value and costs of its financial instruments considering reasonably possible changes in interest and currency rates. The Company manages market risk by restricting the use of derivative financial instruments to hedging activities and by limiting potential interest and currency rate exposures to amounts that are not material to the Company's consolidated results of operations and cash flows. Because of the above practices and procedures, management believes that the Company's credit and market risk exposures from financial derivatives are not significant at December 31, 1996.

The values of the Company's outstanding derivative financial instruments at December 31, 1996 and 1995 are as follows:

DECEMBER 31, 1996	NOTIONAL PRINCIPAL AMOUNT	FAIR VALUE(1)	CARRYING VALUE
INTEREST RATE SWAP AGREEMENTS HELD	$366	$ (1)	$--
FOREIGN CURRENCY FORWARD AGREEMENTS HELD	425	(1)	(1)
FOREIGN CURRENCY FORWARD AGREEMENTS WRITTEN	420	2	4
FOREIGN CURRENCY OPTIONS HELD	120	1	1
FOREIGN CURRENCY OPTIONS WRITTEN	76	(1)	(1)

DECEMBER 31, 1995			
INTEREST RATE SWAP AGREEMENTS HELD	$ 374	$ (4)	$ --
FOREIGN CURRENCY FORWARD AGREEMENTS HELD	630	(4)	(4)
FOREIGN CURRENCY FORWARD AGREEMENTS WRITTEN	1,311	(11)	(13)

(1) FAIR VALUES FOR FORWARD, OPTION AND INTEREST RATE SWAP CONTRACTS ARE BASED ON MARKET QUOTES.

The only other material financial instruments that are not carried on the Consolidated Balance Sheet at amounts which approximate fair values are certain debt instruments. The carrying values of long-term debt and related current maturities (excluding capitalized leases of $41 and $43 million at year-end 1996 and 1995, respectively) are $1,388 and $1,512 million and the fair values are $1,560 and $1,733 million at December 31, 1996 and 1995, respectively. The fair values are estimated based on the quoted market price for the issues (if traded) or based on current rates offered to the Company for debt of the same remaining maturity and characteristics.

NOTE 18 CAPITAL STOCK

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

The Company is authorized to issue up to 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, 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 Board increased the Company's repurchase authority by 50 million shares of common stock in December 1996. As a result, as of December 31, 1996, the Company had remaining authority to repurchase from time to time up to 51.2 million shares of common stock.

	SHARES OUTSTANDING (IN MILLIONS)	COMMON STOCK/ PAID-IN CAPITAL	TREASURY STOCK
BALANCE DECEMBER 31, 1993	283.8	$ 2,811	$(1,437)
PURCHASED UNDER REPURCHASE PROGRAMS	(2.9)	--	(103)
USED FOR DIVIDEND REINVESTMENT PLAN	.2	--	3
USED FOR EMPLOYEE BENEFIT PLANS (INCLUDING RELATED TAX BENEFITS)	2.0	12	32
REDEMPTION OF COMMON STOCK PURCHASE RIGHTS	--	(7)	--
BALANCE DECEMBER 31, 1994	283.1	2,816	(1,505)
PURCHASED UNDER REPURCHASE PROGRAMS	(5.5)	--	(239)
USED FOR DIVIDEND REINVESTMENT PLAN	.2	--	3
USED FOR EMPLOYEE BENEFIT PLANS (INCLUDING RELATED TAX BENEFITS)	5.0	31	83
BALANCE DECEMBER 31, 1995	282.8	2,847	(1,658)
PURCHASED UNDER REPURCHASE PROGRAMS	(7.0)	--	(409)
USED FOR DIVIDEND REINVESTMENT PLAN	.1	--	2
USED FOR EMPLOYEE BENEFIT PLANS (INCLUDING RELATED TAX BENEFITS)	6.7	58	109
USED FOR ACQUISITIONS	.2	--	3
BALANCE DECEMBER 31, 1996	282.8	$2,905	$(1,953)

NOTE 19 STOCK OPTIONS AND AWARDS

The Company has a 1993 Stock Plan and a 1985 Stock Plan available to grant incentive and non-qualified stock options, stock appreciation rights (SARs), restricted shares and restricted units (Units) to officers and other employees. The 1993 Stock Plan provides for the annual grant of awards in an amount not in excess of 1.5% of the total shares issued (including shares held in treasury) as of December 31 of the year preceding the year of the award. Any shares that are available for awards that are not utilized in a given year will be available for use in subsequent years. There were 4,102,156 and 3,597,248 shares available for future grants under the terms of the Company's stock option plans at December 31, 1996 and 1995, respectively. Incentive stock options have a term determined by the Management Development and Compensation Committee of the Board (Committee), but not in excess of ten years from the date of grant. Non-qualified stock options have been granted with terms of up to ten years and one day. An option becomes exercisable at such times and in such installments as set by the Committee. Options generally become exercisable over a three-year period. SARs entitle an optionee to surrender unexercised stock options for cash or stock equal to the excess of the fair market value of the surrendered shares over the option value of such shares. Units have been granted to certain employees, which entitle the holder to receive shares of common stock. At December 31, 1996, there were 1,177,680 Units outstanding, including 131,950 Units granted in 1996, the restrictions on which generally lapse over periods not exceeding ten years from date of grant. Compensation expense is recognized over the restricted period.

The following table summarizes information about stock option activity for the three years ended December 31, 1996:

	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE PER SHARE
OUTSTANDING AT DECEMBER 31, 1993	19,618,446	$24.95
GRANTED	6,809,010	37.55
EXERCISED	(1,693,567)	19.32
LAPSED OR CANCELED	(344,720)	32.88
SURRENDERED UPON EXERCISE OF SARS	(17,450)	21.41
OUTSTANDING AT DECEMBER 31, 1994	24,371,719	28.75
GRANTED	6,399,590	36.53
EXERCISED	(4,199,415)	22.87
LAPSED OR CANCELED	(358,567)	34.75
OUTSTANDING AT DECEMBER 31, 1995	26,213,327	31.51
GRANTED	4,718,270	51.20
EXERCISED	(5,001,777)	28.15
LAPSED OR CANCELED	(369,007)	42.02
OUTSTANDING AT DECEMBER 31, 1996	25,560,813	35.65

The following table summarizes information about stock options outstanding at December 31, 1996:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	AVERAGE LIFE(1)	AVERAGE EXERCISE PRICE PER SHARE	NUMBER EXERCISABLE	AVERAGE EXERCISE PRICE PER SHARE
$14.35-$29.16	5,796,205	4.2	$21.62	5,796,205	$21.62
$32.00-$35.50	5,353,761	6.6	34.40	4,031,886	34.40
$35.57-$39.07	9,286,347	7.7	36.91	4,170,681	37.61
$42.50-$63.69	5,124,500	9.0	50.53	183,960	45.33
	25,560,813	6.9	35.65	14,182,732	30.27

(1) AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS. THERE WERE 14,052,739 AND 12,659,343 OPTIONS EXERCISABLE AT AVERAGE EXERCISE PRICES PER SHARE OF $27.49 AND $23.55 AT DECEMBER 31, 1995 AND 1994, RESPECTIVELY.

As permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), effective for 1996, the Company continues to account for stock compensation costs in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Had compensation cost been determined based on the fair value at the grant dates for awards under the Company's stock plans in accordance with SFAS No. 123, net income would have been reduced by $24 million ($0.09 per share) and $15 million ($0.05 per share) in 1996 and 1995, respectively. As required by SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for 1996 and 1995, respectively: historical dividend yield of 1.8% in both years; an expected life of five years and five and one-half years; historical volatility of 21% and 23% and a risk-free rate of return of 5.52% and 7.21%. The weighted-average fair values of the options granted during 1996 and 1995 were $12.43 and $11.06 per share, respectively.

The Company also has a Stock Plan for Non-Employee Directors (Directors' Plan) under which restricted shares and options are granted. New directors receive grants of 1,500 shares of common stock, subject to certain restrictions. In addition, each director will be granted an option to purchase 1,000 shares of common stock each year on the date of the annual meeting of shareowners. The Company has set aside 225,000 shares for issuance under the Directors' Plan. Options generally become exercisable over a three-year period and have a term of ten years from the date of grant.

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

Treasury shares of common stock have been used upon exercise of stock options. Differences between the cost of treasury stock used and the total option price of shares exercised have been reflected in retained earnings.

NOTE 20 CUMULATIVE FOREIGN EXCHANGE TRANSLATION ADJUSTMENT

DECEMBER 31	1996	1995	1994
BALANCE AT BEGINNING OF YEAR	$61	$18	$(7)
TRANSLATION ADJUSTMENT AND IMPACT OF HEDGES	(59)	43	25
	$ 2	$61	$18

NOTE 21 COMMITMENTS AND CONTINGENCIES

The Company is subject to a number of lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of its business, including those relating to commercial transactions, government contracts, product liability and environmental, 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 no later than the completion of feasibility studies. Although the Company does not currently possess sufficient information to reasonably estimate the amounts of the liabilities to be recorded upon future completion of studies, they may be significant to the consolidated results of operations, but management does not expect that they will have a material adverse effect on the consolidated financial position of the Company. With respect to all other matters, while the ultimate results of these lawsuits, investigations and claims cannot be determined, management does not expect that these matters will have a material adverse effect on the consolidated results of operations or financial position of the Company.

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

NOTE 22 SUPPLEMENTAL CASH FLOW AND OTHER INFORMATION

Cash and cash equivalents includes cash on hand and on deposit as well as highly liquid debt instruments with maturities generally of three months or less. Cash payments during the years 1996, 1995 and 1994 included interest of $178, $183 and $121 million and income taxes of $221, $185 and $164 million, respectively.

In November 1994, the Company and General Motors Corporation formed a joint venture to manufacture coated substrates for catalytic converters. The Company contributed its environmental catalysts business and General Motors contributed other assets and a long-term sales contract to the venture. The transaction had the following non-cash impact on the Company's 1994 balance sheet:

	AMOUNT
CURRENT ASSETS	$(24)
PROPERTY, PLANT AND EQUIPMENT-- NET	(20)
INVESTMENTS AND LONG-TERM RECEIVABLES	(23)
OTHER NONCURRENT ASSETS	(3)
CURRENT LIABILITIES	102
NONCURRENT LIABILITIES	(32)

The weighted average interest rate on short-term borrowings and commercial paper outstanding at December 31, 1996 and 1995 was 6.0% and 7.0%, respectively.

NOTE 23 POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company's U.S. retiree medical programs cover employees who retire with pension eligibility for hospital, professional and other medical services (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 two thousand dollars or a benefit as a percent of pay. The retiree medical and life insurance programs are not funded. Claims and expenses are paid from the general assets of the Company.

For most non-union employees retiring after July 1, 1992, the Company has implemented an approach which bases the Company's contribution to retiree medical premiums on years of service and also establishes a maximum Company contribution in the future at approximately twice the current level at the date of implementation.

In 1996, 1995 and 1994 the Company's cost for providing other postretirement benefits aggregated $121, $142 and $150 million, respectively. The Company uses the services of an enrolled actuary to calculate postretirement benefit costs.

For measurement purposes, the assumed annual rates of increase in the per capita cost of covered health care benefits for 1996 were 6.75% to 9% for indemnity programs and 6% to 6.75% for managed care programs, which reduce to 6% for all programs in the year 2000 and remain 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 one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1996 by $121 million and the aggregate of the service and interest cost component of net periodic postretirement benefit cost for the year then ended by $12 million. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7.75% and 7.25% at December 31, 1996 and 1995, respectively.

Net periodic postretirement benefit cost for 1996, 1995 and 1994 included the following components:

YEARS ENDED DECEMBER 31	1996	1995	1994
SERVICE COST-BENEFITS ATTRIBUTED TO SERVICE DURING THE PERIOD	$ 24	$ 20	$ 27
INTEREST COST ON ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION	110	133	133
NET AMORTIZATION	(14)	(12)	(10)
	120	141	150
FOREIGN PLANS	1	1	--
NET PERIODIC POSTRETIREMENT BENEFIT COST	$121	$142	$150

Presented below are the plans' status and amounts recognized in the Company's Consolidated Balance Sheet at December 31, 1996 and 1995:

DECEMBER 31	1996	1995
ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION:		
RETIREES	$1,054	$1,310
FULLY ELIGIBLE ACTIVE PLAN PARTICIPANTS	126	184
OTHER ACTIVE PLAN PARTICIPANTS	353	455
	1,533	1,949
UNRECOGNIZED PRIOR SERVICE COST	115	161
UNRECOGNIZED NET GAIN (LOSS)	274	(124)
ACCRUED POSTRETIREMENT BENEFIT COST	$1,922	$1,986

NOTE 24 PENSIONS

The Company's pension plans, most of which are defined benefit plans and almost all of which are noncontributory, cover substantially all employees. Benefits under the plans are generally based on years of service and employees' compensation during the last years of employment or as a flat dollar benefit. Benefits are generally paid from funds previously provided to trustees. In the Company's principal U.S. plans, funds are contributed to a trustee as necessary to provide for current service and for any unfunded projected benefit obligation over a reasonable period. To the extent that these requirements are fully covered by assets on hand for a plan, a contribution may not be made in a particular year. At December 31, 1996, approximately 61% of the assets of U.S. plans were held in equity securities, with the balance primarily in fixed income-type securities.

Pension expense in 1996, 1995 and 1994 was $88, $115 and $109 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 1996, 1995 and 1994 included the following components:

YEARS ENDED DECEMBER 31	1996	1995	1994
SERVICE COST-BENEFITS EARNED DURING THE PERIOD	$ 133	$ 107	$ 132
INTEREST COST ON PROJECTED BENEFIT OBLIGATION	398	395	363
ACTUAL RETURN ON PLAN ASSETS	(841)	(1,019)	(65)
NET AMORTIZATION AND DEFERRAL	388	616	(338)
NET PERIODIC PENSION COST FOR DEFINED BENEFIT PLANS	78	99	92
FOREIGN PLANS AND OTHER	10	16	17
NET PERIODIC PENSION COST	$ 88	$ 115	$ 109

The assumed rate of return for the Company's U.S. defined benefit pension plans was 9.5% in 1996 and 9% in 1995 and 1994. The assumed discount rate used in calculating the projected benefit obligations at December 31, 1996, 1995 and 1994 was 7.75%, 7.25% and 8.75%, respectively. In addition, the assumed annual increase in compensation over employees' estimated remaining working lives was 5% in 1996, 1995 and 1994.

Presented below are the plans' funded status and amounts recognized in the Company's Consolidated Balance Sheet at December 31, 1996 and 1995 for its significant defined benefit pension plans:

December 31	1996 ASSETS EXCEED ACCUMULATED BENEFITS	1996 ACCUMULATED BENEFITS EXCEED ASSETS	1995 ASSETS EXCEED ACCUMULATED BENEFITS	1995 ACCUMULATED BENEFITS EXCEED ASSETS
ACTUARIAL PRESENT VALUE OF BENEFIT OBLIGATION:				
VESTED	$ 3,715	$ 832	$ 3,813	$ 805
NONVESTED	256	65	244	113
ACCUMULATED BENEFIT OBLIGATION	$ 3,971	$ 897	$ 4,057	$ 918
PROJECTED BENEFIT OBLIGATION	$ 4,474	$ 933	$ 4,703	$ 953
LESS -- FAIR VALUE OF ASSETS	5,116	711	4,694	699
OVER (UNDER) FUNDED PLANS	642	(222)(1)	(9)	(254)
UNRECOGNIZED TRANSITION (ASSET) LIABILITY	(6)	(24)	--	(34)
UNRECOGNIZED NET (GAIN) LOSS	(549)	(55)	85	26
UNRECOGNIZED PRIOR SERVICE COST	(10)	90	(11)	86
PREPAID (ACCRUED) PENSION COST	$ 77	$ (211)	$ 65	$ (176)

(1) INCLUDES $220 MILLION FOR UNFUNDED FOREIGN AND SUPPLEMENTAL DOMESTIC PENSION PLANS.

Note 25 SEGMENT FINANCIAL DATA

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

		AEROSPACE	AUTOMOTIVE	ENGINEERED MATERIALS	CORPORATE AND UNALLOCATED (1)	TOTAL
NET SALES(2)	1996	$ 5,714	$ 4,240	$ 4,013	$ 4	$ 13,971
	1995	5,084	5,549	3,713	--	14,346
	1994	4,623	4,922	3,272	--	12,817
RESEARCH AND DEVELOPMENT EXPENSE	1996	173	49	123	--	345
	1995	154	80	109	10	353
	1994	126	73	110	9	318
DEPRECIATION AND AMORTIZATION	1996	186	127	207	31	551
	1995	186	164	185	28	563
	1994	183	148	171	21	523
INCOME FROM OPERATIONS(3)	1996	359	900	438	(188)	1,509
	1995	551	292	563	(146)	1,260
	1994	458	411	409	(126)	1,152
NET INCOME(3)(4)	1996	206	521	361	(68)	1,020
	1995	303	146	473	(47)	875
	1994	260	215	330	(46)	759
CAPITAL EXPENDITURES	1996	143	212	336	64	755
	1995	131	214	334	67	746
	1994	148	245	232	14	639
IDENTIFIABLE ASSETS	1996	5,172	2,729	3,453	1,475	12,829
	1995	5,079	3,813	3,302	271	12,465
	1994	5,104	3,276	2,562	379	11,321

INTERSEGMENT SALES APPROXIMATE MARKET AND ARE NOT SIGNIFICANT.

(1) THE "CORPORATE AND UNALLOCATED" COLUMN INCLUDES AMOUNTS FOR BUSINESSES SOLD AND CORPORATE ITEMS.

(2) SALES TO THE U.S. GOVERNMENT AND ITS AGENCIES, MAINLY FOR THE AEROSPACE SEGMENT, WERE $1,172, $1,107 AND $1,089 MILLION FOR EACH OF THE RESPECTIVE YEARS.

(3) INCLUDES IN 1996 A PRE- AND AFTER-TAX PROVISION FOR REPOSITIONING AND OTHER CHARGES FOR AEROSPACE OF $292 AND $179 MILLION, AUTOMOTIVE OF $117 AND $49 MILLION, ENGINEERED MATERIALS OF $129 AND $71 MILLION AND CORPORATE AND UNALLOCATED OF $99 AND $60 MILLION, RESPECTIVELY. ALSO INCLUDES IN 1996 PRE- AND AFTER-TAX GAIN ON SALE OF BRAKING BUSINESS OF $655 AND $368 MILLION FOR AUTOMOTIVE. INCLUDES IN 1995 A PRE- AND AFTER-TAX PROVISION FOR REPOSITIONING CHARGE OF $115 AND $71 MILLION FOR AUTOMOTIVE, AND A PRE- AND AFTER-TAX GAIN OF $71 AND $71 MILLION FOR ENGINEERED MATERIALS.

(4) AN INTEREST CHARGE IS MADE BY CORPORATE OFFICE TO THE SEGMENTS ON THE BASIS OF RELATIVE INVESTMENT. TAXES ON INCOME ARE GENERALLY INCLUDED IN THE SEGMENTS WHICH GAVE RISE TO THE TAX EFFECTS AND EQUITY IN INCOME OF AFFILIATED COMPANIES IS INCLUDED IN THE SEGMENTS IN WHICH THESE COMPANIES OPERATE.

Note 26 GEOGRAPHIC AREAS -- FINANCIAL DATA

		UNITED STATES(1)	CANADA	EUROPE	OTHER INTERNATIONAL	ADJUSTMENTS AND ELIMINATIONS	TOTAL
NET SALES(2)	1996	$10,774	$252	$ 2,397	$ 548	$ --	$ 13,971
	1995	10,734	230	2,740	642	--	14,346
	1994	9,739	202	2,283	593	--	12,817
NET INCOME(3)	1996	736	28	212	44	--	1,020
	1995	734	31	58	52	--	875
	1994	654	23	65	17	--	759
ASSETS	1996	9,880	302	2,501	729	(583)	12,829
	1995	9,378	219	2,964	588	(684)	12,465
	1994	8,977	205	2,295	543	(699)	11,321
LIABILITIES	1996	8,059	132	798	243	(583)	8,649
	1995	7,623	106	1,535	293	(684)	8,873
	1994	7,290	87	1,319	342	(699)	8,339

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 $2,399, $2,119 AND $1,818 MILLION FOR EACH OF THE RESPECTIVE YEARS.

(3) INCLUDES IN 1996 AN AFTER-TAX PROVISION FOR REPOSITIONING AND OTHER CHARGES FOR THE UNITED STATES OF $356 AND EUROPE OF $3 MILLION. ALSO INCLUDES IN 1996 AN AFTER-TAX GAIN ON THE SALE OF THE BRAKING BUSINESS FOR THE UNITED STATES OF $244 AND EUROPE OF $143 MILLION AND A LOSS FOR OTHER INT'L OF $19 MILLION. INCLUDES IN 1995 AN AFTER-TAX GAIN FOR THE UNITED STATES OF $42 MILLION AND A LOSS FOR EUROPE OF $42 MILLION.

Note 27 UNAUDITED QUARTERLY FINANCIAL INFORMATION

	1996					1995				
	MAR. 31	JUNE 30	SEPT. 30	DEC. 31	YEAR	MAR. 31	JUNE 30	SEPT. 30	DEC. 31	YEAR
NET SALES	$3,778	$3,347	$3,348	$3,498	$13,971	$3,419	$3,630	$3,499	$3,798	$14,346
GROSS PROFIT	766	112(1)	750	737	2,365	672	728	699	593	2,692
NET INCOME	225	272(1)(2)	253	270	1,020	198	227	217	233	875
PER SHARE	.80	.96(1)(2)	.90	.96	3.61	.70	.80	.77	.83	3.09
DIVIDENDS PAID	.225	.225	.225	.225	.90	.195	.195	.195	.195	.78
MARKET PRICE(3)										
HIGH	59.25	60.38	66.38	74.38	74.38	39.88	44.50	47.13	49.88	49.88
LOW	47.13	54.25	52.75	61.88	47.13	33.38	38.38	43.13	41.13	33.38

(1) INCLUDES A PROVISION OF $637 MILLION (AFTER-TAX $359 MILLION, OR $1.27 PER SHARE) FOR REPOSITIONING AND OTHER CHARGES. SEE NOTE 3 OF NOTES TO FINANCIAL STATEMENTS FOR FURTHER INFORMATION.

(2) INCLUDES AN AFTER-TAX GAIN OF $368 MILLION, OR $1.30 PER SHARE, ON THE SALE OF THE BRAKING BUSINESS. SEE NOTE 4 OF NOTES TO FINANCIAL STATEMENTS FOR FURTHER INFORMATION.

(3) FROM COMPOSITE TAPE -- STOCK IS PRIMARILY TRADED ON THE NEW YORK STOCK EXCHANGE.

Report of Independent Accountants

PRICE WATERHOUSE LLP [LOGO]

January 31, 1997

To the Shareowners and Directors of AlliedSignal Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of retained earnings and of cash flows present fairly, in all material respects, the financial position of AlliedSignal Inc. and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Morristown, NJ

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

Years ended December 31	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
FOR THE YEAR										
NET SALES	$13,971	$14,346	$12,817	$11,827	$12,042	$11,831	$12,343	$11,942	$11,909	$11,116
INCOME (LOSS) FROM CONTINUING OPERATIONS(1)	1,020	875	759	656	535	(273)	462	528	463	515
NET INCOME (LOSS)(2)	1,020	875	759	411	(712)	(273)	462	528	463	656
PER SHARE OF COMMON STOCK:										
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	3.61	3.09	2.68	2.31	1.90	(1.00)	1.67	1.78	1.55	1.53
NET EARNINGS (LOSS)	3.61	3.09	2.68	1.45	(2.52)	(1.00)	1.67	1.78	1.55	1.95
DIVIDENDS	.90	.78	.6475	.58	.50	.80	.90	.90	.90	.90
AT YEAR-END										
NET WORKING CAPITAL	$ 2,143	$ 1,086	$ 1,194	$ 1,078	$ 1,414	$ 526	$ 892	$ 1,065	$ 1,040	$ 722
PROPERTY, PLANT AND EQUIPMENT -- NET	4,219	4,742	4,260	4,094	3,897	3,638	3,584	3,321	3,214	3,330
TOTAL ASSETS	12,829	12,465	11,321	10,829	10,756	10,382	10,456	10,342	10,069	10,321
LONG-TERM DEBT	1,317	1,366	1,424	1,602	1,777	1,914	2,051	1,903	2,044	2,017
SHAREOWNERS' EQUITY	4,180	3,592	2,982	2,390	2,251	2,983	3,380	3,412	3,268	3,129
BOOK VALUE PER SHARE OF COMMON STOCK	14.78	12.70	10.53	8.42	7.93	10.79	12.55	11.77	11.05	10.44
AVERAGE INVESTMENT(3)	6,468	5,598	4,848	4,506	4,939	6,771	6,723	6,520	6,629	6,859
COMMON SHARES OUTSTANDING (IN MILLIONS)	282.8	282.8	283.1	283.8	283.8	276.3	269.4	290.0	295.9	299.9
COMMON SHAREOWNERS OF RECORD	77,856	79,046	82,095	84,248	84,254	91,492	97,210	102,042	111,402	109,322
EMPLOYEES(4)	76,600	88,500	87,500	86,400	89,300	98,300	105,800	107,100	109,550	115,300
FINANCIAL STATISTICS(5)										
RETURN ON SALES (INCOME FROM OPERATIONS)	10.8	8.8	9.0	8.1	3.4	(2.5)	5.9	8.0	5.7	6.8
RETURN ON SALES (AFTER-TAX)	7.3	6.1	5.9	5.5	4.4	(2.3)	3.7	4.4	3.9	4.6
RETURN ON AVERAGE INVESTMENT (AFTER-TAX)	17.5	17.4	17.5	16.6	13.8	(1.3)	9.6	11.0	10.3	10.1
RETURN ON AVERAGE SHAREOWNERS' EQUITY (AFTER-TAX)	26.6	26.7	28.9	30.6	26.4	(8.4)	13.9	15.6	14.5	14.5
INTEREST COVERAGE RATIO	7.6	6.5	6.8	5.1	3.3	(.9)	2.6	3.0	2.8	3.6
LONG-TERM DEBT AS A PERCENT OF TOTAL CAPITAL	22.2	25.6	30.4	37.9	40.5	34.9	33.6	30.8	33.2	33.9
TOTAL DEBT AS A PERCENT OF TOTAL CAPITAL	29.5	33.7	34.1	42.7	44.7	43.9	40.4	35.7	35.9	39.0
FINANCIAL STATISTICS(5)(6)										
RETURN ON SALES (INCOME FROM OPERATIONS)	10.7	9.1	9.0	7.9	6.5	4.7	5.9	8.0	7.4	6.8
RETURN ON SALES (AFTER-TAX)	7.2	6.1	5.9	5.5	4.5	2.9	3.7	4.4	4.3	3.9
RETURN ON AVERAGE INVESTMENT (AFTER-TAX)	17.4	17.4	17.5	16.6	13.9	7.8	9.6	11.0	10.9	8.9
RETURN ON AVERAGE SHAREOWNERS' EQUITY (AFTER-TAX)	26.3	26.7	28.9	30.5	26.7	10.5	13.9	15.6	15.9	12.2
INTEREST COVERAGE RATIO	7.5	6.8	6.8	5.0	3.3	2.1	2.6	3.0	2.9	3.2
LONG-TERM DEBT AS A PERCENT OF TOTAL CAPITAL	22.2	25.6	30.4	37.9	40.5	34.9	33.6	30.8	33.2	33.9
TOTAL DEBT AS A PERCENT OF TOTAL CAPITAL	29.5	33.7	34.1	42.7	44.7	43.9	40.4	35.7	35.9	39.0

(1) IN 1996, INCLUDES THE EFFECT OF A PROVISION FOR REPOSITIONING AND OTHER CHARGES, AS WELL AS A GAIN ON THE SALE OF THE BRAKING BUSINESS RESULTING IN A NET GAIN OF $33 MILLION (AFTER-TAX $9 MILLION, OR $0.03 PER SHARE). IN 1992, INCLUDES THE EFFECT OF A PROVISION FOR REPOSITIONING CHARGES AS WELL AS A GAIN ON THE SALE OF COMMON STOCK OF UNION TEXAS PETROLEUM HOLDINGS, INC. (UNION TEXAS) RESULTING IN A NET CHARGE OF $11 MILLION (AFTER-TAX $6 MILLION, OR $0.02 PER SHARE). IN 1991, INCLUDES THE EFFECT OF A PROVISION FOR REPOSITIONING CHARGES AS WELL AS GAINS ON ASSET SALES BY UNION TEXAS RESULTING IN A NET CHARGE OF $838 MILLION (AFTER-TAX $615 MILLION, OR $2.25 PER SHARE). IN 1988, INCLUDES AN AFTER-TAX CHARGE OF $125 MILLION, OR $0.42 PER SHARE, FOR REPOSITIONING CHARGES, AN AFTER-TAX GAIN OF $36 MILLION, OR $0.12 PER SHARE, FROM THE SALE OF THE COMPANY'S INVESTMENT IN AKEBONO BRAKE INDUSTRY COMPANY LTD. AND AN AFTER-TAX GAIN OF $81 MILLION, OR $0.27 PER SHARE, FROM NONRECURRING ITEMS. IN 1987, INCLUDES THE EFFECT OF THE SALE OF COMMON STOCK BY UNION TEXAS WHICH RESULTED IN A GAIN OF $108 MILLION (AFTER-TAX $82 MILLION, OR $0.24 PER SHARE).

(2) INCLUDES IN 1993 THE CUMULATIVE AFTER-TAX PROVISION FOR THE ADOPTION OF FASB NO. 112 OF $245 MILLION, OR $0.86 PER 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 PER SHARE.

(3) INVESTMENT IS DEFINED AS SHAREOWNERS' EQUITY AND NON-CURRENT DEFERRED TAXES-NET PLUS TOTAL DEBT.

(4) INCLUDES EMPLOYEES AT FACILITIES OPERATED FOR THE U.S. DEPARTMENT OF ENERGY.

(5) THE RETURNS AND INTEREST COVERAGE RATIO EXCLUDE THE IMPACT ON INCOME OF THE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES.

(6) THE RETURNS AND INTEREST COVERAGE RATIO EXCLUDE THE IMPACT OF NONRECURRING ITEMS IN 1993, PROVISIONS FOR REPOSITIONING CHARGES IN 1996, 1995, 1992, 1991 AND 1988, GAIN ON THE SALE OF THE BRAKING BUSINESS IN 1996, GAIN ON THE TRANSFER OF THE HDPE BUSINESS TO EXXON IN 1995, 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.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

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

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

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting part of AlliedSignal Inc.'s Registration Statements on Forms S-8 (Nos. 33-09896, 33-51455, 33-55410, 33-58345, 33-58347, 33-60261, 33-62963, 33-64295 and 333-14673), on Forms S-3 (Nos. 33-13211, 33-14071, 33-55425, 33-64245 and 333-22355) and on Form S-8 (filed as an amendment to Form S-14, No. 2-99416-01) of our report dated January 31, 1997 appearing in the 1996 Annual Report to Shareowners of AlliedSignal Inc., which is incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 1996.

PRICE WATERHOUSE LLP

Morristown, New Jersey
February 28, 1997

EXHIBIT 24

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

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

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

/s/ Lawrence A. Bossidy

Lawrence A. Bossidy

Dated: January 23, 1997

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

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

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

/s/ Hans W. Becherer

Hans W. Becherer

Dated: January 23, 1997

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

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

/s/ Ann M. Fudge

Ann M. Fudge

Dated: January 23, 1997

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

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

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

/s/ Paul X. Kelley

Paul X. Kelley

Dated: January 23, 1997

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

/s/ Robert P. Luciano

Robert P. Luciano

Dated: January 23, 1997

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

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

/s/ Robert B. Palmer

Robert B. Palmer

Dated: January 23, 1997

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

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

/s/ Russell E. Palmer

Russell E. Palmer

Dated: January 23, 1997

POWER OF ATTORNEY

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

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

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

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

/s/ Ivan G. Seidenberg

Ivan G. Seidenberg

Dated: January 23, 1997

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

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

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

/s/ Andrew C. Sigler

Andrew C. Sigler

Dated: January 23, 1997

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

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

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

/s/ John R. Stafford

John R. Stafford

Dated: January 23, 1997

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

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

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

/s/ Thomas P. Stafford

Thomas P. Stafford

Dated: January 23, 1997

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

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

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

/s/ Robert C. Winters

Robert C. Winters

Dated: January 23, 1997

POWER OF ATTORNEY

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

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1996,

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

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

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

/s/ Henry T. Yang

Henry T. Yang

Dated: January 23, 1997

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This schedule contains summary financial information extracted from the consolidated balance sheet at December 31. 1996 and the consolidated statement of income for the year ended December 31. 1996 and is qualified in its entirety by reference to such financial statements.

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YEAR
DEC-31-1996
DEC-31-1996
1,465
301
1,330
31
1,946
5,839
8,976
4,757
12,829
3,696
1,317
358
0
0
3,822
12,829
13,971
13,971
11,606
11,606
0
0
186
1,553
533
1,020
0
0
0
1,020
3.61
0