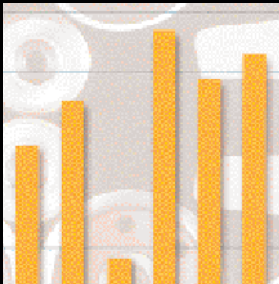




Building Value
Through Profitable
Growth



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Allegheny Teledyne Incorporated is a group of technology-based manufacturing businesses with significant concentration in specialty metals, complemented by aerospace and electronics, industrial, and consumer products.

Our objective is to continue earning a premium return on our total invested capital to provide an attractive investment for our stockholders. To achieve our objective we will:

- continue to focus on improving our cost competitiveness;
- fulfill customer requirements for quality, delivery and service;
- seek specialty niches where we have a competitive advantage;
- expand a profitable global presence; and
- sustain profitable growth through internal and external investments aimed at producing high returns on capital and enhancing stockholder value.

About the Cover:

Images on the cover are used inside with examples of how Allegheny Teledyne's operating companies apply strategic principles to reach the corporate objective. We call this process "Building Value through Profitable Growth."

Allegheny Teledyne at a Glance

Financial Results *(Dollars in Millions)*

Operating Companies

Products and Services

Specialty Metals

	1997	1996
Sales	\$ 1,934.3	\$ 1,915.7
Operating Profit	\$ 267.4	\$ 268.0
Margin	13.8%	14.0%

Allegheny Ludlum Corporation
 Allvac
 Rodney Metals
 Wah Chang
 OREMET (acquisition expected to be completed in March, 1998)
 Aerospace division of Sheffield
 Forgemasters (acquisition completed in February, 1998)

- Stainless steel sheet, strip and plate
- Silicon electrical steel
- Tool steels
- Thin-rolled and coated metals
- Nickel- and cobalt-based superalloys
- Titanium
- Zirconium and zirconium chemicals
- Hafnium
- Niobium
- Vanadium

Aerospace & Electronics

	1997	1996
Sales	\$ 927.0	\$ 970.0
Operating Profit	\$ 90.3	\$ 100.4
Margin	9.7%	10.4%

Teledyne Electronic Technologies
 Teledyne Brown Engineering
 Teledyne Ryan Aeronautical
 Teledyne Continental Motors

- Hybrid microcircuits
- Electronic relays
- Microwave components
- Electronic converters
- Flexible printed circuit interconnections
- Avionics systems for commercial airliners
- Engineering services
- Modeling, simulation and analysis
- Space station support services
- Sensors/analyzers
- Unmanned aerial vehicles
- Small gas turbine engines
- Controlled explosive devices/airbag components
- High performance stainless steel, aluminum castings
- Piston engines for general aviation

Industrial

	1997	1996
Sales	\$ 532.0	\$ 515.7
Operating Profit	\$ 60.7	\$ 48.5
Margin	11.4%	9.4%

Teledyne Metalworking Products
 Teledyne Fluid Systems
 Teledyne Specialty Equipment
 Portland Forge
 Casting Service
 Green River Steel Corporation

- Tungsten and tungsten-based products, including superhard cutting tools
- Nitrogen gas springs and pressure systems
- Valves, pumps and boosters
- Transportable material handlers
- Mining/construction equipment
- Carbon and alloy steel and non-ferrous forgings
- Large grey iron castings
- Carbon and alloy steel bar products

Consumer

	1997	1996
Sales	\$ 253.8	\$ 228.3
Operating Profit	\$ 34.5	\$ 14.3
Margin	13.6%	6.3%

Teledyne Water Pik
 Teledyne Laars

- Pulsating water shower heads
- Sonic and automatic toothbrushes
- Residential water filtration systems
- Oral irrigators
- Professional dental products
- Electronic control devices for swimming pools
- Residential swimming pool heating systems
- Commercial, residential heating, hot water supply boilers

Highlights

- On strength of Allvac and Wah Chang performances, segment maintained overall margins year-over-year despite continuing commodity stainless steel pricing pressures
- Announced proposed acquisition of integrated titanium producer Oregon Metallurgical Corporation; expected to add \$340 million to 1998 revenues
- Announced agreements with Bethlehem Steel Corporation that will add melt capacity and ability to produce wide stainless steel products
- Acquired Sheffield Forgemasters' high-value superalloy melt/remelt facilities in United Kingdom in 1998; expected to add \$125 million to 1998 revenues
- Commissioned plasma arc cold hearth furnace to make high-purity titanium
- Announced installation of vacuum induction furnace
- Broke ground on a joint venture stainless steel strip finishing plant in Shanghai
- Began installation of a Sendzimir mill, announced upgrade of anneal and pickle line, both to finish products up to 60 inches wide

Major Markets Served

- Aerospace/commercial aviation
- Consumer durable goods
- Chemicals
- Chemical processing
- Oil and gas
- Power generation
- Food processing
- Nuclear
- Automotive
- Medical/biomedical
- Industrial manufacturing

- Record number of electronic relays sold to commercial airline industry
- Sales of flight data recorders, telephone systems, specialized circuit boards to commercial aviation industry rose substantially
- Accelerating its manufacturing excellence program, Continental Motors continued to invest in modern technology, consolidate its facilities, and improve its quality, cost competitiveness and customer service.

- Aerotronics Controls acquired
- Micro-gas generator production began
- Government authorized third, fourth Global Hawk long range UAVs
- Global Hawk made first test flight in February, 1998

- Communications
- Aerospace
- General/commercial aviation
- Consumer
- Industrial manufacturing
- Automotive
- Medical
- Testing laboratories
- U.S./foreign governments

- Operating profit and margins up significantly
- Metalworking Products reduced costs, improved productivity, enhanced customer service by reorganizing business units, restructuring manufacturing operations
- New bonding agent for cutting tool coatings improved sales by double digits
- International sales of mining/construction equipment continued to increase

- Pressure relief valve business restructuring substantially improved cycle time, on-time delivery, reduction in scrap/rework
- Sales of forgings improved 10%

- Manufacturing operations that form metal
- Automotive/other transportation
- Power generation
- Appliance
- Can-making
- Pharmaceutical
- Construction/building supply
- Oil and gas
- Mining
- Hydrocarbon/petrochemical processing
- Aerospace/commercial aviation
- Biomedical

- Profit and margins of both consumer segment companies improved significantly
- New Flexible Shower Massage product successfully introduced
- Teledyne Water Pik/Price Pfister team plans to introduce first faucet with built-in filter

- Sales of electronic swimming pool controls, other devices improved significantly despite flat swimming pool construction market
- Sales of hot water boilers to Russia more than doubled

- Major consumer retail, discount outlets, including hardware, home improvement
- Swimming pool construction, equipment
- Dental professionals
- Industrial, commercial, residential construction

1997 Financial Highlights

	1997	1996	Change
Sales	\$3.7 billion	\$3.8 billion	-2%
Sales From Continuing Operations	\$3.6 billion	\$3.6 billion	0%
Net Income	\$297.6 million	\$213.0 million	40%
Basic Net Income Per Common Share	\$1.70	\$1.20	42%
Diluted Net Income Per Common Share	\$1.67	\$1.19	40%
Return on Stockholders' Equity (1)	29.3%	28.3%	-
Return on Average Capital Employed (1, 2)	21.6%	18.9%	-
Net Debt to Total Capitalization (3)	21.8%	30.7%	-
Weighted Average Number of Shares Outstanding	175,203,292	174,082,298	1%
Book Value Per Common Share	\$5.73	\$5.00	15%
Number of Employees	22,000	24,000	-8%

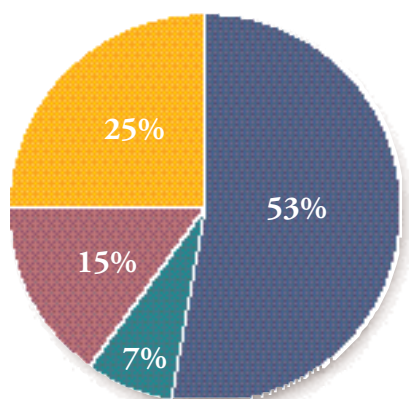
(1) Excluding gains on disposal of assets, restructuring charges and other special items.

(2) Capital employed is defined as stockholders' equity plus all long- and short-term debt. Income is adjusted for after-tax interest expense.

(3) Debt is reduced by cash on hand.

1997 Segment Results

Sales from Continuing Operations
\$3.6 Billion



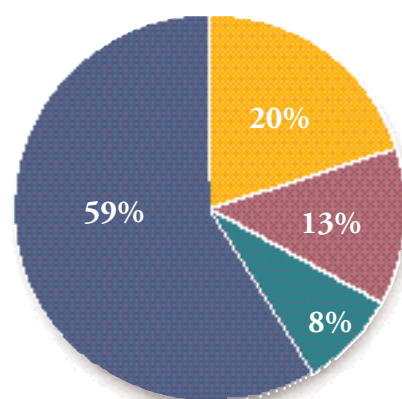
Specialty Metals

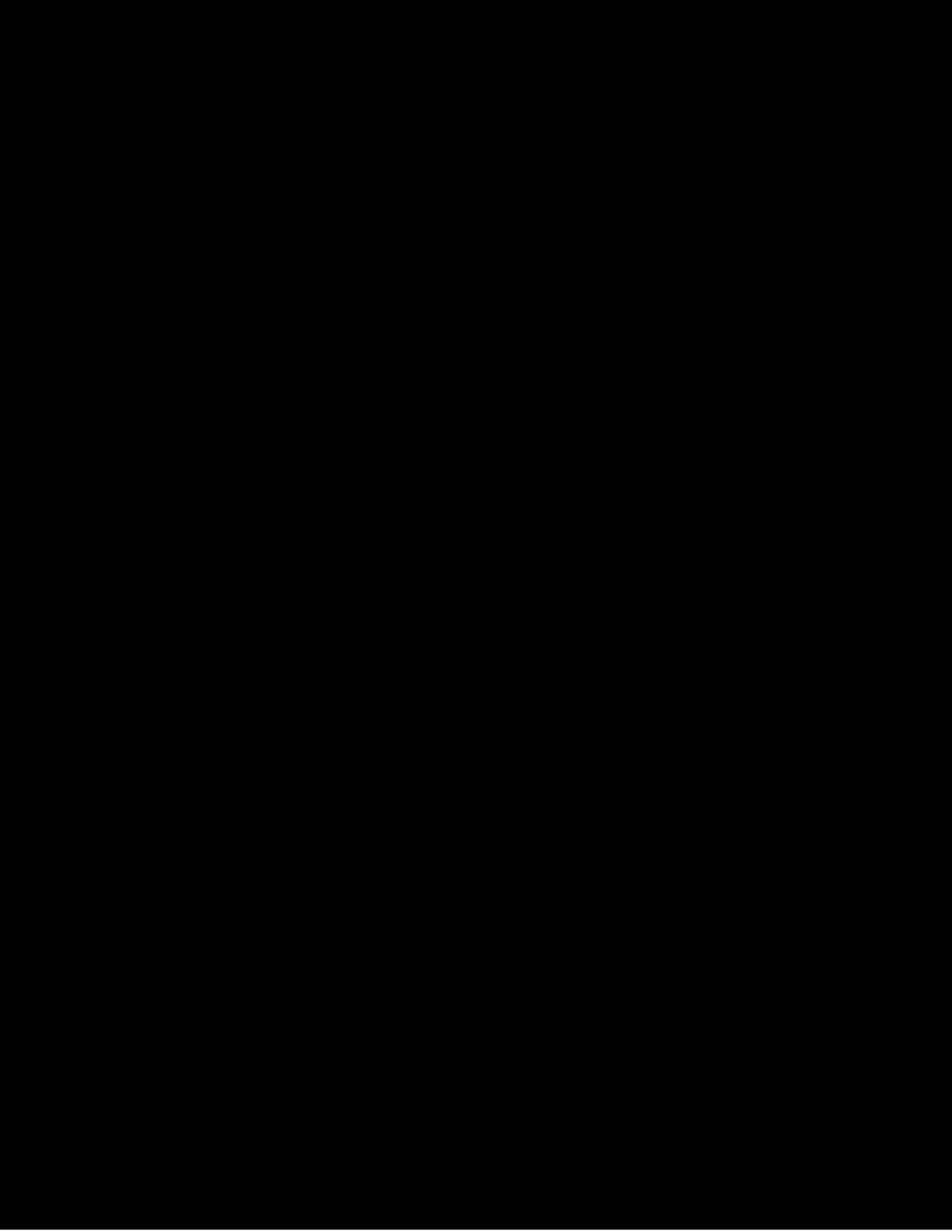
Aerospace &
Electronics

Industrial

Consumer

Operating Profit
\$453 Million





To Our Stockholders

To describe 1997 as a busy year for us is to understate the obvious. Considering all the significant changes, 1997 could rank as the most momentous year in the history of either of the two companies—Allegheny Ludlum or Teledyne—that combined to form Allegheny Teledyne in August 1996.

And while we have a great deal more to accomplish in the future, 1997 was also a year of outstanding overall performance.

Including special items, which reflect the disposal of assets, sale of equity interests and restructuring charges, total earnings increased to \$297.6 million, or \$1.70 per common share, compared to \$213.0 million, or \$1.20 per common share in 1996. Before special items, net earnings increased over 16% to \$273.9 million from \$234.9 million and earnings per common share increased to \$1.56 from \$1.33. Sales reached \$3.7 billion, slightly below last year's level.

Operating margins before merger and restructuring costs rose to 12.4 percent for the year compared to 11.9 percent in the prior year.

Return on capital employed improved to 21.6 percent, and return on equity increased to 29.3 percent before special items. This performance reflects our continued focus on efficient use of capital.

All of these results were achieved despite the negative impact of significantly lower prices for commodity stainless steel products.

At year-end 1997, our total debt was \$329 million. This represents a \$264 million reduction in the pre-combination debt of Allegheny Ludlum and Teledyne, and has resulted in significant savings in interest expense. Our capital structure continued to strengthen, and net debt to total capitalization at year-end improved to 21.8 percent. Strong cash flow enabled the company to repurchase 3.8 million shares prior to discontinuing the repurchase program on October 31, 1997. Total stockholders' equity reached \$1 billion.

Gross proceeds from the sale of businesses and investments and the disposal of surplus assets totaled \$143 million in 1997. The sold operations contributed revenues of \$98 million in 1997. Further disposals of assets are expected as we move to our strategic goal of having all of our remaining businesses meet the tests of critical mass, opportunities for profitable growth, and strategic fit.

Internal Focus Important

We concentrated on internal and external areas last year. The internal focus we applied to the company was far less visible, but perhaps most important to our success in the future. In this area, we addressed the critical task of combining Allegheny Ludlum's deeply involved operating style with the more decentralized approach of Teledyne. While we have made a great deal of progress in developing a single company culture, we are not yet where we intend to be.

During 1997 we moved ahead in several important areas:

- The merger of corporate staffs has been completed. Our headquarters is located in Pittsburgh, PA.

Senior Management

Seated from left:

A.H. Aronson,

R. Mebrabian,

and Chairman,

President and Chief

Executive Officer

R.P. Simmons.

Standing from left:

J.R. Cool,

J.L. Murdy,

J.D. Walton, and

D. F. Lewis.

- Responsibility and accountability have been clearly defined. Substantial corporate overhead reductions have been achieved. In 1998, corporate expenses, including staff, aircraft and international offices, are expected to be \$32 million below 1995 (the last full year before the combination).
- Major progress has been achieved in implementing cost reduction and quality improvement programs at every Allegheny Teledyne company and at the corporate office. Results of these programs are reported quarterly to the segment executives and to me.
- Enhanced detailed cost systems have been installed or are in the final stages of implementation at every Allegheny Teledyne company. These systems will enable our operating managers to understand each cost element of their businesses and to develop sales and marketing programs to capitalize on that information. I cannot stress too much how important I believe these systems are to our future success. We believe the well-proven maxim: "If you can't measure it, you can't manage it."
- A comprehensive management appraisal program was implemented at locations where past practices had been inadequate. This will be extended to every level of management in 1998. Everyone should know what is expected and how their performance is perceived. In addition, programs are being implemented to develop the future leaders of our company.

“We believe the well-proven maxim: ‘If you can’t measure it, you can’t manage it.’”

- Working capital reduction programs instituted in 1997 enable each company to understand how it ranks compared to other companies and to identify how to accomplish important working capital objectives. We recognize that companies serving different markets often face different business issues. However, we believe we can recover substantial cash from better management of receivables, inventories and trade payables.
- A new planning process was installed for preparation of the 1998 business plan. Annual incentive compensation for our managers will be measured against achievement of that plan.
- After great study, a new total compensation plan has been installed. It provides incentives both for short term and long term performance, and is designed to encourage senior management to own stock in Allegheny Teledyne and even more closely align compensation with stockholder interests.
- A stock purchase program was extended to most employees of Allegheny Teledyne. The plan is intended to offer eligible employees an opportunity to invest in the future of the company.

Top Management Team in Place

Our top management team is in place to implement all these programs. Dr. Robert Mehrabian, formerly president of Carnegie Mellon University, was appointed senior vice president and segment executive in charge of our aerospace and electronics companies. He has already made a significant

impact by implementing many of the programs outlined above and providing leadership to this important segment.

David F. Lewis, who has more than 25 years management experience in the consumer electronics industry, was appointed a corporate vice president and assistant to me. He provides leadership and direction to the industrial and consumer segments.

Judd R. Cool, an established executive with multi-industry experience, was appointed senior vice president of human resources to assist me, the segment executives and the corporate staff to effectively manage our human resources. One of his primary tasks will be to aid the segment executives and the company presidents in creating management development programs to improve the performance of all of our managers.

These executives join the other members of our team: Dr. Arthur H. Aronson, executive vice president and segment executive, specialty metals; James L. Murdy, executive vice president, finance and administration and chief financial officer; and Jon D. Walton, senior vice president, general counsel and secretary. Together, this team provides overall direction to the company.



*Richard P. Simmons,
Chairman, President and CEO*

External Focus for Further Growth

Our external focus has been to acquire companies that will meet our criteria of strategic fit, add to the critical mass of our businesses, and provide additional opportunities for profitable growth. We believe that we have been particularly productive: we announced the proposed acquisition of Oregon Metallurgical Corporation (OREMET® Titanium) which we hope to have closed by the time you receive this report; we completed the acquisition of the aerospace division of Sheffield

Forgemasters; and we agreed to acquire certain stainless steel producing assets and obtain access to conversion facilities from Bethlehem Steel Corporation after it completes its acquisition of Lukens Inc.

The pending acquisition of OREMET and the recent acquisition of the aerospace division of Sheffield Forgemasters clearly indicate our intention to

continue strengthening our niche specialty metals businesses. The combination of those two companies with Allvac and Wah Chang—utilizing the equipment assets of Allegheny Ludlum—will create a high performance group of companies which we believe is unsurpassed in the highly competitive world marketplace we serve. As a result of these acquisitions, Allegheny Teledyne will offer a full range of metals and alloys that includes stainless steel, nickel-based superalloys, titanium and titanium alloys in most product forms.

OREMET is one of two fully integrated U.S. titanium producers. As a producer of a single metal—titanium—OREMET has been subjected to the swings in the titanium market over the past 40 years. But in difficult years prior to 1996, OREMET showed outstanding capabilities and performed exceedingly well. The acquisition of OREMET for stock on a pooling basis is expected to provide Allegheny Teledyne with critical mass in the titanium business serving aerospace as well as chemical, industrial and consumer markets.

Combining Allvac and OREMET will make Allegheny Teledyne an important producer of nickel-based superalloys and titanium. Utilizing Allegheny Ludlum facilities, we intend to serve the titanium flat-rolled market, something which OREMET could never do as a stand-alone company.

The potential for cost and marketing synergies from the two acquisitions is significant, and we expect to move rapidly to implement our plans. Cost reductions and sales synergies from OREMET alone could exceed \$45 million in the third full year after the merger closes. We expect the acquisition to be accretive to earnings in 1998.

After the OREMET acquisition is closed, Dr. Carlos Aguirre, currently chairman and chief executive officer of OREMET, will lead the new high performance group of companies and report to Dr. Aronson. These companies will include OREMET, Wah Chang, Allvac, and the aerospace division of Sheffield Forgemasters.

Forgemasters' aerospace division, with its principal assets located in the United Kingdom, was acquired for cash. It provides a manufacturing location in Europe for nickel-based and titanium-based superalloys for aerospace, the oil industry and other important markets. With equipment similar to Allvac, the aerospace division provides additional capacity at a time of shortage. We expect to significantly increase the productive capacity of the acquired assets with modest new capital investment combined with Allvac's operating techniques. We also expect to expand our ability to market, and to serve customers, throughout Europe.

We are excited by the prospects this new acquisition provides. The aerospace division has an outstanding technical reputation. Its acquisition is expected to greatly improve our ability to more effectively compete in the global marketplace. This acquisition is also expected to be accretive to earnings and cash flow in the first full year.

In January 1998, we announced three agreements with Bethlehem Steel that are designed to meet the strategic needs of Allegheny Ludlum. As a result of the agreements, we expect to obtain additional melt capacity and the capability to produce wide coiled plate. In addition, we expect to enhance Allegheny Ludlum's ability to provide customers with 60-inch wide stainless steel sheet. The agreements also would require Allegheny Ludlum to supply Bethlehem with hot roll bands for further processing at Lukens' stainless steel cold finishing facilities until Bethlehem sells those facilities.

The agreements are subject to the closing of Bethlehem's acquisition of Lukens and customary closing conditions.

We are also pursuing opportunities in other areas of our business. In early November, we acquired a controlling interest in Aerotronics Controls, Inc., a startup company focused on development of electronic engine controls for piston aircraft engines. These systems are expected to modernize the engine management systems of new and existing piston-powered light aircraft, including those produced by Teledyne Continental Motors, one of the operating companies in our aerospace and electronics segment.

Specialty Metals Segment Performed Well

The specialty metals segment completed an excellent year despite worldwide commodity stainless steel price difficulties. Overcapacity has continued to plague the industry, despite increased demand worldwide for stainless steel products. Commodity stainless steel sheet prices are now at their lowest levels in over ten years in nominal dollars. Although raw material costs have declined, the price declines which have occurred since mid-1996 greatly exceed raw material cost declines and other cost reductions, so margins have been squeezed. Allegheny Ludlum and Rodney Metals performed well compared to many of the stainless steel companies worldwide who suffered losses or produced only minimal profits in 1997. We expect that 1998 will be another difficult year for commodity stainless steel.

In the face of these challenges, Dr. Aronson and his team have achieved synergies which nearly triple those originally forecasted for the Allegheny Ludlum and Teledyne metals companies. Efforts to identify and realize synergies continue. Our high value specialty metals businesses reflected strong demand from commercial aerospace and chemical processing industries for products such as nickel-based superalloys, titanium, niobium, and zirconium. And, as previously announced, the pension plans of Allegheny Ludlum and Teledyne have been merged, providing full funding of these pension plans with sufficient excess to cover Teledyne and Allegheny Ludlum retiree health benefit costs.

Another very significant recent development at Allegheny Ludlum was the signing of a new three-year contract with the United Steelworkers of America four months before expiration of the existing contract on June 30, 1998. The negotiating teams, the employees, and the union should

be complimented in achieving this milestone. It reaffirms the company's commitment to its customers and employees.

Other Business Segments Contribute

The aerospace and electronics segment had mixed results in 1997. Teledyne Electronic Technologies had an outstanding year and further growth in sales and income is planned for 1998. Demand for electro-mechanical relays, circuit board contract manufacturing, and microelectronic hybrid products paced results in 1997.

“Teledyne Electronic Technologies had an outstanding year and further growth in sales and income is planned for 1998.”

On a negative note, The Boeing Company has notified Teledyne Ryan Aeronautical that it has decided to terminate the long-standing agreement with Ryan to fabricate the Apache helicopter fuselage. Although Ryan will continue to produce airframes and kits for airframes in 1998, future business for this product from Boeing appears to be unlikely. The impact of this decision will not be material to our financial results.

Teledyne Brown Engineering experienced lower shipments and funding levels on defense and NASA contracts in 1997. Brown also incurred costs associated with restructuring its operations. Continental Motors showed improved results by the fourth quarter after disruptions caused by a new manufacturing process in the first quarter of 1997.

The Global Hawk, the high altitude long range unmanned aerial vehicle being developed for the Pentagon by Ryan Aeronautical, made its first flight in February, 1998.

Successful development of this sophisticated aircraft bodes well for future orders. Ryan has built two of these vehicles and the Pentagon has authorized Ryan to build two more and to begin procuring items for a fifth.

Our consumer and industrial segments performed exceedingly well last year. Each of our important consumer and industrial product lines improved. Cost reductions and favorable performance of new products generated gains in sales and operating profit.

Most of our companies are achieving excellent returns on capital. Disposal of businesses in the future will occur only after careful examination, using our criteria of critical mass, opportunities for profitable growth and strategic fit. Because our plate was full in 1997, we have not been able to complete studies of all of our businesses to our satisfaction. We expect to make additional decisions in 1998.

The body of this report highlights many accomplishments of our companies in all of our business segments.

Operating Management Changes

Succession planning for our company has involved many operating management appointments.

Dr. Jack W. Shilling was appointed president of Allegheny Ludlum Corporation, Allegheny Teledyne's largest company. He is a long-time Allegheny Ludlum employee and has held a series of important technical and operating positions. He led the team which conducted the successful negotiations with the United Steelworkers.

“Most of our companies are achieving excellent returns on capital.”

David M. Hogan was appointed president of Teledyne Metalworking Products. He has been an executive with the company for 20 years. Teledyne Metalworking Products produces tungsten, tungsten carbide and tungsten carbide cutting tools and has developed a strategic plan which, if achieved, would double its size in four years.

Richard A. Holloway was recruited as president of Brown Engineering, located in Huntsville, Alabama. He has had an outstanding career in the aerospace field.

Outlook

While we cannot forecast the future, we expect continued progress in reducing costs and improving quality. We expect continued development of growth strategies for all of our businesses, even for those businesses which we may eventually sell.

On balance, while none of us are ever fully satisfied, 1997 was a very good year. We believe that our stockholders were well served in a market where the recent overall perception of metals companies was adversely affected by the Asian monetary crisis. At this point, we are watching events in Asia with a cautious attitude and cannot be certain of the effect they will have on our company.

We will continue to focus on achieving superior returns on capital while seeking profitable growth. Our balance sheet is strong. Indeed, at 21.8 percent net debt to total capitalization, some analysts believe that we are underleveraged. The acquisition of the aerospace division of Sheffield Forgemasters and the assets under the Bethlehem Steel agreements will not weaken our strong credit position.

Thanks to Employees, Customers and Stockholders

Our ability to build value for stockholders is related to value created by our employees and for our customers. I want to express personal thanks to all employees who have supported the many changes made in 1997 and to welcome new employees who have joined our company. We are a team committed to high quality, excellent service, and on-time delivery.

Thanks also to our customers for their loyalty and continued faith in our products and services. All of us at Allegheny Teledyne take a personal interest in customer satisfaction.

I am indebted to our board of directors for their counsel and support. Their collective wisdom is a major reason for the success of the company, and I value their contributions.

A special note of thanks to Faye Sarofim, who has announced his intention to retire from the board of directors on May 14. He served on the board of directors of Teledyne for many years. His wisdom and counsel will be missed.

Thanks to our stockholders for your confidence in our company. We continue to work at building a company that remains a very attractive investment. Our interests are linked, since the directors and officers of Allegheny Teledyne own almost 15 percent of the outstanding shares. On a personal note, I have again asked the board to pay my 1998 base compensation entirely in Allegheny Teledyne stock as it was in 1997.

We believe that we will never be any better than the standards we establish. We will continue to set high standards in all regards.



Richard P. Simmons
Chairman,
President and Chief Executive Officer
March 16, 1998

The five strategic principles listed on the inside front cover of this annual report provide the roadmap to reach our objective—to earn a premium return on total invested capital to provide an attractive investment for our stockholders. What follows is an examination of how Allegheny Teledyne's operating companies implement these strategic principles, building value through profitable growth.

Improving cost c o m p e t i t i v e n e s s

Allegheny Teledyne companies constantly focus on improving their cost competitiveness. They share a common goal — to offer the marketplace a high quality product at a competitive price. Improvements often involve small but steady enhancements in the manufacturing process that, when taken as a whole, increase productivity and profitability.

Allegheny Teledyne companies focus on improving cost competitiveness. Allegheny Ludlum's new 60-inch-wide Sendzimir mill is a key component of Allegheny Ludlum's relentless efforts to reduce costs, improve quality, and enhance customer service. Represented here are the powerful rollers of its 48-inch-wide Sendzimir mill.

While most of the companies' manufacturing processes, products and customers may be different, the companies share a common belief: If you can't measure it, you can't manage it. Computerized systems are being customized for each company's unique manufacturing environment. Each system generates detailed information measuring cost and quality parameters. Managers can use this accurate, timely information to help them make quick, intelligent decisions.

One of Allegheny Teledyne's major initiatives to improve cost competitiveness is Allegheny Ludlum's new 60-inch-wide Sendzimir mill. The mill, which should be operational in late 1998 at Vandergrift, Pennsylvania, is expected to reduce costs of finishing stainless steel sheet and strip, improve quality, and enhance customer service.

The new Flexible Shower Massage product contributed significantly to Teledyne Water Pik's highly successful year in 1997. A key part of the product's financial success was the relentless improvements in the product's manufacturing process. Water Pik's cost and quality tracking systems contributed to these improvements by identifying where and how costs were incurred. Some of the improvements seemed simple. For example, some stations in the assembly process were physically relocated. Some assembly tasks performed at separate locations were combined at one. Taken together, though, these improvements substantially reduced the unit cost of production of the new product.

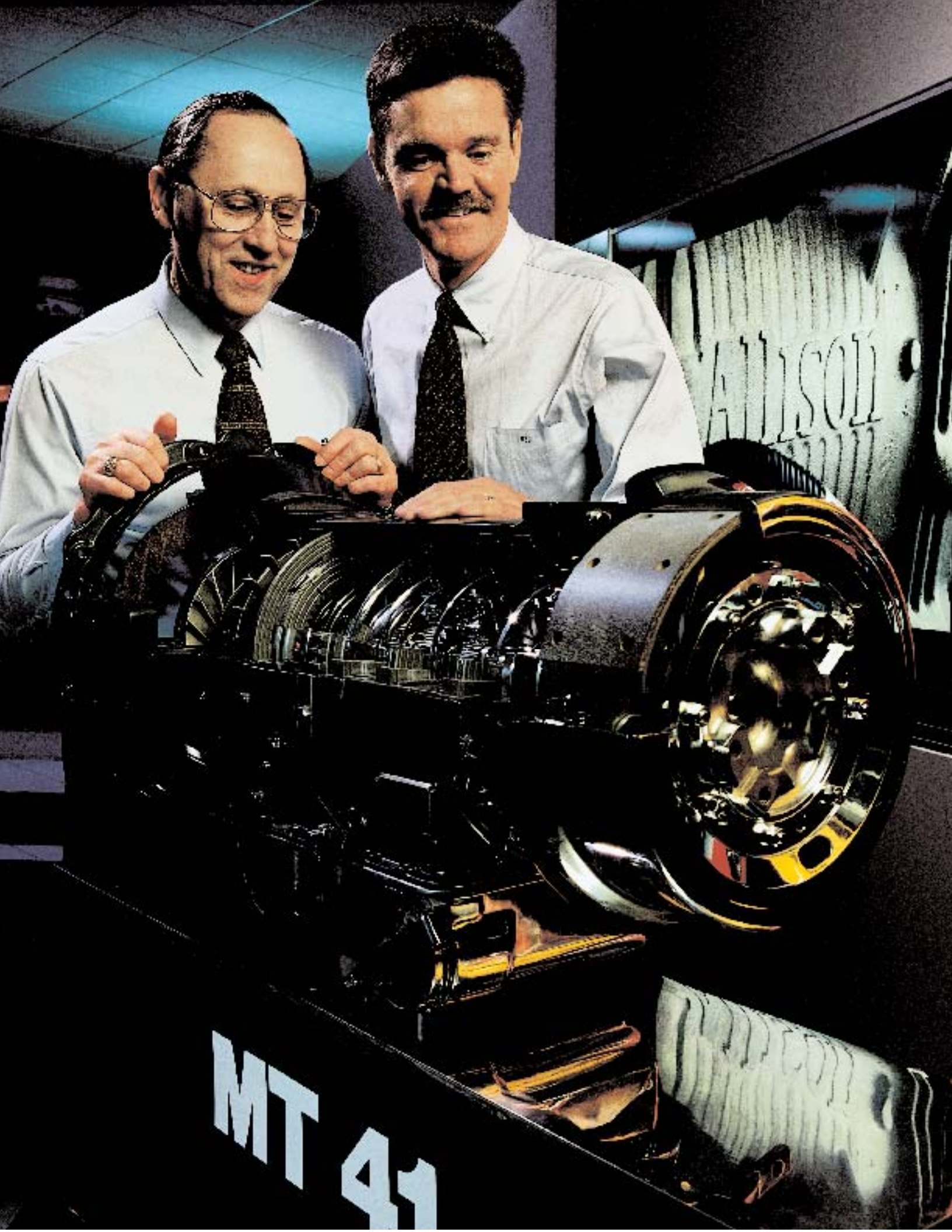
Incremental improvements also are important to Allegheny Teledyne's specialty metals companies. Allegheny Ludlum's Brackenridge stainless steel

melt facility, which has operated at capacity for several years, has met customers' expanding requirements by making consistent meaningful annual productivity improvements instead of buying slabs from third parties.

Companies have also improved their cost competitiveness and added value to their products by sharing facilities and capabilities. For example, Wah Chang, located in Albany, Oregon, is now using Allvac's state-of-the-art computer-controlled rolling mill at Richburg, South Carolina to roll continuous zirconium rod and bar to exacting specifications. Before these changes, Wah Chang was limited by its hand-operated mill to 10-foot-long products. In addition to improving Wah Chang's ability to compete in the zirconium bar market, the sharing arrangement has reduced unit costs at Allvac's mill by increasing its throughput.

Also in the specialty metals segment, Allegheny Ludlum has cut costs on tool steel products by using excess forging capacity at Allvac's Latrobe, Pennsylvania plant. This arrangement also has reduced Latrobe's overall cost of forging by decreasing its per-unit cost. Previously, Allegheny Ludlum would have converted these products at forges outside the Allegheny Teledyne family of companies.

Teledyne Fluid Systems' pressure relief valve manufacturing business, which serves the industrial sector, also used incremental improvements to improve its cycle time, on-time delivery, and scrap and rework performance by double-digit percentages. Among other steps, the business reduced costs by eliminating products that did not contribute to bottom line results.



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WILSON

Fulfilling customer requirements

Production systems that make quality products at competitive prices, delivery systems that get products where they are needed on time, and service that meets customer needs are Allegheny Teledyne's standards for fulfilling customer requirements for quality, delivery and service.

Personal attention to customer satisfaction helped improve Stelram's cutting tool sales to the Allison Transmission Division of General Motors. Allison's Jack Sandler, left, and Stelram's Rick Gasper examine a cutaway of a transmission like those produced using Stelram's product.

Teledyne Metalworking Products, formerly known as Teledyne Advanced Materials, improved its business substantially by meeting these standards. Key to its success has been the development of relationships and in-depth knowledge of customer needs, and then delivering on its promises. As a result, its Stellram business unit has more than tripled sales of its cutting tools to the Allison Transmission Division of General Motors since 1994.

While Teledyne Metalworking Products has met customer needs with on-time delivery of high quality cutting tools, equally important is consistent follow-up. Its engineers often spend significant time off site helping customers devise ways to use these products more efficiently.

In another example, Allvac has satisfied customers, increased business, and reduced costs by eliminating costly production bottlenecks in the new manufacturing processes at its three-year-old computerized rod and bar mill at Richburg, South Carolina. The company eliminated these bottlenecks by making incremental computer-aided improvements in new processes. These successes have helped the rod and bar mill come closer to achieving its potential of finishing metal so quickly that truck drivers who drop off unfinished metal at one end of the mill can drive to the other end to wait until the finished product cools off.

The result of these incremental improvements? The amount of metal Allvac has finished at its Richburg mill since 1995 has increased substantially, mill costs have been reduced significantly, and delivery times are shorter. Customers who contract to have Allvac finish metal on the mill are satisfied, evidenced by substantial increases in the mill's business.

Also in the metals area, Allegheny Ludlum has been able to meet the needs of some of its customers for custom products which are not in its product line by referring them to another Allegheny Teledyne business, Rodney Metals. Rodney Metals' specialty is producing ultra-thin rolled metal up to 48 inches wide with short lead times, in quantities that can be less than 3,000 pounds, and with just-in-time delivery. In addition to satisfying Allegheny Ludlum's customers, the referrals generated additional business for Rodney Metals.

A mutually profitable long-term relationship between Teledyne Fluid Systems' vehicle controls business and one of its major customers generated significant new business for the company in 1997. The customer turned to Teledyne Fluid Systems when it began noticing quality problems with a component produced by another company. Working with the customer's engineering department, Teledyne Fluid Systems' engineers helped the customer design a cost-effective replacement component.



n i c h e s

Seeking specialty

Across the board, Allegheny Teledyne businesses seek specialty niches where they would have competitive advantages. Their strategies range from entering established markets with competitive products to creating products that satisfy new customer demand.

Some of the world's largest jet engine manufacturers craft Allegheny Teledyne's high-value, high-purity superalloys into high-stress components for jet engines such as this Rolls-Royce high-bypass fanjet. The company believes that aerospace is a market niche with good growth prospects.

Allegheny Teledyne's major niche products are the high-value nickel- and cobalt-based superalloys and high purity titanium alloys used to fabricate critical high-stress components for jet engines. Allegheny Ludlum, Allvac and Wah Chang produce these metals for some of the world's largest jet engine manufacturers. For Allegheny Teledyne, the growth of the aerospace industry has been a positive counterbalance to the pricing pressure for commodity stainless steel products.

Teledyne Electronic Technologies serves a worldwide market for high frequency, high bandwidth communications systems that the company expects to almost triple by the year 2002. This market is key to a portion of the company's diverse line of niche electronic components and devices.

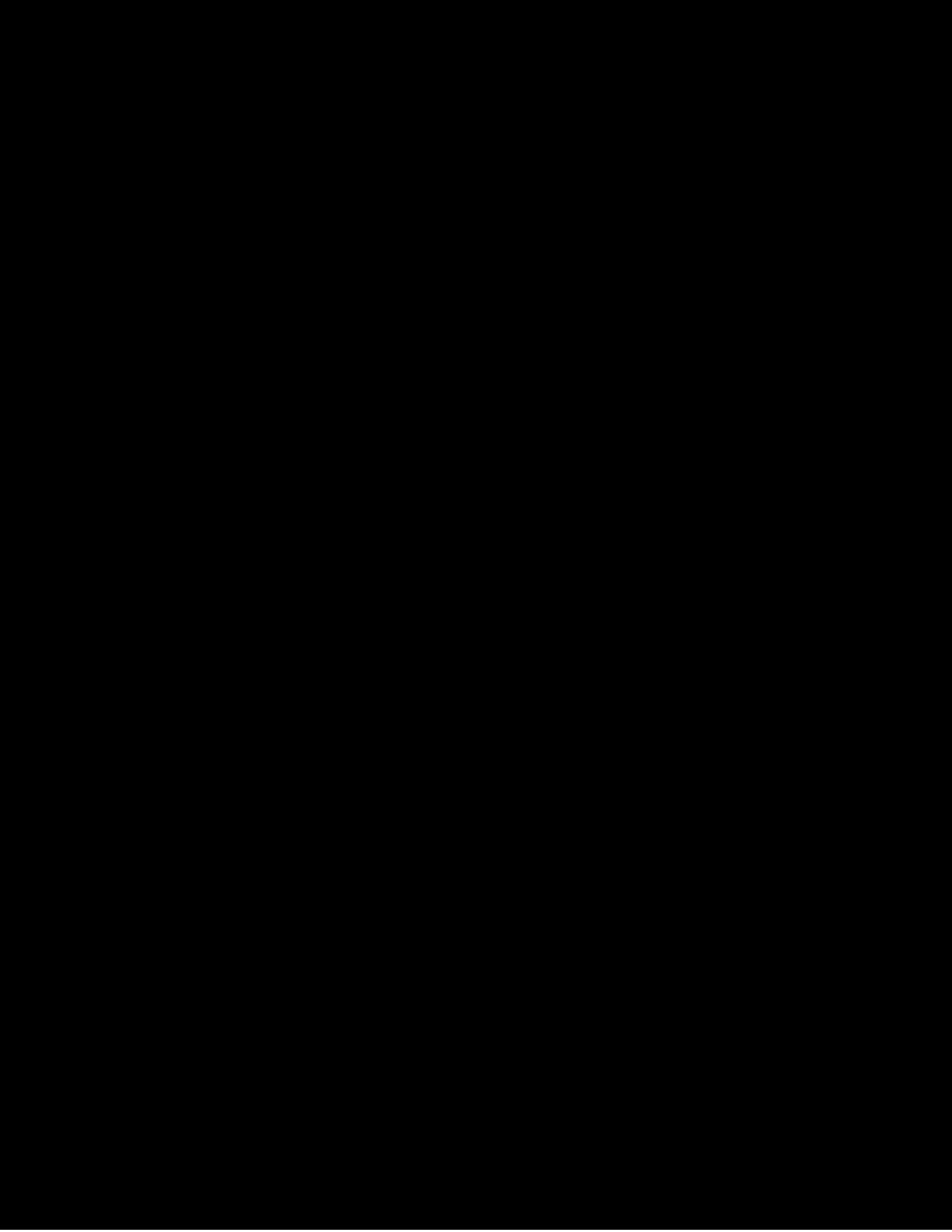
For example, the company's monolithic microwave integrated circuits act as microwave power amplifiers in automated teller machine networks that use satellite communications so that customers can access bank accounts from remote locations. Also, Teledyne Electronic Technologies' molded plastic electronic filters are integral parts of wireless base stations that make cellular phone communications possible. The company's traveling wave tubes, which also amplify microwaves, are key components of radar and large satellite communications systems.

A micro-gas generator developed by the automobile safety products division of Teledyne Ryan Aeronautical is targeted at the millions of new vehicles that will be built in Asia and North America in the next several years. Production of the device began in 1997.

The pre-tensioning device is part of a vehicle's seatbelt mechanism. In a collision, it is designed to tighten a seatbelt by creating a tiny explosion within the device in the fraction of a second before the airbag deploys. The force of the explosion drives a mechanism that pulls the seatbelt tight. This pre-tensioning is designed to reduce airbag-connected injuries by bracing the occupant against the seat before the bag deploys.

In the general aviation industry, Teledyne Continental Motors is developing new niche products through its 1997 acquisition of Aerotronics Controls, Inc. These products are designed to use microprocessors to control piston engine fuel and ignition systems on general aviation aircraft. Currently, these piston engines operate with mechanically controlled ignition systems and pilot-controlled fuel scheduling. As the company sees it, the potential market for these new computer-based devices is very large — the aftermarket alone totals more than 300,000 light aircraft piston engines.

Allvac's new niche product, high-value cold-drawn superalloy bar, is now serving the chemical processing, marine, oil and gas, and aerospace industries. Allvac lacks the necessary production facilities to make the bar. Wah Chang's Huntsville, Alabama facility had excess capacity at its mill which is used to cold-draw zirconium and titanium-nickel alloy bar. Allvac used Wah Chang's excess mill capacity to enter this new niche market.



Expanding global presence

Allegheny Teledyne's profitable global presence embraces a wide range of activities and applications. For example, Wah Chang's specialty metals are used in chemical processing plants, superconducting applications, and nuclear generating facilities all over the world. Avionics systems from Teledyne Electronic Technologies are on domestic and international airliners across every continent.

The United Kingdom is one of Allegheny Teledyne's major international sales and manufacturing centers. The company is expanding its ability to market throughout Europe.

Teledyne Metalworking Products' perishable cutting tools business conducts extensive international operations. Manufacturing takes place at plants in France, Germany, the United Kingdom, Switzerland, and the United States. Each plant focuses on products that require similar production techniques, a system designed to result in higher productivity and better product quality.

The cutting tools are made from superhard tungsten carbide and are used worldwide to machine metals. They are marketed globally under the Stellram and Landis Threading Systems names through sales offices in 12 countries and an industrial distribution network in 30 additional countries.

Allvac, a leader in the production of high value nickel- and cobalt-based superalloys and other specialty metals, uses its nine international sales offices to meet the needs of its global customers in the aerospace, energy production, tooling, and transportation industries. Rodney Metals, which specializes in producing ultra-thin rolled metal products, also services its international customers through its specialized service centers in Europe and Asia.

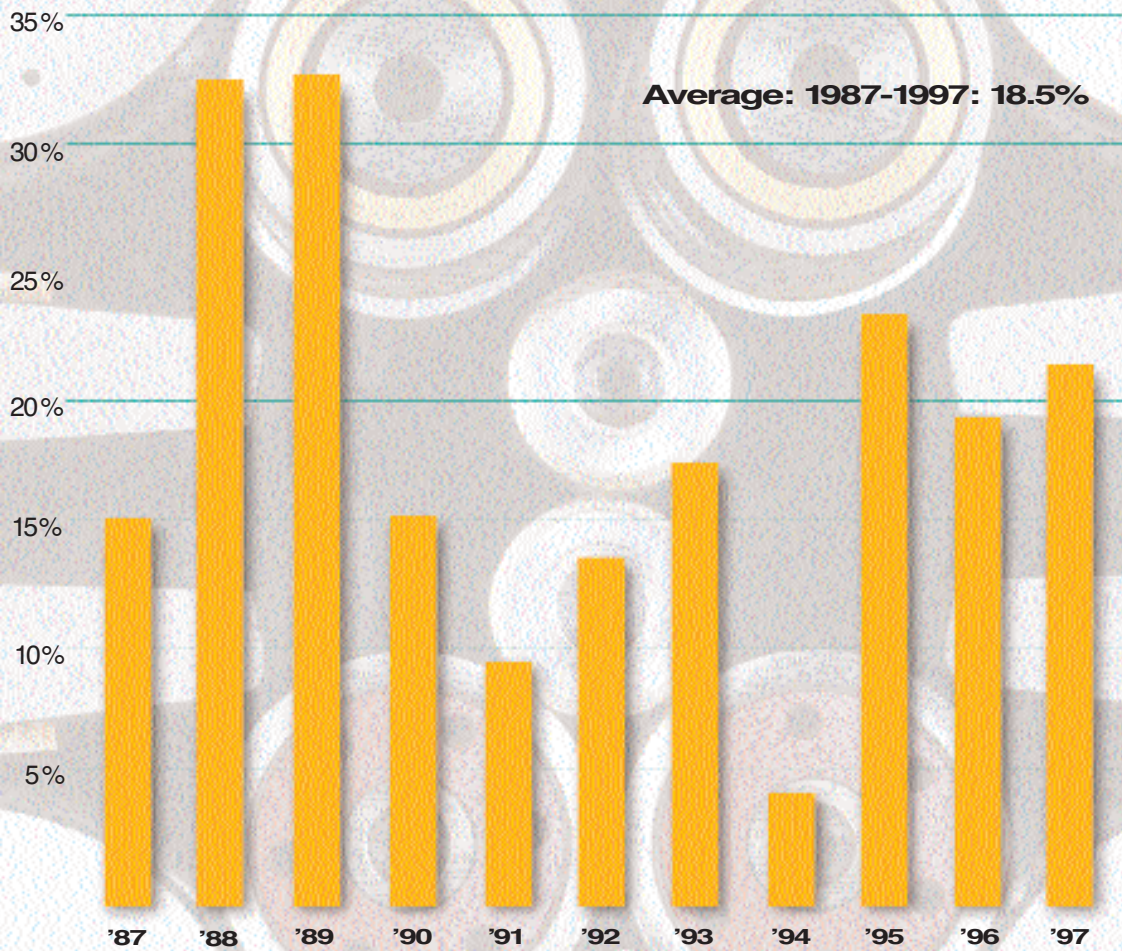
Allvac's and Rodney Metals' international facilities are used by Allegheny Ludlum, which produces high-technology alloys in addition to numerous grades of high value stainless steels, to market these alloys to its growing base of international customers.

In 1997, Allegheny Ludlum broke ground on the stainless steel finishing plant it is building in Shanghai with its Chinese joint venture partner. The plant will serve the growing Chinese and Asian market with Allegheny Ludlum's stainless Precision Rolled Strip® products.

Opportunities for serving additional international specialty metals customers were enhanced in 1998 when Allegheny Teledyne acquired the assets of the aerospace division of United Kingdom-based Sheffield Forgemasters Limited. These assets include vacuum melt and remelt furnaces and hot working facilities that complement Allvac's. The acquired facilities produce high value alloys, which are marketed to the aerospace, oil and gas, and power generation industries mainly in the United Kingdom and Europe.

Allegheny Teledyne companies serving the international industrial sector also recorded improved sales. Teledyne Specialty Equipment's international sales of heavy-duty mining equipment have increased at a double-digit rate over the past three years due primarily to new markets in South America, Africa, and China. In 1997, Teledyne Laars doubled sales of its outdoor commercial water heaters to Russia, including Siberia. These boilers are installed on rooftops of Russian commercial and government buildings to relieve overtaxed central heating systems.

Return on Capital Employed



1987-95 Allegheny Ludlum; 1996-1997 Allegheny Teledyne

Investing for superior returns on capital

Allegheny Teledyne continually seeks to build value by using its substantial financial resources. Operating cash flow has been consistently strong, and the company's credit facilities give it access to low cost capital markets. The company also may use its stock for investment opportunities. A superior return on capital is the goal. In 1997, the company's return on capital improved to 21.6 percent.

Investments take several forms, including acquiring complementary businesses and investing in existing infrastructure. Allegheny Teledyne expects that its acquisitions will be accretive to earnings and cash flow within their first full year.

The company has announced transactions which complement its specialty metals companies. The \$553 million all-stock acquisition of integrated titanium producer Oregon Metallurgical Corporation announced in 1997 is intended to complement titanium operations at Allvac and Wah Chang and to better serve the titanium markets by using Allegheny Ludlum's flat rolled facilities to finish titanium.

Additionally, in early 1998 Allegheny Teledyne entered into agreements with Bethlehem Steel Corporation intended to enhance Allegheny Ludlum's stainless steel operations. The agreements would become effective once Bethlehem completes its acquisition of Lukens Inc., subject to customary closing conditions. Under the agreements, Allegheny Teledyne would acquire additional stainless steel melting, refining and finishing facilities, and gain access to production of hot rolled bands and coiled plate wider than it can manufacture now.

When implemented, the Bethlehem agreements would supply wide stainless steel for Allegheny Ludlum's 60-inch-wide facilities now under construction. A new \$40 million Sendzimir cold-rolling mill capable of finishing 60-inch-wide stainless steel sheet is expected to help Allegheny Ludlum enter wider high value product markets and enhance customer service. Allegheny Ludlum also is revamping an existing anneal and pickle

line and temper mill to finish 60-inch-wide stainless steel. This \$19 million upgrade to the anneal and pickle line should be on-line by mid-1999.

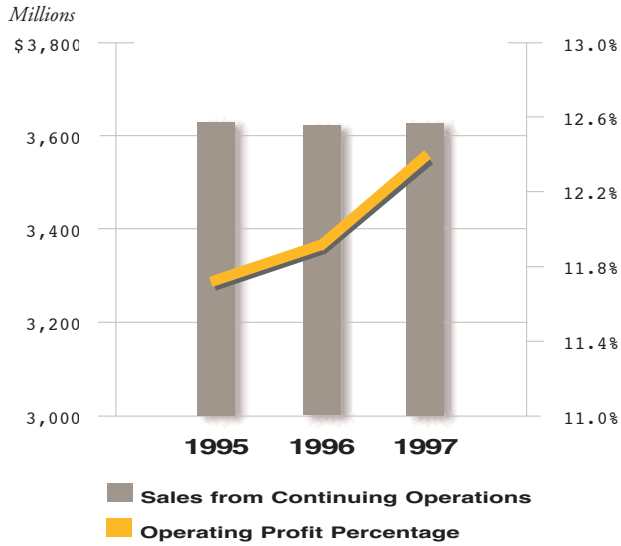
The acquisition of the aerospace division of United Kingdom-based Sheffield Forgemasters Limited in February, 1998 is designed to supplement the melting and forging capacity of Allegheny Teledyne's existing high performance metals companies and to enhance their ability to serve customers in Europe. The assets, acquired for approximately \$110 million in cash, include facilities to vacuum melt and remelt steel and premium alloys for export markets. The division's superalloys, titanium alloys, and specialty steels serve markets in commercial aviation, oil and gas, and power generation industries.

Two projects at Allvac are designed to reduce costs and enhance melt capacity for Allvac's high value metals. An \$8 million vacuum induction melt furnace announced last year is expected to be on line in 1998 producing nickel-based superalloys primarily for the commercial aerospace market. A \$5 million plasma arc cold hearth melting furnace system designed to produce high-purity titanium was commissioned in 1997 to serve the commercial aerospace and biomedical markets.

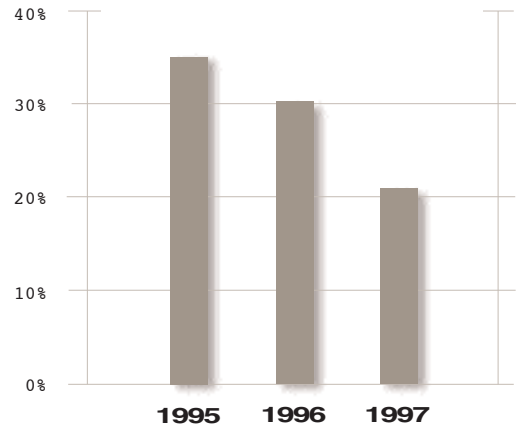
Total capital spending reached \$96 million in 1997. For 1998, the company has a \$150 million capital spending plan which earmarks approximately 44 percent for specialty metals, 23 percent for aerospace and electronics, 25 percent for industrial, and 8 percent for consumer businesses.

Allegheny Ludlum, and now Allegheny Teledyne, have a successful track record generating superior returns on capital employed, shown here against the backdrop of a Sendzimir mill.

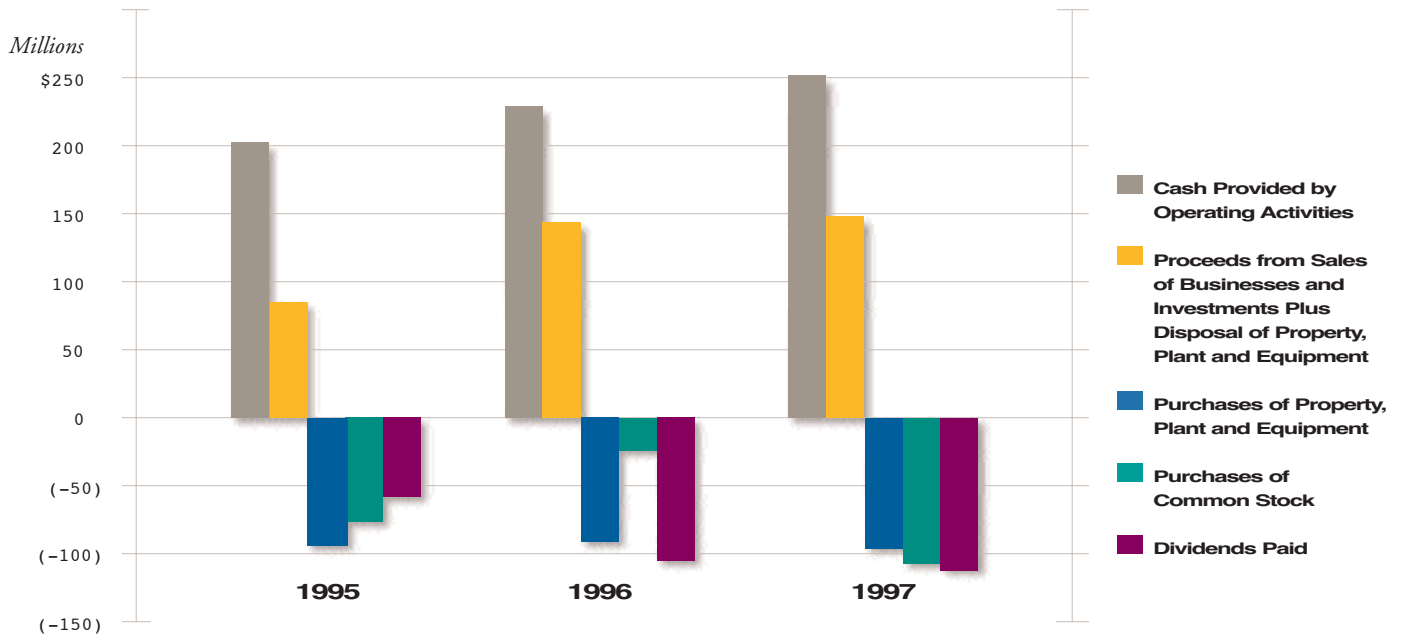
Sales from Continuing Operations and Operating Profit Percentage



Net Debt to Total Capitalization



Selected Cash Flows



Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. Actual results could differ materially from those encompassed within such forward-looking statements as a result of various factors, certain of which are described below.

Financial Overview

During 1997, Allegheny Teledyne Incorporated and subsidiaries (the "Company") continued to build upon the operating and financial strengths created when Allegheny Ludlum Corporation ("Allegheny Ludlum") and Teledyne, Inc. ("Teledyne") combined in August of 1996.

- Sales from continuing operations increased to \$3,647 million despite a severe decline in commodity stainless steel prices.
- Operating profit improved 5 percent to \$453 million or 12 percent of sales.
- Corporate expenses declined 23 percent to \$31 million as a result of consolidating headquarter operations in Pittsburgh, Pennsylvania.
- Cash from operating activities continued strong at \$257 million, up from \$233 million in 1996. Capital spending totaled \$112 million, which included \$96 million in purchases of property, plant and equipment and the investment of \$13 million in a joint venture in China to produce stainless steel.
- The Company repurchased 3.8 million shares of its common stock at a cost of \$108 million.

The Company expects free cash flow to be consistently strong. This should provide sufficient financial resources for the Company to capitalize on new profitable growth opportunities while keeping its strong credit rating and access to low cost capital markets.

During 1997, the Company repaid \$110 million of debt. With net debt at 22% of total capitalization, the Company is well-positioned financially to carry through on its strategic plans.

The Company's debt structure has several important attributes. First, 46% of long-term debt has a maturity of 28 years and a fixed rate of 6.95%. Second, the Company's revolving credit agreement has a five-year maturity, which gives significant stability to nearer term debt arrangements. Finally, low cost interest rate pricing alternatives currently give the Company an after-tax blended cost to borrow of approximately 3.3%. This low cost incremental liquidity of \$408 million on available bank lines at December 31, 1997, is an important strategic advantage for the Company.

Acquisitions and Divestitures

Oregon Metallurgical Corporation

In October 1997, the Company announced that it had entered into a definitive merger agreement to acquire Oregon Metallurgical Corporation ("OREMET") in a transaction valued at \$553 million using December 31, 1997 values. Under the terms of the merger agreement, each outstanding share of OREMET common stock will be converted into 1.296 shares of Allegheny Teledyne common stock. OREMET is an integrated producer and distributor of titanium sponge, ingot, mill products and castings for use in the aerospace, industrial, recreational, and military markets with 850 employees. It operates manufacturing and finishing facilities in Oregon and Pennsylvania and has nine service centers in the United States, with additional centers in the United Kingdom, Germany, Singapore, and Canada.

The merger is expected to be tax-free to OREMET shareholders and will be accounted for under the pooling of interest method.

The following table shows unaudited pro forma sales for the year ended December 31, 1997, after giving effect to the proposed acquisition:

(In millions)

Business Segment:	Sales	% of Total
Specialty Metals		
- Commodity stainless steel	\$ 573.5	14.6%
- Premium stainless steel	402.0	10.2
- Titanium	449.6	11.4
- Nickel-based superalloys	278.6	7.1
- Other specialty metals	515.6	13.1
Subtotal	2,219.3	56.4
Aerospace and Electronics	927.0	23.6
Industrial	532.0	13.5
Consumer	253.8	6.5
Total Continuing Operations	3,932.1	100.0%
Operations sold or held for sale	98.0	
Total Sales	\$ 4,030.1	

Combined net income and basic and diluted earnings per share of the two companies, based on unaudited pro forma financial results for the year ending December 31, 1997, were \$328.8 million, \$1.67 and \$1.64 per share, respectively. Combined assets totaled \$2.9 billion. Unaudited pro forma combined net equity was nearly \$1.2 billion; net debt to total capitalization improved to 18 percent. The effect of conforming accounting policies is not expected to be material.

The transaction is subject to the approval of the shareholders of OREMET, as well as other customary closing conditions. The meeting of OREMET's shareholders to vote on the merger is scheduled to be held on March 24, 1998.

Aerospace Division of Sheffield Forgemasters

In February 1998, the Company acquired the assets of the aerospace division of Sheffield Forgemasters Limited, a private company in the United Kingdom, for approximately \$110 million in an all-cash transaction.

Sheffield Forgemasters' aerospace division consists of three companies in the United Kingdom as well as two sales companies in the United States:

- Special Melted Products Limited, which produces high integrity vacuum melted and remelted steel and nickel alloys in various forms;
- Jessop Saville Limited, which produces non-magnetic drill collars and downhole components for the oil and gas industry; and
- Commercial Testing Services Limited, which offers high technology testing services to the steel and related metals manufacturing industries.

The acquisition of these companies is expected to provide significant support to the Company's high performance metals businesses, primarily Allvac, as well as enhance service to customers by improving sales and distribution of nickel-based alloys and titanium in Europe. The acquisition provides additional vacuum melting, vacuum consumable remelting, electroslag remelting, and forging capacity, which will complement Allvac's facilities. The division's GFM forging machine is one of the largest in the world.

Agreements with Bethlehem Steel Corporation

In January 1998, Bethlehem Steel Corporation ("Bethlehem") and the Company jointly announced that they had entered into three agreements that would become effective after Bethlehem closes its previously announced acquisition of Lukens Inc. ("Lukens").

Under these agreements, Bethlehem would provide the Company with conversion services for stainless steel hot bands and coiled plate wider than the Company can currently produce; the Company would purchase certain assets that Lukens uses in the manufacture of stainless steel products; and the Company would supply hot roll bands to Bethlehem for further processing on the stainless steel coil finishing facilities that Lukens currently owns.

Under the conversion agreement, Bethlehem has agreed, for a 20-year period, to provide the Company with up to 15 percent of the available time on Lukens' Coatesville, Pennsylvania electric furnace melt shop and caster and Lukens' Conshohocken, Pennsylvania Steckel mill for the melting, casting and rolling of the Company's wide stainless steel products.

Under the asset sales agreement, the Company would acquire certain assets of Lukens for \$175 million. These assets include the Houston, Pennsylvania plant of Lukens' Washington Steel Division, which is used for the melting, casting and rolling of stainless steel hot bands; the wide anneal and pickle line recently installed at Lukens' Massillon, Ohio plant; and the vacuum-oxygen decarburization unit used in the refining of stainless steel at Lukens' Coatesville, Pennsylvania plant.

Under the hot band supply agreement, the Company would supply Bethlehem with up to 150,000 tons of stainless bands for further processing at Lukens' stainless cold finishing facilities at its Washington, Pennsylvania and Massillon plants until Bethlehem sells these facilities, as previously announced.

The agreements are subject to the completion of Bethlehem's acquisition of Lukens as well as customary closing conditions. It is anticipated that the agreements will be effective and that the asset purchases will be closed soon after Bethlehem's acquisition of Lukens is consummated.

Aerotronics Controls

In November 1997, the Company acquired a controlling interest in Aerotronics Controls, Inc. ("ACI"), a Connecticut-based startup company specializing in the design and development of electronic engine controls and management systems for piston aircraft engines. The microprocessor-based products under development by ACI are designed to modernize the engine management systems of both new and existing piston-powered light aircraft, including those powered by engines produced by Teledyne Continental Motors, an Allegheny Teledyne company.

Piston aircraft engines for light aircraft currently operate with mechanical ignition systems and pilot-controlled fuel scheduling. The incorporation of microprocessor-based products being developed by ACI on piston-powered light aircraft is designed to yield improved fuel efficiencies, emissions reduction, reduced pilot workload, and to reduce engine maintenance cost induced by variations in pilot operating patterns. ACI expects to certify and begin production of initial product offerings within approximately two years.

Divestitures

In 1997, the Company announced a program of divesting businesses which did not meet long-term criteria for critical mass, strategic fit and opportunities for growth. During the year the Company sold six businesses which manufactured collapsible metal and laminate packaging tubes, thread cutting and rolling machines, electric heating elements, metal dies and plastic compression molds, welded stainless tubular products, and operated job training centers for the U.S. government. Net after-tax proceeds from sales of these non-strategic businesses together with proceeds from sales of investments, surplus real estate and Company aircraft totaled \$82.4 million in 1997. The Company continues to work on the divestiture of other non-strategic businesses and the sale of surplus real estate holdings.

Specialty Metals

<i>(In millions)</i>	1997	% Change	1996	% Change	1995
Sales from Continuing Operations	\$1,934.3	1%	\$1,915.7	(7)%	\$2,070.3
Operating Profit	267.4	—	268.0	(9)%	294.1
Operating Profit as a Percentage of Sales	13.8%		14.0%		14.2%
Foreign Sales as a Percentage of Sales	11.7%		10.4%		10.7%

1997 Compared to 1996

Sales for the specialty metals segment increased 1% and operating profit remained virtually unchanged in 1997 compared to 1996, despite an increasingly difficult pricing environment for stainless steel commodity grades and a \$4.9 million charge for environmental expenses. Tight operating cost controls remained in effect throughout the specialty metals segment.

Sales of Allegheny Ludlum and Rodney Metals, which consist primarily of flat-rolled products, declined 6% in 1997. Tons shipped increased 1% in 1997, but sales declined due to the significant pricing pressure in commodity stainless steel products. Tons shipped in 1997 were 542,000 compared to 535,000 in 1996. Operating profit declined 22% reflecting the impact of European and Asian pricing pressure and increased imports in the U.S. markets. Average selling prices of flat-rolled specialty materials declined to \$2,380 per ton in 1997 from \$2,568 in 1996.

Operating profit, excluding the environmental charge, and sales from businesses other than flat-rolled products increased 51% and 19%, respectively, compared to 1996. These results reflected strong demand from commercial aerospace and chemical processing industries for specialized metals such as nickel-based superalloys, titanium, niobium and zirconium.

Results of Operations

The Company's sales from continuing businesses were \$3.6 billion in 1997 and 1996 and \$3.7 billion in 1995. Foreign sales represented approximately 17% of sales in 1997 and 1996 and 15% of total sales in 1995. Sales under contracts with the U.S. Government, which included contracts with the Department of Defense, represented approximately 14%, 18%, and 19% of total sales in 1997, 1996, and 1995, respectively. Defense sales represented approximately 9%, 12%, and 15% of total sales in 1997, 1996, and 1995, respectively.

Sales and operating profit for the Company's four business segments are presented separately below and in Note 11 of the Notes to Consolidated Financial Statements. Certain amounts for 1996 and 1995 have been reclassified to conform with the 1997 presentation.

The Company invested \$12.7 million in 1997 and has invested \$19.2 million to-date in a Chinese joint venture, Shanghai STAL Precision Stainless Steel Limited Company, and plans to invest approximately \$6 million in 1998. Allegheny Ludlum own 60% of the venture. It is expected that the plant being constructed by the joint venture will become operational in December 1998.

In February 1998, an early settlement was reached on a new three-year labor agreement covering United Steelworkers of America union members working at Allegheny Ludlum plants in Pennsylvania, New York, Indiana, and Connecticut which is effective through June 30, 2001.

1996 Compared to 1995

Sales and operating profit for the specialty metals segment declined 7% and 9%, respectively, in 1996 compared to 1995.

Strong demand by commercial aerospace and industrial markets for highly specialized metals, such as nickel-based superalloys and titanium, and improved profitability of zirconium products were offset by weak selling prices for commodity flat-rolled stainless steel.

Sales of Allegheny Ludlum and Rodney Metals, which consisted primarily of flat-rolled products, declined 14% in 1996. Lower shipments, primarily at Allegheny Ludlum, coupled with significant pricing pressure in commodity stainless steel products caused this sales decline. Tons shipped in 1996 were 535,000 compared to a record 589,000 in 1995.

Operating profit declined 31% reflecting the impact of European and Asian pricing pressure and increased imports in the U.S. markets. Average selling prices of flat-rolled specialty materials declined to \$2,568 per ton in 1996 from a high of \$2,725 in 1995. In addition, raw material surcharges declined throughout 1996 and were virtually eliminated by year-end. Raw material costs decreased in 1996 but only partially offset lower selling prices of commodity products. Allegheny Ludlum's two unplanned equipment outages in the first quarter of 1996 also contributed to the decline in operating profit.

Sales and operating profit at Allvac increased substantially in 1996 primarily due to increased shipments and higher average sales prices for nickel-based and titanium-based alloys. The sales price increase

reflected strong demand from commercial aerospace, biomedical and recreation markets, and was supplemented with continuing cost containment efforts.

Operating results at Wah Chang also increased substantially in 1996 primarily due to increased sales, especially of titanium products, and cost reduction efforts begun in the fourth quarter of 1995. Titanium products benefited from significant sales increases primarily due to the improved commercial aerospace industry and the increasing use of titanium in recreational products. The profitability of zirconium products benefited from favorable sales mix shifts, lower raw material costs and price increases. Earnings from niobium products increased primarily due to lower processing costs and lower cost foreign-sourced raw materials.

Aerospace and Electronics

<i>(In millions)</i>	1997	% Change	1996	% Change	1995
Sales from Continuing Operations	\$927.0	(4)%	\$970.0	8%	\$897.1
Operating Profit	90.3	(10)%	100.4	18%	85.1
Operating Profit as a Percentage of Sales	9.7%		10.4%		9.5%
U.S. Government Sales as a Percentage of Sales	46.2%		56.0%		54.1%
Foreign Sales as a Percentage of Sales	18.7%		21.0%		22.7%

1997 Compared to 1996

Sales for the aerospace and electronics segment decreased 4% and operating profit decreased 10% in 1997 compared to 1996. Teledyne Ryan Aeronautical experienced declines in sales and operating profit primarily due to the scheduled wind-down of the current phase of the Global Hawk High Altitude Endurance Unmanned Aerial Surveillance/ Reconnaissance Vehicle program and the completion in 1996 of a contract to supply mid-range unmanned aerial vehicles. In September 1997, Ryan received authorization from the Pentagon to build two additional Global Hawk vehicles and to begin procuring certain items for a fifth vehicle. In 1997, The Boeing Company notified Ryan that it has decided to terminate the long-standing agreement with Ryan to fabricate the Apache helicopter fuselage. Future business for this product from Boeing appears unlikely. Operating results declined at Teledyne Brown Engineering due to lower shipments and funding levels on defense and NASA contracts and costs associated with restructuring its operations. Nonrecurring expenses, primarily research and development-related expenses for avionics, resulted in declines in operating profit at Teledyne Controls, a business unit of Teledyne Electronic Technologies. Teledyne Electronic Technologies continued to be the largest contributor to the segment's sales and profit for 1997. Demand for electromechanical relays, circuit board contract manufacturing, and microelectronic hybrid products paced these results.

1996 Compared to 1995

Sales for the aerospace and electronics segment increased 8% and operating profit increased 18% in 1996 compared to 1995. Sales increased in development work on the Global Hawk unmanned aerial vehicle and in electronic devices, electromechanical relays and avionics for commercial customers.

Sales also improved in engineering services related to the environmental cleanup of chemical munitions and engines for the general aviation market.

These sales improvements were partially offset by the scheduled wind-down of a phase of the U.S. Apache helicopter program and by the completion of contracts to supply electronic countermeasure equipment for the international market and fabricated products to the U.S. Government.

Operating profit for the segment benefited from the increase in sales and improved profitability on a contract to supply mid-range unmanned aerial vehicles.

Industrial

<i>(In millions)</i>	1997	% Change	1996	% Change	1995
Sales from Continuing Operations	\$532.0	3%	\$515.7	11%	\$465.8
Operating Profit	60.7	25%	48.5	23%	39.3
Operating Profit as a Percentage of Sales	11.4%		9.4%		8.4%
Foreign Sales as a Percentage of Sales	35.4%		36.6%		25.1%

1997 Compared to 1996

Sales for the industrial segment increased 3% and operating profit increased 25% in 1997 compared to 1996. Operating profit improved for Teledyne Metalworking Products, formerly Teledyne Advanced Materials. This business unit is the largest revenue and profit producer in this segment. It manufactures tungsten and tungsten carbide products, including cutting tools and inserts, for the global metal forming market. In addition, sales and operating profit improved at Portland Forge and at Teledyne Specialty Equipment's mining and construction equipment and material handling businesses. These improvements in results were offset by a decline in operating profit and sales at Casting Service due primarily to discontinuing certain product lines and costs associated with other restructuring activities.

1996 Compared to 1995

Sales for the industrial segment increased 11% and operating profit increased 23% in 1996 compared to 1995. Improvements were primarily the result of the acquisition of the European-based Stellram Group, a manufacturer of high precision milling, boring and drilling systems, in December 1995. Increased sales of nitrogen cylinder systems for the metal stamping industry, improved operating efficiencies in the pressure relief valve business and cost reductions in the material handling business also contributed to the growth in the segment's operating profit. A decline in operating results at Portland Forge due to weakness in the heavy truck market partially offset these improvements.

Consumer

<i>(In millions)</i>	1997	% Change	1996	% Change	1995
Sales from Continuing Operations	\$253.8	11%	\$228.3	5%	\$218.2
Operating Profit	34.5	141%	14.3	42%	10.1
Operating Profit as a Percentage of Sales	13.6%		6.3%		4.6%
Foreign Sales as a Percentage of Sales	18.0%		18.7%		19.2%

1997 Compared to 1996

Sales for the consumer segment increased 11% and operating profit increased 141% in 1997 compared to 1996. The improvement in operating results at Teledyne Water Pik was particularly strong due to the favorable performance of new products and cost reductions. Sales and operating profit improved at Teledyne Laars primarily due to the successful integration of the pool products of Laars and Jandy Industries, a major United States producer of water flow control valves and electronic control systems for the swimming pool industry which was acquired in 1996, and the introduction of a new pool heater product.

1996 Compared to 1995

Sales for the consumer segment increased 5% and operating profit increased 42% in 1996 compared to 1995. Sales improved primarily due to the acquisition of Jandy Industries. Residential and commercial heating systems and home water treatment products also contributed to the improvement in sales.

Operating profit for the segment increased as a result of the acquisition of Jandy and reduced product introduction expenses in 1996, which were partially offset by costs associated with discontinuing products and restructuring manufacturing facilities and by a settlement of patent litigation.

Merger and Restructuring Costs

The Company recorded charges of \$11.2 million in 1997 and \$57.5 million in 1996 for severance, financial advisory, legal, accounting, and other costs associated with the combination of Allegheny Ludlum and Teledyne.

Corporate Expenses

Corporate expenses declined to \$31.0 million in 1997 from \$40.1 million in 1996 and \$47.7 million in 1995, excluding a one-time gain discussed below. The decline in 1997 resulted primarily from the consolidation and restructuring of the Allegheny Ludlum and Teledyne corporate operations and the continued focus on cost controls. The decline in 1996 resulted from a reduction in legal and compliance expenses.

In 1995, the New Piper Aircraft, Inc. emerged from bankruptcy with the Company having exchanged its major creditor position for 24.2% equity ownership and an option to purchase an additional 24.2%. As a result, the Company recognized a gain of \$5.9 million in 1995.

Operations Sold or Held For Sale

Income from operations sold or held for sale in 1997 included pretax gains of \$18.1 million on the divestitures of six businesses which operated job training centers for the U.S. Government and which manufactured collapsible metal and laminate packaging tubes, thread cutting and rolling machines, electric heating elements, metal dies and plastic compression molds, and welded stainless tubular products, \$27.6 million on the sale of the Company's investment in Semtech Corporation common stock, and \$17.3 million on the sale of the Company's investment in Nitinol Development Corporation. In addition, operating results for operations sold or held for sale included a charge of \$5.3 million to write off the Company's investment in a research and development venture in 1997 and charges of \$6.8 million in 1997 and \$7.7 million in 1996 to settle certain U.S. Government contracting matters relating to former Teledyne businesses.

Income from operations sold or held for sale in 1996 included pretax gains of \$41.0 million on the sale of the Company's defense vehicle business and \$20.3 million on the sale of surplus California real estate. For 1995, income from operations sold or held for sale included a pretax gain of \$50.7 million on the sale of the Company's defense electronics systems business.

These amounts are included in other income on the income statement.

Income Taxes

The Company's effective income tax rate was 37.4%, 41.1% and 37.2% in 1997, 1996 and 1995, respectively. The 1997 rate includes the effect of favorable adjustments to prior years' tax liabilities. The 1996 rate resulted from non-deductible business combination costs in 1996.

The Company has determined, based on its history of operating earnings, expectations of future operating earnings and potential tax planning strategies, that it is more likely than not that the deferred income tax assets at December 31, 1997 will be realized.

Financial Condition and Liquidity

In 1997, cash generated from operations of \$256.7 million, proceeds from the sales of businesses and investments of \$142.8 million and proceeds from the exercise of stock options of \$35.4 million were used to purchase treasury stock of \$107.7 million, pay dividends of \$112.2 million, invest \$111.5 million in capital equipment and business expansion and reduce long-term debt by \$109.8 million. Cash transactions plus cash on hand at the beginning of the year resulted in a cash position of \$50.3 million at December 31, 1997.

Working capital increased to \$667.2 million at December 31, 1997 compared to \$614.0 million at the end of 1996. The current ratio increased to 2.2 in 1997 from 2.0 in 1996. The increase in working capital was primarily due to higher inventory levels related to increased demand for high performance superalloys and lower accrued liabilities.

The Company redeemed the Teledyne, Inc. 7% subordinated debentures on September 23, 1997. Payment was made in an amount equal to 100% of the principal amount of the debentures, in the aggregate amount of \$19.5 million, plus accrued interest to the redemption date.

The Company's debt to capitalization ratio declined to 25% in 1997 from 34% in 1996. The Company's net debt to total capitalization ratio declined to 22% in 1997 from 31% in 1996.

Total capital expenditures for 1998 are expected to approximate \$150 million with the largest item being \$30 million (of the total cost of approximately \$40 million) for a Sendzimir mill which is expected to go on stream at Allegheny Ludlum's Vandergrift, Pennsylvania plant in late 1999 and approximately \$10 million (of the total cost of approximately \$19 million) for the 60-inch wide upgrade of the anneal and pickle line at Allegheny Ludlum's West Leechburg, Pennsylvania plant which is expected to be completed by mid-1999.

In 1996, the underfunded defined benefit pension plans of Allegheny Ludlum were merged with overfunded defined benefit pension plans of Teledyne. The resulting pension plan is fully funded with assets significantly in excess of the projected benefit obligations. As a result, for the indefinite future, the Company does not anticipate that it will have to contribute to its defined benefit pension plan. Under current Internal Revenue Code regulations, certain amounts paid for retiree medical expenses may be reimbursed annually from the excess pension plan assets. In 1997, the Company recovered the pretax amount of \$31.9 million under these regulations. While not affecting reported operating profit, cash flow increased by the after-tax effect of the recovered amount.

The Company believes that internally generated funds, current cash on hand and borrowings from existing credit lines will be adequate to meet foreseeable needs.

In 1997, the Company repurchased 3.8 million shares of common stock at a cost of \$107.7 million at per share prices ranging from \$25 $\frac{1}{8}$ to \$32 $\frac{3}{4}$. However, average common shares outstanding for 1997 are slightly higher than 1996 because share issuances upon stock option exercises exceeded share repurchases. The 12 million share repurchase program initiated earlier in 1997 was terminated October 31, 1997 in connection with the announced proposed acquisition of OREMET, which will be accounted for as a pooling of interests.

New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," and Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." These statements will be adopted by the Company in 1998, and are not expected to have a material effect on the consolidated financial statements.

Other Matters

Costs and Pricing

Although inflationary trends in recent years have been moderate, during the same period certain critical raw material costs have been volatile. The Company primarily uses the last-in, first-out method of inventory accounting which reflects current costs in the cost of products sold. The Company considers these costs, the increasing costs of equipment and other costs in establishing its sales pricing policies and has instituted raw material surcharges on certain of its products to the extent permitted by competitive factors in the marketplace. The Company continues to emphasize cost containment in all aspects of its business.

Hedging

The Company uses derivative financial instruments from time to time to hedge ordinary business risks regarding foreign currencies on product sales and to partially hedge against volatile raw material cost fluctuations in the specialty metals segment. The Company believes that adequate controls are in place to monitor these activities, which are not financially material.

Environmental

The Company is subject to federal, state and local environmental laws and regulations which require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which the Company has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund, and comparable state laws. The

Company is currently involved in the investigation and remediation of a number of sites under these laws. The Company's reserves for environmental remediation totaled approximately \$40 million at December 31, 1997. Based on currently available information, management does not believe future environmental costs in excess of those accrued with respect to sites with which the Company has been identified are likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

With respect to proceedings brought under the federal Superfund laws, or similar state statutes, the Company has been identified as a potentially responsible party at approximately 35 of such sites, excluding those at which it believes it has no future liability. The Company's involvement is very limited or de minimis at approximately 10 of these sites, and the potential loss exposure with respect to any of these 35 individual sites is not considered to be material.

In 1996, AICPA Statement of Position 96-1, Environmental Remediation Liabilities, was issued which established accounting standards for recognition of environmental costs. This statement, which was adopted in 1997, did not have a material effect on the consolidated financial statements.

For additional discussion of environmental matters, see Notes 1 and 14 of the Notes to Consolidated Financial Statements.

Government Contracts

A number of the Company's subsidiaries perform work on contracts with the U.S. Government. Many of these contracts include price redetermination clauses, and most are terminable at the convenience of the government. Certain of these contracts are fixed-price or fixed-price incentive development contracts which involve a risk that costs may exceed those expected when the contracts were negotiated. Absent modification of these contracts, any costs incurred in excess of the fixed or ceiling prices must be borne by the Company. In addition, virtually all defense programs are subject to curtailment or cancellation due to the year-to-year nature of the government appropriations and allocations process. A material reduction in U.S. Government appropriations may have an adverse effect on the Company's business, depending upon the specific programs affected by any such reduction. Since certain contracts extend over a long period of time, all revisions in cost and funding estimates during the progress of work have the effect of adjusting the current period earnings on a cumulative catch-up basis. When the current contract estimate indicates a loss, provision is made for the total anticipated loss. The Company obtains many U.S. Government contracts through the process of competitive bidding. There can be no assurance that the Company will continue to be successful in having its bids accepted.

Various claims (whether based on U.S. Government or Company audits and investigations or otherwise) have been or may be asserted against the Company related to its U.S. Government contract work, including claims based on business practices and cost classifications and actions under the False Claims Act. The False Claims Act permits a person to assert the rights of the U.S. Government by initiating a suit under seal against a contractor if such person purports to have information that the contractor falsely submitted a claim to the U.S. Government for payment. If it chooses, the U.S. Government may intervene and assume control of the case.

Although government contracting claims may be resolved by detailed fact-finding and negotiation, on those occasions when they are not so resolved, civil or criminal legal or administrative proceedings may ensue. Depending on the circumstances and the outcome, such proceedings could result in fines, penalties, compensatory and treble damages or the cancellation or suspension of payments under one or more U.S. Government contracts. Under government regulations, a company, or one or more of its operating divisions or units, can also be suspended or debarred from government contracts based on the results of investigations. Given the extent of the Company's business with the U.S. Government, a suspension or debarment of the Company could have a material adverse effect on the future operating results and consolidated financial condition of the Company. However, although the outcome of these matters cannot be predicted with certainty, management does not believe there is any audit, review or investigation currently pending against the Company of which management is aware that is likely to result in suspension or debarment of the Company, or that is otherwise likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

For additional discussion of government contract matters, see Note 14 of the Notes to Consolidated Financial Statements.

Impact of Year 2000 on Computer Systems

For the past several years, the Company has been working on modifying or replacing portions of its software so that its computer systems will function properly with respect to dates in the year 2000 and thereafter. The year 2000 date is an issue that affects most businesses including suppliers and customers of the Company. The Company anticipates spending approximately \$9 million in 1998 and may spend additional amounts in subsequent years to address the issue.

Based upon internal assessments, formal communications with suppliers and customers with which the Company exchanges electronic data, and work completed to date, the Company expects that all necessary modifications will be complete prior to any significant impact on the Company's operating systems.

Forward Looking and Other Statements

This annual report contains various "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which represent the Company's expectations or beliefs concerning various future events, include the following: statements concerning anticipated effects of the potential acquisition of OREMET, the acquisition of the aerospace division of Sheffield Forgemasters, the agreements with Bethlehem Steel Corporation and the acquisition of Aerotronics on earnings, cost savings and operations of the Company; net cash flow; aviation and aerospace industry trends; certain expected capital expenditures; computer software modification or replacement; the outcome of any government inquiries, litigation or other proceedings related to government contracts or other matters; and future environmental costs. These statements are based on current expectations that involve a number of risks and uncertainties, including those described under the captions "Other Matters — Environmental" and "Other Matters — Government Contracts." Other important factors that could cause actual results to differ from those in such forward-looking statements include the following:

Demand for Specialty Metals. Demand for products of the Company's specialty metals businesses, which accounted for a significant portion of the Company's 1997 total sales and its 1997 total income, is cyclical because the industries in which customers of such businesses operate are cyclical and are subject to changes in general economic conditions, including decreases in the rate of consumption or use of their products due to economic recessions or due to increases in use or decreases in price of other materials which may be used in lieu of the materials they produce, national and international overcapacity, fluctuations in the value of the U.S. dollar against other currencies, and levels of lower priced imports, which affect market demand for specialty materials. From time to time, these industries have experienced significant downturns. Significant downturns in the domestic economy are believed to have adversely affected the results of operations of Allegheny Ludlum, Teledyne and OREMET from time to time during their respective histories. As a result, the Company's operating results could be subject to significant fluctuation.

Raw Materials for Specialty Metals. Certain of the principal raw materials used to produce specialty metals can be acquired only from foreign sources, some of which are located in countries that may be subject to unstable political and economic conditions which might disrupt supplies or affect the prices of these materials. Purchase prices of certain critical raw materials are volatile. As a result, the Company's operating results could be subject to significant fluctuation.

Export Sales. Among the risks associated with export sales are export controls, changes in legal and regulatory requirements, policy changes affecting the markets for the Company's products, changes in tax laws and tariffs, exchange rate fluctuations, political and economic instability, accounts receivable collection and the seasonality of foreign sales. Any of these factors could have an adverse effect on the Company's results of operations.

Acquisition and Disposition Strategy. The Company intends to continue to strategically position its businesses in order to improve its competitive posture by seeking specialty niches, expanding its global presence, acquiring businesses complementary to existing strengths and continually evaluating the performance and strategic fit of existing businesses. Accordingly, the Company regularly considers acquisition and business combination opportunities as well as possible business dispositions, and its management from time to time holds discussions with management of other companies to explore such opportunities and possible dispositions. As a result, the businesses comprising the Company are subject to change.

Uncertainties Relating to Synergies. There can be no assurance that the Company will be able to realize, or do so within any particular time frame, the cost reductions, cash-flow increases or other synergies expected to result from acquisitions and other transactions the Company has made or may make or generate additional revenue to offset any unanticipated inability to realize such expected synergies. Realization of the anticipated benefits of acquisitions and other transactions could take longer than expected and implementation difficulties and market factors could alter the anticipated benefits.

Employees. The Company employs approximately 22,000 persons, 9,000 of whom are employed at companies in the specialty metals segment. Approximately 24% of the Company's workforce is covered by various union contracts, certain of which are described below.

Approximately 400 employees at Allegheny Ludlum's Washington Plant are covered by a labor contract with the United Steelworkers of America ("USWA") which is effective through September 30, 1999. Substantially all of Allegheny Ludlum's 3,300 other production and maintenance employees are covered by a recently approved three-year labor contract between the Company and the USWA, which is effective through June 30, 2001. In addition, approximately 700 Wah Chang employees are covered by a labor contract with the USWA which is effective through October 10, 2000.

Additional risk factors are described from time to time in the Company's filings with the Securities and Exchange Commission.

Allegheny Teledyne Incorporated And Subsidiaries Consolidated Statements of Income

(In millions except per share amounts)

For the Years Ended	December 31, 1997	December 31, 1996	December 31, 1995
Sales	\$ 3,745.1	\$ 3,815.6	\$ 4,048.1
Costs and expenses:			
Cost of sales	2,828.8	2,901.7	3,158.9
Selling and administrative expenses	484.1	515.5	479.0
Merger and restructuring costs	11.2	57.5	6.4
Interest expense, net	19.6	34.7	37.6
	3,343.7	3,509.4	3,681.9
Earnings before Other Income	401.4	306.2	366.2
Other Income	73.8	78.5	74.7
Income before Income Taxes and Extraordinary Loss	475.2	384.7	440.9
Provision for Income Taxes	177.6	158.2	164.1
Income before Extraordinary Loss	297.6	226.5	276.8
Extraordinary Loss on Redemption of Debt, Net of Income Tax Benefit	—	(13.5)	(2.9)
Net Income	297.6	213.0	273.9
Dividends on Preferred Stock	—	2.0	1.6
Net Income Available to Common Stockholders	\$ 297.6	\$ 211.0	\$ 272.3
Basic Net Income per Common Share:			
Income before Extraordinary Loss	\$ 1.70	\$ 1.28	\$ 1.56
Extraordinary Loss	—	(0.08)	(0.02)
Basic Net Income per Common Share	\$ 1.70	\$ 1.20	\$ 1.54
Diluted Net Income per Common Share:			
Income before Extraordinary Loss	\$ 1.67	\$ 1.27	\$ 1.53
Extraordinary Loss	—	(0.08)	(0.02)
Diluted Net Income per Common Share	\$ 1.67	\$ 1.19	\$ 1.51

The accompanying notes are an integral part of these statements.

Allegheny Teledyne Incorporated and Subsidiaries Consolidated Balance Sheets

(In millions except share and per share amounts)

	December 31, 1997	December 31, 1996
Assets		
Cash and cash equivalents	\$ 50.3	\$ 62.5
Accounts receivable	518.0	522.5
Inventories	582.4	518.4
Deferred income taxes	37.0	70.1
Tax refund	9.4	—
Prepaid expenses and other current assets	31.6	26.3
Total Current Assets	1,228.7	1,199.8
Property, plant and equipment	687.7	731.4
Prepaid pension cost	379.7	352.5
Cost in excess of net assets acquired	169.9	177.1
Other assets	138.5	145.6
Total Assets	\$ 2,604.5	\$ 2,606.4
Liabilities and Stockholders' Equity		
Accounts payable	\$ 247.5	\$ 241.7
Accrued liabilities	314.0	344.1
Total Current Liabilities	561.5	585.8
Long-term debt	326.1	443.4
Accrued postretirement benefits	572.8	567.5
Other	144.4	138.2
Total Liabilities	1,604.8	1,734.9
Stockholders' Equity:		
Preferred stock, par value \$0.10: authorized - 50,000,000 shares; issued - none	—	—
Common stock, par value \$0.10: authorized - 600,000,000 shares; issued - 176,346,720 in 1997 and 174,389,377 in 1996; outstanding - 174,329,604 shares in 1997 and 174,389,377 shares in 1996	17.6	17.4
Additional paid-in capital	290.7	246.6
Retained earnings	752.7	596.7
Treasury stock: 2,017,116 shares in 1997	(60.2)	—
Other	(1.1)	10.8
Total Stockholders' Equity	999.7	871.5
Total Liabilities and Stockholders' Equity	\$ 2,604.5	\$ 2,606.4

The accompanying notes are an integral part of these statements.

Allegheny Teledyne Incorporated and Subsidiaries Consolidated Statements of Cash Flows

(In millions)

For the Years Ended	December 31, 1997	December 31, 1996	December 31, 1995
Operating Activities:			
Net income	\$ 297.6	\$ 213.0	\$ 273.9
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	98.5	105.3	110.9
Gains on sales of businesses	(69.2)	(64.5)	(51.1)
Deferred income taxes	(5.7)	18.6	42.4
Extraordinary loss on redemption of debt	—	13.5	2.9
Change in operating assets and liabilities:			
Inventories	(68.8)	(67.1)	(12.9)
Accrued liabilities	(43.5)	(13.8)	(30.8)
Tax refund	37.7	—	—
Accrued income taxes	36.4	17.9	12.5
Prepaid pension costs	(24.7)	(41.8)	(83.6)
Accounts payable	10.6	21.3	(46.3)
Long-term postretirement liability	5.3	11.6	(0.6)
Accounts receivable	(4.7)	13.0	(7.5)
Other	(12.8)	6.4	3.3
Cash provided by operating activities	256.7	233.4	213.1
Investing Activities:			
Proceeds from the sales of businesses and investments	112.1	124.8	69.0
Purchases of property, plant and equipment	(96.3)	(88.6)	(93.8)
Disposals of property, plant and equipment	30.7	16.0	14.8
Investment in ventures and purchases of businesses	(15.2)	(23.6)	(43.2)
Other	(5.9)	(9.3)	(15.1)
Cash provided by (used in) investing activities	25.4	19.3	(68.3)
Financing Activities:			
Payments on long-term debt and capital leases	(114.2)	(436.5)	(114.9)
Increase in long-term debt	4.4	290.5	167.3
Net increase (decrease) in long-term debt	(109.8)	(146.0)	52.4
Dividends paid - common and preferred stock	(112.2)	(106.1)	(57.1)
Purchases of common stock	(107.7)	(23.7)	(75.6)
Exercises of stock options	35.4	13.9	6.4
Redemption of preferred stock	—	(41.4)	—
Other	—	0.5	0.8
Cash used in financing activities	(294.3)	(302.8)	(73.1)
Increase (decrease) in cash and cash equivalents	(12.2)	(50.1)	71.7
Cash and cash equivalents at beginning of year	62.5	112.6	40.9
Cash and cash equivalents at end of year	\$ 50.3	\$ 62.5	\$ 112.6
Non-cash transactions:			
Preferred stock dividends on common stock	\$ —	\$ 8.3	\$ 33.1

Amounts presented on the Statements of Cash Flows may not agree to the corresponding changes in balance sheet items due to the accounting for purchases and sales of businesses, and the effects of foreign currency translation.

The accompanying notes are an integral part of these statements.

Allegheny Teledyne Incorporated and Subsidiaries Consolidated Statements of Stockholders' Equity

(In millions except per share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Other	Stockholders' Equity
Balance, December 31, 1994	\$ 17.8	\$ 319.4	\$ 314.3	\$ —	\$ 3.9	\$ 655.4
Net income	—	—	273.9	—	—	273.9
Preferred stock dividends on common stock (Teledyne \$0.31 per share)	—	—	(33.1)	—	—	(33.1)
Cash dividends on common and preferred stock (Allegheny Ludlum \$0.49 per common share, Teledyne \$0.21 per common share and \$0.60 per preferred share)	—	—	(57.1)	—	—	(57.1)
Employee stock plans	—	11.6	0.1	—	—	11.7
Purchase and cancellation of common stock	(0.4)	(75.2)	—	—	—	(75.6)
Increase in net unrealized appreciation	—	—	—	—	9.9	9.9
Currency translation adjustment	—	—	—	—	0.7	0.7
Balance, December 31, 1995	17.4	255.8	498.1	—	14.5	785.8
Net income	—	—	213.0	—	—	213.0
Preferred stock dividends on common stock (Teledyne \$0.08 per share)	—	—	(8.3)	—	—	(8.3)
Cash dividends on common and preferred stock (Allegheny Teledyne \$0.16 per common share, Allegheny Ludlum \$0.42 per common share, Teledyne \$0.44 per common share and \$1.20 per preferred share)	—	—	(106.1)	—	—	(106.1)
Employee stock plans	—	14.5	—	—	—	14.5
Purchase and cancellation of common stock	—	(23.7)	—	—	—	(23.7)
Decrease in net unrealized appreciation	—	—	—	—	(1.6)	(1.6)
Currency translation adjustment	—	—	—	—	(2.1)	(2.1)
Balance, December 31, 1996	17.4	246.6	596.7	—	10.8	871.5
Net income	—	—	297.6	—	—	297.6
Cash dividends on common stock (\$0.64 per common share)	—	—	(112.2)	—	—	(112.2)
Employee stock plans	0.2	44.1	(29.4)	47.5	—	62.4
Purchase of common stock	—	—	—	(107.7)	—	(107.7)
Decrease in net unrealized appreciation	—	—	—	—	(7.3)	(7.3)
Currency translation adjustment	—	—	—	—	(4.6)	(4.6)
Balance, December 31, 1997	\$ 17.6	\$290.7	\$752.7	\$(60.2)	\$ (1.1)	\$999.7

The accompanying notes are an integral part of these statements.

Report of Ernst & Young LLP, Independent Auditors

Board of Directors

Allegheny Teledyne Incorporated

We have audited the accompanying consolidated balance sheets of Allegheny Teledyne Incorporated and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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 did not audit the 1995 financial statements of Teledyne, Inc., a wholly owned subsidiary, which statements reflect total revenues constituting 63.1% of the related consolidated total for the year ended December 31, 1995. Those statements were audited by other auditors whose report thereon dated January 13, 1996 has been furnished to us, and our opinion, insofar as it relates to data included for Teledyne, Inc., is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards 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. An audit also

includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allegheny Teledyne Incorporated at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1996 the Company changed its method of accounting for depreciation.



Pittsburgh, Pennsylvania
January 19, 1998

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies —

Principles of Consolidation

The consolidated financial statements include the accounts of Allegheny Teledyne Incorporated (“Allegheny Teledyne”) and its subsidiaries. As described in Note 2, on August 15, 1996, Allegheny Ludlum Corporation (“Allegheny Ludlum”) and Teledyne, Inc. (“Teledyne”) combined to form Allegheny Teledyne. The combination was accounted for under the pooling of interests method of accounting and these consolidated financial statements reflect the combined financial position, operating results and cash flows of Allegheny Ludlum and Teledyne as if they had been combined for all periods presented. Significant intercompany accounts and transactions have been eliminated. Unless the context requires otherwise, the “Company” refers to Allegheny Teledyne and its subsidiaries.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Cash Equivalents

Marketable securities with original maturities of three months or less are included in cash equivalents. The carrying amounts approximate market.

Accounts Receivable

Receivables are presented net of a reserve for doubtful accounts of \$17.9 million at December 31, 1997 and \$13.0 million at December 31, 1996. The Company markets its products to a diverse customer base, principally throughout the United States. Trade credit is extended based upon evaluations of each customer's ability to perform its obligations, which are updated periodically.

Inventories

Inventories are stated at the lower of cost (last-in, first-out; first-in, first-out and average cost methods) or market, less progress payments. Costs include direct material, direct labor and applicable manufacturing and engineering overhead, and other direct costs.

Property and Equipment

Property, plant and equipment are carried at cost. The straight-line method of depreciation was adopted for all property placed into service after July 1, 1996. For

buildings and equipment acquired prior to July 1, 1996, depreciation is computed using a combination of accelerated and straight-line methods. The Company believes the method adopted on July 1, 1996 more appropriately reflects its financial results by better allocating costs of new property over the useful lives of these assets. In addition, the method more closely conforms with that prevalent in the industries in which the Company operates and with that used by Allegheny Ludlum. The effect of this change on net income for 1996 was not material.

Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired related to businesses purchased after November 1970 is being amortized on a straight-line basis over periods not exceeding 40 years.

Financial Instruments

The fair values of financial instruments approximated their carrying values at December 31, 1997. Fair values have been determined through information obtained from quoted market sources and management estimates.

The Company's investments in debt and equity securities are classified as available-for-sale and are reported at fair values, with net unrealized appreciation and depreciation on investments reported as a separate component of stockholders' equity.

Environmental

Costs that mitigate or prevent future environmental contamination or extend the life, increase the capacity or improve the safety or efficiency of property utilized in current operations are capitalized. Other costs that relate to current operations or an existing condition caused by past operations are expensed. Environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable, but generally not later than the completion of the feasibility study or the Company's recommendation of a remedy or commitment to an appropriate plan of action. The accruals are reviewed periodically and, as investigations and remediations proceed, adjustments are made as necessary. Accruals for losses from environmental remediation obligations do not consider the effects of inflation, and anticipated expenditures are not discounted to their present value. The accruals are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect anticipated allocations among potentially responsible parties at federal Superfund sites or similar state-managed sites and an assessment of the likelihood that such parties will fulfill their obligations at such sites. The measurement of environmental liabilities by the Company is based on currently available facts, present laws and regulations, and current

technology. Such estimates take into consideration the Company's prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities, and the professional judgment of the Company's environmental experts in consultation with outside environmental specialists, when necessary.

Revenue Recognition

Commercial sales and revenue from U.S. Government fixed-price type contracts are generally recorded as deliveries are made or as services are rendered. For certain fixed-price type contracts that require substantial performance over a long time period before deliveries begin, sales are recorded based upon attainment of scheduled performance milestones. Sales under cost-reimbursement contracts are recorded as costs are incurred and fees are earned.

Since certain contracts extend over a long period of time, all revisions in cost and funding estimates during the progress of work have the effect of adjusting the current period earnings on a cumulative catch-up basis. When the current contract estimate indicates a loss, provision is made for the total anticipated loss.

Research and Development

Company-funded research and development costs (\$60.3 million in 1997, \$66.2 million in 1996, and \$66.5 million in 1995), which include bid and proposal costs, are expensed as incurred. Costs related to customer-funded research and development contracts are charged to costs and expenses as the related sales are recorded. A portion of the costs incurred for Company-funded research and development is recoverable through overhead cost allowances on government contracts.

Income Taxes

Provision for income taxes included deferred taxes resulting from temporary differences in income for financial and tax purposes using the liability method. Such temporary differences result primarily from differences in the carrying value of assets and liabilities.

Net Income Per Common Share

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share." Statement No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings

per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is computed in a manner similar to fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement No. 128 requirements.

New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," and Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." These statements will be adopted by the Company in 1998, and are not expected to have a material effect on the consolidated financial statements.

Reclassifications

Certain amounts from prior years have been reclassified to conform with the 1997 presentation.

Note 2. Combination of Allegheny Ludlum and Teledyne —

On August 15, 1996, Allegheny Ludlum and Teledyne became wholly owned subsidiaries of Allegheny Teledyne. Allegheny Ludlum shareholders received one share of Allegheny Teledyne common stock for each one of their Allegheny Ludlum common shares. Teledyne stockholders received 1.925 shares of Allegheny Teledyne common stock for each of their Teledyne common shares. There were 174.2 million shares of Allegheny Teledyne issued in the combination of the two companies. Revenues and net income for the six months ended June 30, 1996 (the most recent interim period prior to the pooling) were \$691.7 million and \$39.6 million, respectively, for Allegheny Ludlum and \$1.3 billion and \$102.4 million, respectively, for Teledyne. Intercompany transactions prior to the combination were not material.

The Company recorded merger and restructuring costs of \$11.2 million (\$6.8 million net of tax) and \$57.5 million (\$42.9 million net of tax) in 1997 and 1996, respectively, for financial advisory, legal, accounting, severance and other costs associated with the combination of the companies.

Note 3. Inventories —

<i>(In millions)</i>	December 31, 1997	December 31, 1996
Raw materials and supplies	\$ 166.9	\$ 153.8
Work-in-process	524.2	515.1
Finished goods	112.9	104.8
Total inventories at current cost	804.0	773.7
Less allowances to reduce current cost values to LIFO basis	(206.4)	(229.6)
Progress payments	(15.2)	(25.7)
Total inventories	\$ 582.4	\$ 518.4

Inventories, before progress payments, determined on the last-in, first-out method were \$531.4 million at December 31, 1997 and \$423.3 million at December 31, 1996. The remainder of the inventory was determined using the first-in, first-out and average cost methods. These inventory values do not differ materially from current cost.

During 1997, 1996, and 1995, inventory usage resulted in liquidations of last-in, first-out inventory quantities. These inventories were carried at the lower costs prevailing in prior years as compared with the cost of current purchases. The effect of these last-in, first-out liquidations was to increase net income by \$7.3 million in 1997, \$4.9 million in 1996, and \$8.0 million in 1995.

The Company enters into raw material (principally nickel) future contracts from time to time to hedge its exposure to price fluctuations. Gains and losses on hedged contracts are deferred and recognized in cost of sales upon expiration of the contract period. These contracts are not significant to the Company's total raw material purchases and are not material from a financial point of view.

Inventories, before progress payments, related to long-term contracts were \$16.2 million and \$8.1 million at December 31, 1997 and 1996, respectively. Progress payments related to long-term contracts were \$5.7 million and \$8.5 million at December 31, 1997 and 1996, respectively.

Note 4. Long-Term Debt —

Credit Agreements

In August 1996, Allegheny Teledyne entered into a credit agreement with a group of banks that provides for borrowings of up to \$500 million on a revolving credit basis. The agreement, as extended, has a five-year term. Interest is payable at prime or other alternative interest rate bases, at the Company's option. The agreement provides for an annual facility fee of 0.075%. The agreement has various covenants that limit the

Company's ability to dispose of properties and merge with another corporation. The Company is also required to maintain certain financial ratios as defined in the agreement that can also limit the amount of dividend payments and share repurchases. Under the most restrictive requirement, approximately 60% of the Company's retained earnings is currently free of restrictions pertaining to cash dividend distributions and share repurchases.

The Company's subsidiaries also maintain credit agreements with various foreign banks which provide for additional borrowings of up to \$58.5 million. These agreements provide for annual facility fees of 0.15%.

Borrowings outstanding under the credit agreements are unsecured.

Commitments under separate standby letters of credit outstanding were \$42.1 million at December 31, 1997 and \$38.3 million at December 31, 1996.

Debentures

In 1997, Allegheny Teledyne redeemed the Teledyne 7% subordinated debentures. Payment was made in an amount equal to 100% of the principal amount of the debentures, in the aggregate amount of \$19.5 million, plus accrued interest to the redemption date.

In 1996, Allegheny Teledyne guaranteed the outstanding Allegheny Ludlum 6.95% debentures. In addition, utilizing \$250 million from the credit agreement discussed above and \$107 million from cash on hand, the Company redeemed the Teledyne 10% subordinated debentures. As a result, an extraordinary loss of \$13.5 million, net of a tax benefit of \$8.8 million, was recognized to write off the unamortized original issue discount.

In 1995, \$150 million of Allegheny Ludlum 6.95% debentures were issued. A portion of the proceeds from this issue was used to extinguish, at a premium to book value, \$100 million of Allegheny Ludlum 5% convertible subordinated debentures, resulting in an extraordinary loss of \$2.9 million, net of a tax benefit of \$2.0 million.

Long-term debt at December 31, 1997 and 1996 was as follows:

<i>(In millions)</i>	December 31, 1997	December 31, 1996
Credit agreements	\$ 150.1	\$ 241.3
Allegheny Ludlum 6.95% debentures, due 2025	150.0	150.0
Industrial revenue bonds due 1998 through 2007	15.2	16.6
Capitalized leases and other	13.6	19.3
Teledyne 7% subordinated debentures	—	20.7
	328.9	447.9
Current portion	(2.8)	(4.5)
Total long-term debt	\$ 326.1	\$ 443.4

The weighted average interest rate of borrowings outstanding under the credit agreements was 5.5% at December 31, 1997 and 5.2% at December 31, 1996.

Scheduled maturities of long-term borrowings during the next five years are \$2.8 million in 1998, \$2.1 million in 1999, \$1.5 million in 2000, \$1.2 million in 2001, and \$11.5 million in 2002. Scheduled

repayments under revolving credit agreements are \$45.1 million in 1999 and \$105.0 million in 2002.

Interest expense was \$28.5 million in 1997, \$48.5 million in 1996, and \$50.6 million in 1995. Interest and commitment fees paid were \$29.6 million in 1997, \$48.5 million in 1996, and \$48.1 million in 1995.

Note 5. Supplemental Balance Sheet Information —

Cash and cash equivalents were as follows:

<i>(In millions)</i>	December 31, 1997	December 31, 1996
Cash (Gross of outstanding checks: 1997 - \$22.5 million; 1996 - \$30.6 million)	\$ 11.1	\$ 24.3
Other short-term investments, at cost which approximates market	39.2	38.2
Total cash and cash equivalents	\$ 50.3	\$ 62.5

Property, plant and equipment were as follows:

<i>(In millions)</i>	December 31, 1997	December 31, 1996
Land	\$ 37.3	\$ 41.1
Buildings	266.0	281.4
Equipment and leasehold improvements	1,264.4	1,256.9
	1,567.7	1,579.4
Accumulated depreciation and amortization	(880.0)	(848.0)
Total property, plant and equipment	\$ 687.7	\$ 731.4

Accrued liabilities included salaries and wages of \$79.1 million and \$80.7 million in 1997 and 1996,

respectively, and accrued severance costs of \$5.6 million and \$11.9 million in 1997 and 1996, respectively.

Note 6.
Redemption of Preferred Stock —

On August 14, 1996, all of the outstanding shares of the Teledyne Series E Cumulative Preferred Stock were redeemed at \$15.60 per share.

Note 7.
Stockholders' Equity —

Preferred Stock

Authorized preferred stock may be issued in one or more series, with designations, powers and preferences as shall be designated by the Board of Directors. At December 31, 1997, there were no shares of preferred stock issued.

Common Stock

In connection with the combination of Allegheny Ludlum and Teledyne, Allegheny Teledyne assumed stock options and awards, as well as purchase and designation rights and related awards outstanding under stock-based compensation plans maintained by Allegheny Ludlum and Teledyne prior to the combination. In addition, Allegheny Teledyne's Board of Directors adopted the Allegheny Teledyne Incorporated 1996 Incentive Plan and the 1996 Non-Employee Director

Stock Compensation Plan, which were approved by the stockholders on August 15, 1996. The 1996 Incentive Plan provides for awards of up to 9,000,000 shares of Allegheny Teledyne common stock to officers and key employees of the Company. A maximum of 700,000 shares or options to acquire shares may be issued under the 1996 Non-Employee Director Stock Compensation Plan to directors who are not employees of the Company.

The Company accounts for its stock option plans in accordance with APB Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under APB Opinion 25, no compensation expense is recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock at the date of the grant. If compensation cost for these plans had been determined using the fair-value method prescribed by FASB Statement No. 123, "Accounting for Stock-based Compensation," net income would have been reduced by \$2.7 million, or \$0.02 per share, \$2.0 million, or \$0.01 per share, and \$0.3 million, with no impact on per share amounts, for the years ended December 31, 1997, 1996 and 1995, respectively. The impact on earnings per share is the same under both the basic and diluted methods for each of these years. Under FASB Statement 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 weighted-average assumptions:

	1997	1996	1995
Expected Dividend Yield	2.5%	3.6%	3.9%
Expected Volatility	31%	31%	31%
Risk-Free Interest Rate	6.4%	6.4%	6.2%
Expected Lives	8.0	8.0	8.0
Weighted-average fair value of options granted during year	\$ 8.74	\$5.15	\$3.82

Stock option transactions under the Company's employee plans are summarized as follows:

	1997		1996		1995	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding beginning of year	8,552,958	\$12.42	7,937,884	\$10.90	7,626,897	\$10.51
Granted	110,000	\$24.36	2,058,200	\$16.57	1,207,301	\$12.54
Exercised	(3,626,713)	\$10.21	(1,074,512)	\$ 9.35	(723,339)	\$ 9.28
Cancelled	(675,504)	\$12.67	(368,614)	\$11.75	(172,975)	\$11.31
Outstanding end of year	4,360,741	\$14.52	8,552,958	\$12.42	7,937,884	\$10.90
Exercisable at end of year	1,987,947	\$12.47	4,003,054	\$10.49	3,500,875	\$9.71

Exercise prices for options outstanding as of December 31, 1997 ranged from \$8.51 to \$28.25. The weighted-average remaining contractual life of those options is 7.6 years.

In addition to the Company's stock option plans, at December 31, 1997, a maximum of 231,200 shares were issuable to 42 employees under the Allegheny

Ludlum Performance Share Plan based on units awarded to such participants for the 1995-1996 award period, which are payable in three annual installments beginning in 1997.

Compensation expense related to the various stock-based plans was \$4.3 million in 1997, \$5.5 million in 1996 and \$10.0 million in 1995.

Note 8. Income Taxes —

Provision for income taxes was as follows:

<i>(In millions)</i>	1997	1996	1995
Current			
- Federal	\$136.4	\$114.6	\$100.4
- State	24.8	19.0	17.3
- Foreign	8.5	6.0	4.0
- Total	169.7	139.6	121.7
Deferred			
- Federal	1.3	11.2	29.8
- State	6.2	7.2	12.6
- Foreign	0.4	0.2	—
- Total	7.9	18.6	42.4
Provision for income taxes	\$177.6	\$158.2	\$164.1
Income taxes paid	\$110.2	\$115.4	\$ 55.0

Income before income taxes and extraordinary loss included income from domestic operations of \$452.4 million in 1997, \$366.6 million in 1996 and \$437.1 million in 1995.

The following is a reconciliation of the statutory federal income tax rate to the actual effective income tax rate:

	1997	1996	1995
Federal tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefit	4.3	4.3	4.4
Capitalization of merger and restructuring costs	—	1.8	—
Amortization of cost in excess of net assets acquired	0.3	0.3	0.3
Foreign sales corporation exemption	(0.6)	(0.6)	(0.4)
Other	(1.6)	0.3	(2.1)
Effective income tax rate	37.4%	41.1%	37.2%

Deferred income taxes result from temporary differences in the recognition of income and expense for financial and income tax reporting purposes, and differences between the fair value of assets acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding

tax bases. Deferred income taxes represent future tax benefits or costs to be recognized when those temporary differences reverse. The categories of assets and liabilities which have resulted in differences in the timing of the recognition of income and expense were as follows:

	1997	1996
Deferred Income Tax Assets		
Postretirement benefits other than pensions	\$225.8	\$223.2
Deferred compensation and other benefit plans	32.3	37.4
Self-insurance reserves	21.9	16.5
Long-term contracts	3.3	6.9
Other items	81.0	85.1
Total deferred income tax assets	364.3	369.1
Deferred Income Tax Liabilities		
Pension asset	154.7	143.1
Bases of property, plant and equipment	112.2	110.8
Inventory valuation	15.8	15.2
Other items	10.1	26.3
Total deferred income tax liabilities	292.8	295.4
Net deferred income tax asset	\$ 71.5	\$ 73.7

Note 9.
Pension Plans and
Other Postemployment Benefits —

In 1996, the underfunded defined benefit pension plans of Allegheny Ludlum were merged with overfunded defined benefit pension plans of Teledyne, and Allegheny Teledyne became the plan sponsor.

The Company has defined benefit pension plans

and defined contribution plans covering substantially all of its employees. Benefits under the defined benefit pension plans are generally based on years of service and/or final average pay. The Company funds the pension plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code.

Components of pension expense (income) for the Company's defined benefit plans included the following:

<i>(In millions)</i>	Expense (Income)		
	1997	1996	1995
Service cost - benefits earned during the year	\$ 36.3	\$ 33.9	\$ 28.4
Interest cost on benefits earned in prior years	130.9	124.1	121.8
Expected return on plan assets	(206.7)	(202.7)	(164.1)
Net amortization of unrecognized amounts	(19.8)	(22.3)	(42.8)
Pension income	\$ (59.3)	\$ (67.0)	\$ (56.7)

Actual return on plan assets was income of \$426.0 million, \$28.8 million and \$375.6 million in 1997, 1996 and 1995, respectively. Pension costs for

defined contribution plans were \$15.4 million in 1997, \$16.2 million in 1996 and \$14.9 million in 1995.

Actuarial assumptions used to develop the components of pension expense (income) were as follows:

	1997	1996	1995
Discount rate	7.25%	7.5%	7.9%
Rate of increase in future compensation levels	3%-4.5%	3%-4.5%	3%-4.5%
Expected long-term rate of return on assets	9.0%	8.6%	7.8%

Plan assets in excess of projected benefit obligation were as follows:

<i>(In millions)</i>	December 31, 1997	December 31, 1996
Plan assets at fair value, primarily listed stocks, government securities and pooled investment funds	\$2,615.7	\$2,359.2
Actuarial present value of benefit obligation:		
Vested benefit obligation	1,781.7	1,573.4
Non-vested benefit obligation	—	91.1
Accumulated benefit obligation	1,781.7	1,664.5
Additional benefits related to future compensation levels	142.4	172.8
Projected benefit obligation	1,924.1	1,837.3
Plan assets in excess of projected benefit obligation	\$ 691.6	\$ 521.9

<i>(In millions)</i>	December 31, 1997	December 31, 1996
Plan assets in excess of projected benefit obligation:		
Included in balance sheet:		
Prepaid pension cost	\$ 379.7	\$ 352.5
Other long-term liabilities	(10.4)	(4.0)
Not included in balance sheet:		
Unrecognized net gain due to experience different from that assumed and changes in the discount rate	276.9	90.5
Unrecognized net asset at adoption of SFAS No. 87, net of amortization	131.4	161.9
Unrecognized prior service cost	(86.0)	(79.0)
Plan assets in excess of projected benefit obligation	\$ 691.6	\$ 521.9

Any reversion of pension plan assets to the Company would be subject to federal and state income taxes, substantial excise tax and other possible claims.

Discount rates of 7.0% at December 31, 1997 and 7.25% at December 31, 1996 were used for the valuation of pension obligations.

Other Postretirement Benefit Plans

The Company sponsors several defined benefit postretirement plans covering certain salaried and hourly employees. The plans provide health care and life insurance benefits for eligible retirees. In certain plans, Company contributions towards premiums are

capped based on the cost as of a certain date thereby creating a defined contribution.

Cash from excess pension assets of \$31.9 million in 1997 and \$30.5 million in 1996 was transferred pre-tax under Section 420 of the Internal Revenue Code from the Company's defined benefit pension plans to the Company. The Internal Revenue Code permits transfers annually of an amount not to exceed the Company's actual expenditures on retiree health care benefits. While not affecting reported operating profit, cash flow increased by the after-tax effect of the transferred amount.

Components of postretirement benefit expense included the following:

<i>(In millions)</i>	Expense (Income)		
	1997	1996	1995
Service cost - benefits earned during the year	\$ 7.8	\$ 7.9	\$ 6.9
Interest cost on benefits earned in prior years	43.4	46.1	46.7
Expected return on plan assets	(8.4)	(6.5)	(4.7)
Net amortization of unrecognized amounts	(0.7)	2.3	0.5
Postretirement benefit expense	\$42.1	\$49.8	\$49.4

Actual return on plan assets was \$21.7 million in 1997, \$5.4 million in 1996 and \$4.8 million in 1995. Discount rates of 7.25% in 1997, 7.5% in 1996 and 7.7% in 1995 were used in determining the postretirement benefit expense. The annual assumed rate of increase in the per capita cost of covered benefits (the health care cost trend rate) for health care plans was 8.21% in 1997 and was assumed to decrease to 5.00% in the year 2002 and remain at that level thereafter. The health care cost trend rate assumption had a significant effect on the amounts reported. If the assumed health care cost trend rates were increased by one percentage point in each year, this would increase the accumulated postretirement benefit obligation ("APBO") for health care plans at December 31, 1997 by \$82.3 million and the postretirement benefit expense for 1997 by \$6.7 million.

The following table sets forth the postretirement benefit plans' combined funded status reconciled with the amounts recognized in the balance sheet:

<i>(In millions)</i>	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	\$452.9	\$441.7
Other fully eligible plan participants	82.2	72.5
Other active plan participants	133.4	121.9
Total accumulated postretirement benefit obligation	668.5	636.1
Less plan assets at fair value	79.6	52.5
Accumulated postretirement benefit obligation in excess of plan assets	588.9	583.6
Unrecognized net loss	(32.8)	(35.1)
Unrecognized prior service cost	16.7	19.0
Accrued postretirement benefit cost	\$572.8	\$567.5

The Company intends to make transfers of excess pension assets to the extent and for each year permitted under Section 420 of the Internal Revenue Code. Under the assumptions set forth above and assuming that the expiration date of Section 420 of the Internal Revenue Code is deferred, the present value of excess pension assets available for transfer under Section 420 is sufficient to fund more than 50% of the present value of the accumulated postretirement benefit cost of the Company as a whole including those attributable to each of its subsidiaries.

At the end of 1997, approximately one-half of the plan assets for the postretirement benefit plans were invested in marketable securities and one-half in limited partnership funds. The Company's Chairman, President and Chief Executive Officer serves on the advisory boards of the limited partnership funds.

The discount rates used in determining the APBO were 7.0% at December 31, 1997 and 7.25% at December 31, 1996. The expected long-term rate of return on plan assets ranged from 9% to 15% in 1997 and 1996.

Note 10. Divestitures and Acquisitions —

In 1997, the Company announced a program of divesting businesses which did not meet long-term criteria for critical mass, strategic fit and opportunities for growth. During the year, the Company sold six businesses which manufactured collapsible metal and laminate packaging tubes, (including Envases Comerciales S.A., which was acquired in December 1995), thread cutting and rolling machines, electric heating elements, metal dies and plastic compression molds, welded stainless tubular products, and operated job training centers for the U.S. government. In addition, the Company sold its equity interest in Nitinol Development Corporation. The pretax gain recognized on the sales of these non-strategic businesses was \$35.4 million. The pretax proceeds from these sales totaled \$77.2 million in 1997. The Company continues to work on the divestiture of other non-strategic businesses.

In 1996, the Company sold its defense vehicle business. The pretax gain and proceeds on the sale of this business were \$41.0 million and \$59.2 million, respectively. In May 1996, the Company acquired Jandy Industries, a United States producer of water flow control valves and electronic control systems for the swimming pool industry. The business was purchased for \$13.5 million in cash. In connection with the purchase, the Company acquired operating assets with a fair value of \$20.9 million and assumed operating liabilities of \$7.4 million.

In 1995, the Company sold its defense electronic systems business, recognizing a pretax gain of \$50.7 million. The pretax proceeds on this sale were \$60.1 million. In January 1995, the Company acquired the material handling business of Kooi B.V., a Netherlands company that is a European supplier of material handlers. In December 1995, the Company acquired two businesses: Stellram Group, based in

Europe, manufacturers of high precision milling, boring and drilling systems primarily for the European market; and Envases Comerciales, S.A., a Costa Rican manufacturer of specialty packaging for pharmaceutical and food companies throughout Central America and Mexico. These three businesses were purchased for \$59.5 million, consisting of \$43.2 million in cash and the assumption of \$16.3 million in debt. In connection with these purchases, the Company acquired operating assets with a fair value of \$87.9 million and assumed operating liabilities of \$28.4 million.

Note 11. Business Segments —

Allegheny Teledyne is a group of technology-based manufacturing businesses serving worldwide customers with specialty metals for consumer, industrial and aerospace applications; commercial and government-related aerospace and electronics products; and industrial and consumer products.

Information on the Company's business segments was as follows:

<i>(In millions)</i>	1997	1996	1995
Sales:			
Specialty metals	\$1,934.3	\$1,915.7	\$2,070.3
Aerospace and electronics	927.0	970.0	897.1
Industrial	532.0	515.7	465.8
Consumer	253.8	228.3	218.2
Total continuing operations	3,647.1	3,629.7	3,651.4
Operations sold or held for sale	98.0	185.9	396.7
Total sales	\$3,745.1	\$3,815.6	\$4,048.1

The Company's backlog of confirmed orders was approximately \$1.3 billion at December 31, 1997 and \$1.2 billion at December 31, 1996. Backlog of the

specialty metals segment was \$631.9 million at December 31, 1997 and \$578.0 million at December 31, 1996.

<i>(In millions)</i>	1997	1996	1995
Sales to the U.S. Government including direct sales as prime contractor and indirect sales as subcontractor:			
Specialty metals	\$ 47.0	\$ 66.9	\$ 37.3
Aerospace and electronics	428.1	543.1	485.5
Industrial and consumer	2.1	2.3	3.5
Operations sold or held for sale	31.9	70.4	234.1
Total sales to U.S. Government	\$ 509.1	\$ 682.7	\$ 760.4

Sales to the U.S. Government included sales to the Department of Defense of \$342.6 million in 1997, \$450.5 million in 1996 and \$613.4 million in 1995.

Total foreign sales were \$647.6 million in 1997, \$652.6 million in 1996 and \$626.2 million in 1995. Of these amounts, sales by operations in the United

States to customers in other countries were \$471.5 million in 1997, \$440.5 million in 1996 and \$517.1 million in 1995. Sales between business segments, which were not material, generally were priced at prevailing market prices.

<i>(In millions)</i>	1997	1996	1995
Operating profit:			
Specialty metals	\$267.4	\$268.0	\$294.1
Aerospace and electronics	90.3	100.4	85.1
Industrial	60.7	48.5	39.3
Consumer	34.5	14.3	10.1
Total operating profit	452.9	431.2	428.6
Merger and restructuring costs	(11.2)	(57.5)	(6.4)
Corporate expenses	(31.0)	(40.1)	(41.8)
Interest expense, net	(19.6)	(34.7)	(37.6)
Operations sold or held for sale	66.9	68.6	90.8
Excess pension income	17.2	17.2	7.3
Income before income taxes and extraordinary loss	\$475.2	\$384.7	\$440.9

Operating results for operations sold or held for sale included pretax gains on the divestiture of certain non-strategic businesses and the related operating profit of those businesses. Also included was a gain in 1997 of \$27.6 million on the sale of the Company's investment in Semtech Corporation common stock and a gain of \$20.3 million in 1996 on the sale of surplus real estate in California. These amounts are included with other income in the statements of income for the respective periods. In addition, operating results for operations sold or held for sale included a charge of \$5.3 million

to write off the Company's investment in a research and development venture in 1997 and charges of \$6.8 million in 1997 and \$7.7 million in 1996 to settle certain U.S. Government contracting matters relating to former Teledyne businesses. Merger and restructuring expenses included proxy expenses in 1995.

Excess pension income represents the amount of pension income in excess of amounts allocated to business segments to offset pension and other postretirement benefit expenses.

<i>(In millions)</i>	1997	1996	1995
Depreciation and amortization:			
Specialty metals	\$ 60.8	\$ 65.4	\$ 64.8
Aerospace and electronics	12.2	13.5	15.7
Industrial	12.6	14.0	12.2
Consumer	5.9	4.5	5.5
Corporate and operations sold or held for sale	7.0	7.9	12.7
	\$ 98.5	\$ 105.3	\$ 110.9
Capital expenditures:			
Specialty metals	\$ 48.4	\$ 42.7	\$ 54.6
Aerospace and electronics	15.2	16.1	13.3
Industrial	20.9	16.9	15.6
Consumer	7.4	7.0	5.2
Corporate and operations sold or held for sale	4.4	5.9	5.1
	\$ 96.3	\$ 88.6	\$ 93.8
Identifiable assets:			
Specialty metals	\$1,285.5	\$1,244.6	\$1,289.1
Aerospace and electronics	274.5	276.6	254.8
Industrial	249.8	250.6	192.9
Consumer	116.8	120.5	99.0
Corporate:			
Pension asset	379.7	352.5	314.9
Other	272.3	301.2	323.5
Operations sold or held for sale	25.9	60.4	154.7
	\$2,604.5	\$2,606.4	\$2,628.9

Note 12.
Summarized Financial Information of Allegheny Ludlum and Teledyne —

Summarized financial information for Allegheny Ludlum and Teledyne is presented below:

Balance Sheets:

<i>(In millions)</i>	Allegheny Ludlum December 31		Teledyne December 31	
	1997	1996	1997	1996
Current assets	\$450.8	\$450.8	\$796.5	\$748.0
Non-current assets	945.0	862.3	371.2	449.1
Current liabilities	171.1	196.7	383.5	394.4
Non-current liabilities	491.1	489.0	572.8	578.7

Statements of Operations:

<i>(In millions)</i>	Allegheny Ludlum			Teledyne		
	1997	1996	1995	1997	1996	1995
Sales	\$1,194.9	\$1,277.8	\$1,494.3	\$2,554.5	\$2,551.5	\$2,553.8
Gross profit	168.9	223.5	234.2	730.8	676.6	655.0
Net income before extraordinary loss on redemption of debt	62.0	73.2	114.8	222.9	144.1	162.0
Net income	62.0	73.2	111.9	222.9	130.6	162.0

In 1996, the underfunded defined benefit pension plans of Allegheny Ludlum were merged with overfunded defined benefit pension plans of Teledyne, and Allegheny Teledyne became the plan sponsor. As a result, the summarized balance sheet information presented for Allegheny Ludlum and Teledyne does not include the Allegheny Teledyne net prepaid pension

asset or the related deferred taxes. Solely for purposes of this presentation, pension income has been allocated to Allegheny Ludlum and Teledyne to offset pension and postretirement expenses which may be funded with pension assets. This allocated pension income has not been recorded in the financial statements of Allegheny Ludlum or of Teledyne.

Note 13.
Earnings Per Share —

The following table sets forth the computation of basic and diluted net income per common share:

(In millions except per share amounts)

Years ended December 31,	1997	1996	1995
Numerator:			
Income before Extraordinary Loss	\$297.6	\$226.5	\$276.8
Extraordinary Loss on Redemption of Debt	—	(13.5)	(2.9)
Dividends on Preferred Stock	—	(2.0)	(1.6)
Numerator for Basic Net Income per Common Share —			
Net Income Available to Common Stockholders	297.6	211.0	272.3
Effect of Dilutive Securities:			
5.875% Allegheny Ludlum Convertible Debentures	—	—	3.2
Numerator for Diluted Net Income per Common Share —			
Net Income Available to Common Stockholders after Assumed Conversions	\$297.6	\$211.0	\$275.5
Denominator:			
Weighted Average Shares	175.2	174.1	176.4
Contingent Issuable Stock	0.2	0.4	0.1
Denominator for Basic Net Income per Common Share			
Denominator for Basic Net Income per Common Share	175.4	174.5	176.5
Effect of Dilutive Securities:			
Employee Stock Options	3.0	3.4	1.9
5.875% Allegheny Ludlum Convertible Debentures	—	—	4.5
Dilutive Potential Common Shares			
Dilutive Potential Common Shares	3.0	3.4	6.4
Denominator for Diluted Net Income per Common Share - Adjusted Weighted Average Shares and Assumed Conversions			
Denominator for Diluted Net Income per Common Share - Adjusted Weighted Average Shares and Assumed Conversions	178.4	177.9	182.9
Basic Net Income per Common Share:			
Income before Extraordinary Loss	\$ 1.70	\$ 1.28	\$ 1.56
Extraordinary Loss	—	(0.08)	(0.02)
Basic Net Income per Common Share			
Basic Net Income per Common Share	\$ 1.70	\$ 1.20	\$ 1.54
Diluted Net Income per Common Share:			
Income before Extraordinary Loss	\$ 1.67	\$ 1.27	\$ 1.53
Extraordinary Loss	—	(0.08)	(0.02)
Diluted Net Income per Common Share			
Diluted Net Income per Common Share	\$ 1.67	\$ 1.19	\$ 1.51

For additional disclosures regarding the employee stock options and contingent stock-acquisition arrangements, see Note 7.

Note 14. Commitments and Contingencies —

Rental expense under operating leases was \$29.3 million in 1997, \$31.1 million in 1996 and \$30.2 million in 1995. Future minimum rental commitments under operating leases with non-cancelable terms of more than one year as of December 31, 1997, were as follows: \$16.4 million in 1998, \$16.8 million in 1999, \$14.8 million in 2000, \$13.4 million in 2001, \$11.7 million in 2002 and \$45.4 million thereafter.

The Company is subject to federal, state and local environmental laws and regulations which require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which the Company has been identified as a potentially responsible party under the federal Superfund laws and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under these laws.

In accordance with the Company's accounting policy disclosed in Note 1, environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable. In many cases, however, investigations are not yet at a stage where the Company has been able to determine whether it is liable or, if liability is probable, to reasonably estimate the loss or range of loss, or certain components thereof. Estimates of the Company's liability are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required, and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation. Accordingly, as investigation and remediation of these sites proceeds, it is likely that adjustments in the Company's accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the Company's results of operations in a given period, but the amounts, and the possible range of loss in excess of the amounts accrued, are not reasonably estimable. Based on currently available information, however, management does not believe that future environmental costs in excess of those accrued with respect to sites with which the Company has been identified are likely to have a material adverse effect on the Company's financial condition or liquidity. However, there can be no assurance that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on the Company's financial condition or results of operations.

At December 31, 1997, the Company's reserves for environmental remediation obligations totaled approximately \$40 million, of which approximately

\$11 million was included in other current liabilities. The reserve includes estimated probable future costs of \$11 million for federal Superfund and comparable state-managed sites; \$5 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; \$6 million for owned or controlled sites at which Company operations have been discontinued; and \$18 million for sites utilized by the Company in its ongoing operations. The Company is evaluating whether it may be able to recover a portion of future costs for environmental liabilities from its insurance carriers and from third parties other than participating potentially responsible parties.

The timing of expenditures depends on a number of factors that vary by site, including the nature and extent of contamination, the number of potentially responsible parties, the timing of regulatory approvals, the complexity of the investigation and remediation, and the standards for remediation. The Company expects that it will expend present accruals over many years, and will complete remediation of all sites with which it has been identified in up to thirty years.

In 1996, AICPA Statement of Position 96-1, Environmental Remediation Liabilities, was issued which established accounting standards for recognition of environmental costs. This statement, which was adopted in 1997, did not have a material effect on the consolidated financial statements.

Various claims (whether based on U.S. Government or Company audits and investigations or otherwise) have been or may be asserted against the Company related to its U.S. Government contract work, including claims based on business practices and cost classifications and actions under the False Claims Act. Although such claims are generally resolved by detailed fact-finding and negotiation, on those occasions when they are not so resolved, civil or criminal legal or administrative proceedings may ensue. Depending on the circumstances and the outcome, such proceedings could result in fines, penalties, compensatory and treble damages or the cancellation or suspension of payments under one or more U.S. Government contracts. Under government regulations, a company, or one or more of its operating divisions or units, can also be suspended or debarred from government contracts based on the results of investigations. However, although the outcome of these matters cannot be predicted with certainty, management does not believe there is any audit, review or investigation currently pending against the Company of which management is aware that is likely to result in suspension or debarment of the Company, or that is otherwise likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

In October 1996, the Company reached an agreement in principle with the U.S. Government for a joint

settlement of two cases (one involving the Company's former Teledyne Neosho unit, divested in 1992 and the other involving the Company's former Thermatics unit, divested in 1996) for an aggregate of \$11.5 million. The settlement was finalized and the Company made payment in December 1996. The matter involving the former Neosho unit involved an action brought in 1991 under the False Claims Act in the U.S. District Court for the Western District of Missouri and related to alleged misappropriations of government-owned aircraft parts and falsification of inventory control documents. The matter involving the former Thermatics unit commenced in 1993 when Thermatics sought admission into the Department of Defense Voluntary Disclosure Program with respect to testing practices at variance from military specifications. Established reserves for these matters in 1994 amounted to \$3.8 million.

The Company learns from time to time that it has been named as a defendant in civil actions filed under seal pursuant to the False Claims Act. Generally, since such cases are under seal, the Company does not in all cases possess sufficient information to determine whether the Company could sustain a material loss in connection with such cases, or to reasonably estimate the amount of any loss attributable to such cases. A number of other lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its business, including those pertaining to product liability, patent infringement, commercial, employment, employee benefits and stockholder matters. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

Note 15. Acquisition of Oregon Metallurgical Corporation —

In October 1997, the Company announced that it had entered into a definitive merger agreement to acquire Oregon Metallurgical Corporation ("OREMET") in a transaction valued at \$553 million using December 31, 1997 values. Under the terms of the merger agreement, each outstanding share of OREMET common stock will be converted into 1.296 shares of Allegheny Teledyne common stock. OREMET is an integrated producer and distributor of titanium sponge, ingot, mill products and castings for use in the aerospace, industrial, recreational, and military markets with 850 employees. It operates manufacturing and finishing facilities in Oregon and Pennsylvania and has nine service centers in the United States, with additional centers in the United Kingdom, Germany, Singapore, and Canada.

The merger is expected to be tax-free to OREMET shareholders and will be accounted for under the pooling of interest method.

The following table shows unaudited pro forma sales for the year ended December 31, 1997, after giving effect to the proposed acquisition:

(In millions)

Business Segment:	Sales	% of Total
Specialty Metals		
- Commodity		
stainless steel	\$ 573.5	14.6%
- Premium stainless steel	402.0	10.2
- Titanium	449.6	11.4
- Nickel-based superalloys	278.6	7.1
- Other specialty metals	515.6	13.1
Subtotal	2,219.3	56.4
Aerospace and Electronics	927.0	23.6
Industrial	532.0	13.5
Consumer	253.8	6.5
Total Continuing Operations	3,932.1	100.0%
Operations sold or held for sale	98.0	
Total Sales	\$ 4,030.1	

Combined net income and basic and diluted earnings per share of the two companies, based on unaudited pro forma financial results for the year ending December 31, 1997, were \$328.8 million, \$1.67 and \$1.64 per share, respectively. Combined assets totaled \$2.9 billion. Unaudited pro forma combined net equity was nearly \$1.2 billion; net debt to total capitalization improved to 18 percent. The effect of conforming accounting policies is not expected to be material.

The transaction is subject to the approval of the shareholders of OREMET, as well as other customary closing conditions. The meeting of OREMET shareholders to vote on the merger is scheduled to be held on March 24, 1998.

The following unaudited pro forma consolidated balance sheet gives effect to the merger by combining the respective balance sheets of the Company and OREMET as of December 31, 1997 on a pooling of interests basis. The following unaudited pro forma consolidated statements of income give effect to the merger by combining the respective statements of income for the Company and OREMET for the years ended December 31, 1997, 1996 and 1995. The unaudited pro forma consolidated statements of income do not give effect to anticipated expenses and nonrecurring charges related to the merger and the estimated revenue enhancements and expense savings associated with the combination of the operations of the Company and OREMET. With respect to the unaudited pro forma earnings per share computations, shares have been adjusted to the equivalent shares of the Company for each year.

Allegheny Teledyne Incorporated

Unaudited Pro Forma Consolidated Balance Sheets

<i>(In millions)</i>	December 31, 1997			
	Allegheny Teledyne	OREMET	Pro Forma Adjustments	Pro Forma
Assets:				
Cash and cash equivalents	\$ 50.3	\$ 3.4	\$	\$ 53.7
Short-term investments available-for-sale	—	34.4		34.4
Accounts receivable	518.0	58.0		576.0
Inventories	582.4	115.5		697.9
Deferred income taxes	37.0	3.3		40.3
Tax refund	9.4	—		9.4
Prepaid expenses and other current assets	31.6	0.7		32.3
Total Current Assets	1,228.7	215.3		1,444.0
Property, plant and equipment	687.7	66.1		753.8
Prepaid pension cost	379.7	—		379.7
Cost in excess of net assets acquired	169.9	16.6		186.5
Other assets	138.5	0.8	(5.1)	134.2
Total Assets	\$2,604.5	\$298.8	\$ (5.1)	\$2,898.2
Liabilities and Stockholders' Equity:				
Accounts payable	\$ 247.5	\$ 20.4	\$	\$ 267.9
Accrued liabilities	311.2	17.6	13.0	341.8
Current portion of long-term debt	2.8	1.9		4.7
Total Current Liabilities	561.5	39.9	13.0	614.4
Long-term debt	326.1	4.3		330.4
Accrued postretirement benefits	572.8	1.7		574.5
Other	144.4	8.0	(5.1)	147.3
Total Liabilities	1,604.8	53.9	7.9	1,666.6
Stockholders' equity:				
Common stock	17.6	16.6	(14.4)	19.8
Additional paid-in-capital	290.7	158.4	14.4	463.5
Retained earnings	752.7	69.9	(13.0)	809.6
Treasury stock	(60.2)	—		(60.2)
Other	(1.1)	—		(1.1)
Total Stockholders' Equity	999.7	244.9	(13.0)	1,231.6
Total Liabilities and Stockholders' Equity	\$2,604.5	\$298.8	\$ (5.1)	\$2,898.2

Pro forma adjustments include the reclassification of \$5.1 million of deferred income tax liabilities and the recording of a \$13.0 million reserve to reflect management's estimate of anticipated expenses related

to the merger. The capital accounts have been adjusted to reflect the issuance of 21.4 million shares of Allegheny Teledyne common stock in exchange for all the outstanding shares of OREMET common stock.

Allegheny Teledyne Incorporated

Unaudited Pro Forma Consolidated Statements of Income

(In millions, except per share and share data)

Years ended December 31	1997	1996	1995
Sales	\$4,030.1	\$4,052.6	\$4,194.9
Costs and expenses:			
Cost of sales	3,039.6	3,081.0	3,289.9
Selling and administrative expenses	511.1	538.2	495.1
Merger and restructuring costs	11.2	57.5	6.4
Interest expense, net	16.9	35.1	39.7
	3,578.8	3,711.8	3,831.1
Earnings before Other Income	451.3	340.8	363.8
Other Income	72.9	77.6	74.2
Income before Income Taxes and Extraordinary Loss	524.2	418.4	438.0
Provision for Income Taxes	195.4	169.6	163.7
Income before Extraordinary Loss	328.8	248.8	274.3
Extraordinary Loss on Redemption of Debt, Net of Income Tax Benefit	—	(13.5)	(2.9)
Net Income	328.8	235.3	271.4
Dividends on Preferred Stock	—	2.0	1.6
Net Income Available to Common Stockholders	\$ 328.8	\$ 233.3	\$ 269.8
Basic Net Income Per Common Share:			
Income before Extraordinary Loss	\$ 1.67	\$ 1.29	\$ 1.44
Extraordinary Loss	—	(0.07)	(0.02)
Basic Net Income per Common Share	\$ 1.67	\$ 1.22	\$ 1.42
Diluted Net Income per Common Share:			
Income before Extraordinary Loss	\$ 1.64	\$ 1.27	\$ 1.39
Extraordinary Loss	—	(0.07)	(0.01)
Diluted Net Income Per Common Share	\$ 1.64	\$ 1.20	\$ 1.38
Weighted average common shares outstanding	196,369,564	190,856,426	190,539,957

Note 16. Subsequent Events —

Agreements with Bethlehem Steel Corporation

In January 1998, Bethlehem Steel Corporation (“Bethlehem”) and the Company jointly announced that they had entered into three agreements that would become effective after Bethlehem closes its previously announced acquisition of Lukens Inc. (“Lukens”).

Under these agreements, Bethlehem would provide the Company with conversion services for stainless steel hot bands and coiled plate wider than the Company can currently produce; the Company would purchase certain assets that Lukens uses in the manufacture of stainless steel products; and the Company would supply hot roll bands to Bethlehem for further processing on the stainless steel coil finishing facilities that Lukens currently owns.

Under the conversion agreement, Bethlehem has agreed, for a 20-year period, to provide the Company with up to 15 percent of the available time on Lukens’ Coatesville, Pennsylvania electric furnace melt shop and caster and Lukens’ Conshohocken, Pennsylvania Steckel mill for the melting, casting and rolling of the Company’s wide stainless steel products.

Under the asset sales agreement, the Company would acquire certain assets of Lukens for \$175 million. These assets include the Houston, Pennsylvania plant of Lukens’ Washington Steel Division, which is used for the melting, casting and rolling of stainless steel hot bands; the wide anneal and pickle line recently installed at Lukens’ Massillon, Ohio plant; and the vacuum-oxygen decarburization unit used in the refining of stainless steel at Lukens’ Coatesville, Pennsylvania plant.

Under the hot band supply agreement, the Company would supply Bethlehem with up to 150,000 tons of stainless bands for further processing at Lukens’ stainless cold finishing facilities at its Washington, Pennsylvania and Massillon plants until Bethlehem sells these facilities, as previously announced.

The agreements are subject to the completion of Bethlehem’s acquisition of Lukens as well as customary closing conditions. It is anticipated that the agreements will be effective and that the asset purchases will be closed soon after Bethlehem’s acquisition of Lukens is consummated.

Aerospace Division of Sheffield Forgemasters

In February 1998, the Company acquired the assets of the aerospace division of Sheffield Forgemasters Limited, a private company in the United Kingdom, for approximately \$110 million in an all-cash transaction.

Sheffield Forgemasters’ aerospace division consists of three companies in the United Kingdom as well as two sales companies in the United States:

- Special Melted Products Limited, which produces high integrity vacuum melted and remelted steel and nickel alloys in various forms;
- Jessop Saville Limited, which produces non-magnetic drill collars and downhole components for the oil and gas industry; and
- Commercial Testing Services Limited, which offers high technology testing services to the steel and related metals manufacturing industries.

The acquisition of these companies is expected to provide significant support to the Company’s high performance metals businesses, primarily Allvac, as well as enhance service to customers by improving sales and distribution of nickel-based alloys and titanium in Europe. The acquisition provides additional vacuum melting, vacuum consumable remelting, electroslag remelting, and forging capacity, which will complement Allvac’s facilities. The division’s GFM forging machine is one of the largest in the world.

Note 17.
Quarterly Data (Unaudited) —

<i>(In millions except share and per share amounts)</i>	Quarter Ended			
	March 31	June 30	September 30	December 31
1997 —				
Sales	\$957.9	\$957.1	\$909.2	\$920.9
Gross profit	226.1	240.3	210.6	239.3
Net income	63.4	87.0	64.3	82.9
Basic net income per common share	\$ 0.36	\$ 0.50	\$ 0.37	\$ 0.48
Diluted net income per common share	\$ 0.35	\$ 0.49	\$ 0.36	\$ 0.47
Average shares outstanding	175,163,476	175,766,313	175,508,743	174,374,636
1996 —				
Sales	\$1,017.9	\$997.7	\$879.7	\$920.3
Gross profit	222.3	237.5	215.7	238.4
Income before extraordinary loss	81.6	60.4	19.6	64.9
Extraordinary loss on redemption of debt	—	—	—	(13.5)
Net income	81.6	60.4	19.6	51.4
Basic net income per common share:				
Income before extraordinary loss	\$ 0.46	\$ 0.34	\$ 0.11	\$ 0.38
Extraordinary loss	—	—	—	(0.08)
Basic net income per common share	\$ 0.46	\$ 0.34	\$ 0.11	\$ 0.30
Diluted net income per common share:				
Income before extraordinary loss	\$ 0.46	\$ 0.33	\$ 0.11	\$ 0.37
Extraordinary loss	—	—	—	(0.08)
Diluted net income per common share	\$ 0.46	\$ 0.33	\$ 0.11	\$ 0.29
Average shares outstanding	174,122,080	173,841,171	174,068,161	174,297,782

The 1996 and first three quarters of 1997 earnings per share amounts have been restated to comply with Statement of Financial Accounting Standards No. 128, "Earnings per Share."

Net income for the 1997 first quarter included an after-tax gain of \$9.2 million on the sale of the Company's investment in Nitinol Development Corporation partially offset by after-tax charges of \$7.9 million from merger and restructuring costs and the write-off of a research and development venture.

The 1997 second quarter net income included after-tax gains of \$18.9 million on the sale of the Company's investment in Semtech Corporation common stock and other investments. These gains were partially offset by after-tax charges of \$6.7 million for a legal settlement of a U.S. Government contract dispute related to a unit divested in 1995 and merger and restructuring costs.

Net income for the 1997 third quarter included a net after-tax gain of \$3.9 million on the sale of a business which operated job training centers for the U.S. Government partially offset by a charge relating to legal matters.

The 1997 fourth quarter net income included a net after-tax gain of \$6.3 million on divestitures of businesses which manufactured collapsible metal and laminate packaging tubes, electric heating elements and metal dies and plastic compression molds.

Net income for 1996 included after-tax gains of \$24.8 million on sale of the Teledyne defense vehicle business in the first quarter, and \$12.8 million on the sale of surplus California real estate in the fourth quarter.

Net income for 1996 was adversely affected by after-tax merger and restructuring charges of \$5.2 million in the second quarter, \$26.3 million in the third quarter and \$11.4 million in the fourth quarter. In addition, the 1996 fourth quarter included an after-tax charge of \$4.7 million for settlement of legal cases involving U.S. Government contracting issues related to divested operations of Teledyne.

The Company paid a cash dividend of \$0.16 per share on its common stock in each of the 1997 quarters and in the fourth quarter of 1996.

Allegheny Ludlum paid cash dividends in 1996 of \$0.13 per share in each of the first and second quarters, and \$0.16 per share in the third quarter.

Teledyne paid cash dividends in 1996 of \$0.12 per equivalent common share in the first quarter and \$0.16 per equivalent common share in each of the second and third quarters. In addition, a dividend of \$0.08 per equivalent share in face amount of Teledyne's Series E Cumulative Preferred Stock was paid in the 1996 first quarter.

Common Stock Price

(Per quarter)

1997	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Allegheny Teledyne Incorporated				
High	\$29½	\$28⅞	\$32 ¹³ / ₁₆	\$29⅞
Low	\$21	\$25⅞	\$25⅞	\$23⅞
1996				
Allegheny Teledyne Incorporated (from August 16)				
High	—	—	\$23½	\$23¾
Low	—	—	\$19⅞	\$20⅞
Allegheny Ludlum Corporation (through August 15)				
High	\$21 ¹ / ₁₆	\$21⅞	\$21⅞	—
Low	\$18	\$17⅞	\$18¼	—
Teledyne, Inc. (through August 15)				
High	\$29¾	\$40⅞	\$40⅞	—
Low	\$24⅞	\$27¾	\$34¾	—

Note: All stock prices are as historically presented.

On August 15, 1996, Allegheny Ludlum Corporation (“Allegheny Ludlum”) and Teledyne, Inc. (“Teledyne”) became wholly owned subsidiaries of Allegheny Teledyne Incorporated (“Allegheny Teledyne”). Allegheny Ludlum shareholders received one share of Allegheny Teledyne common stock for each one of their Allegheny Ludlum common shares. Teledyne stockholders received 1.925

shares of Allegheny Teledyne common stock for each of their Teledyne common shares.

Allegheny Teledyne common stock is listed on the New York Exchange, under the symbol “ALT.” As of December 31, 1997, there were approximately 9,213 record holders of Allegheny Teledyne common stock.

Management's Report

The accompanying consolidated financial statements of Allegheny Teledyne Incorporated and subsidiaries have been prepared in accordance with generally accepted accounting principles and include some amounts that are based upon Management's best estimates and judgments. Management has the primary responsibility for the information contained in the financial statements and in other sections of this Annual Report and for their integrity and objectivity.

The Company has a system of internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded for the preparation of financial information. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal accounting control and that the cost of such systems should not exceed the benefits to be derived.

The Company maintains a staff of professional internal auditors, who assist in audit coverage with the independent accountants and conduct operational and special audits. The independent accountants express their opinion on the Company's financial statements based on procedures, including an evaluation of internal controls, which they consider to be sufficient to form their opinion.

The Audit and Finance Committee of the Board of Directors is composed of five non-employee members. Among its principal duties, the Committee is responsible for recommending the independent accountants to conduct the annual audit of the Company's financial statements and for reviewing the financial reporting and accounting practices.



R. P. Simmons
Chairman, President and Chief Executive Officer



J. L. Murdy
Executive Vice President,
Finance and Administration and Chief Financial Officer



D. G. Reid
Vice President,
Controller and Chief Accounting Officer

Selected Financial Data

(In millions except per share amounts)

For the Years Ended December 31	1997	1996	1995	1994	1993
Sales:					
Continuing	\$3,647.1	\$3,629.7	\$3,651.4	\$2,986.4	\$2,974.3
Operations sold or held for sale	98.0	185.9	396.7	470.9	587.7
	\$3,745.1	\$3,815.6	\$4,048.1	\$3,457.3	\$3,562.0
Income, after tax, before extraordinary loss and cumulative effect of accounting change					
	\$ 297.6	\$ 226.5	\$ 276.8	\$ 9.8	\$ 143.6
Extraordinary loss on redemption of debt	—	(13.5)	(2.9)	—	(3.7)
Cumulative effect of accounting change	—	—	—	—	(185.6)
Net income (loss)	\$ 297.6	\$ 213.0	\$ 273.9	\$ 9.8	\$ (45.7)
Basic income (loss) per common share:					
Income after tax, before extraordinary loss and cumulative effect of accounting change					
	\$ 1.70	\$ 1.28	\$ 1.56	\$ 0.06	\$ 0.83
Extraordinary loss on redemption of debt	—	(0.08)	(0.02)	—	(0.02)
Cumulative effect of accounting change	—	—	—	—	(1.07)
Basic net income (loss) per common share	\$ 1.70	\$ 1.20	\$ 1.54	\$ 0.06	\$ (0.26)
Diluted income (loss) per common share:					
Income after tax, before extraordinary loss and cumulative effect of accounting change					
	\$ 1.67	\$ 1.27	\$ 1.53	\$ 0.06	\$ 0.82
Extraordinary loss on redemption of debt	—	(0.08)	(0.02)	—	(0.02)
Cumulative effect of accounting change	—	—	—	—	(1.04)
Diluted net income (loss) per common share	\$ 1.67	\$ 1.19	\$ 1.51	\$ 0.06	\$ (0.24)
Dividends declared:					
Allegheny Teledyne	\$ 0.64	\$ 0.16	\$ —	\$ —	\$ —
Allegheny Ludlum	\$ —	\$ 0.42	\$ 0.49	\$ 0.48	\$ 0.47
Teledyne	\$ —	\$ 0.52	\$ 0.52	\$ —	\$ 0.42
Working capital	\$ 667.2	\$ 614.0	\$ 679.8	\$ 540.1	\$ 635.8
Total assets	\$2,604.5	\$2,606.4	\$2,628.9	\$2,479.4	\$2,535.1
Long-term debt	\$ 326.1	\$ 443.4	\$ 561.1	\$ 489.7	\$ 495.5
Redeemable preferred stock	\$ —	\$ —	\$ 33.1	\$ —	\$ —
Stockholders' equity	\$ 999.7	\$ 871.5	\$ 785.8	\$ 655.4	\$ 686.3

The historical selected financial data reflects the results of Allegheny Ludlum and of Teledyne as if they had been combined for all periods presented.

The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, "Earnings per Share."

Net income included after-tax gains of \$34.1 million on the divestitures of certain non-strategic businesses and the sale of investments in Semtech Corporation common stock and Nitinol Development Corporation in 1997, \$37.6 million on the sale of the Teledyne defense vehicle business and surplus California real estate in 1996, \$30.3 million on the sale of the Teledyne defense electronic systems business in 1995 and \$24.2 million on the sale of an investment in Litton Industries common stock in 1993.

Net income was adversely affected by after-tax merger, restructuring and proxy contest charges of \$6.8 million in 1997, \$42.9 million in 1996 and \$3.9 million in 1995.

Results of operations included after-tax charges of \$4.1 million in 1997, \$4.7 million in 1996, \$88.0 million in 1994 and \$10.7 million in 1993 related to Teledyne's settlement of certain legal matters with the U.S. Government.

Results for 1994 were adversely affected by a ten-week strike at Allegheny Ludlum called by the United Steelworkers of America.

Net losses for 1993 included charges of \$185.6 million for the cumulative effect of changing the accounting for postretirement health care and life insurance benefits for Teledyne in 1993.

Teledyne dividends declared included \$0.08 per equivalent share in 1996 and \$0.31 per equivalent share in 1995 paid in face amount of Teledyne's Series E Cumulative Preferred Stock. The Teledyne Series E Cumulative Preferred Stock was redeemed for cash in 1996.

Corporate Officers

Richard P. Simmons

*Chairman,
President and Chief Executive Officer*

Robert P. Bozzone

Vice Chairman

Arthur H. Aronson

*Executive Vice President
Segment Executive, Specialty Metals*

James L. Murdy

*Executive Vice President,
Finance and Administration and Chief Financial Officer*

Judd R. Cool

Senior Vice President, Human Resources

Robert Mehrabian

*Senior Vice President
Segment Executive, Aerospace and Electronics*

Jon D. Walton

Senior Vice President, General Counsel and Secretary

David F. Lewis

*Vice President,
Executive Assistant to the Chief Executive Officer*

Robert S. Park

Vice President, Treasurer

Dale G. Reid

Vice President, Controller and Chief Accounting Officer

Gary R. Stechmesser

*Vice President,
Corporate Communications and Investor Relations*

Operating Company Management

Specialty Metals

Allegheny Ludlum Corporation

Jack W. Shilling, *President*

Allvac

John V. Andrews, *President*

Rodney Metals

Robert A. Kardibin, *General Manager*

Wah Chang

Ralph A. Nauman, *President*

Aerospace and Electronics

Teledyne Electronic Technologies

Marvin H. Fink, *President*

Teledyne Brown Engineering

Richard A. Holloway, *President*

Teledyne Ryan Aeronautical

Robert A.K. Mitchell, *President*

Teledyne Continental Motors

Bryan L. Lewis, *President*

Industrial

Teledyne Metalworking Products

David M. Hogan, *President*

Teledyne Fluid Systems

and Teledyne Specialty Equipment

Michael A. Gaudiani, *President*

Portland Forge

Charles W. Freel, *President*

Casting Service

David F. Lewis, *Acting President*

Green River Steel Corporation

Vincent A. Pelini, *President*

Consumer

Teledyne Water Pik

Wayne S. Brothers, *President*

Teledyne Laars

Robert J. Rasp, *President*

Board of Directors

Each of the following became board members in 1996.

Richard P. Simmons

Age 66, is President and Chief Executive Officer of Allegheny Teledyne Incorporated as well as Chairman of the Board. (1)

Arthur H. Aronson

Age 62, is Executive Vice President of Allegheny Teledyne Incorporated. He was President of Allegheny Ludlum Corporation from August 1994 to January 1998. (6)

Robert P. Bozzone

Age 64, is Vice Chairman of the Board of Allegheny Teledyne Incorporated. (1) (3)

Paul S. Brentlinger

Age 70, is a Partner in Morgenthaler Ventures, a venture capital group headquartered in Cleveland, Ohio. (2) (6)

Frank V. Cahouet

Age 65, is the Chairman, President and Chief Executive Officer of Mellon Bank Corporation, a banking holding corporation, and Mellon Bank, N.A., a banking corporation. (2) (3)

Diane C. Creel

Age 49, is Chief Executive Officer and President of EarthTech, an international consulting engineering firm. (4) (5)

C. Fred Fetterolf

Age 69, was President and Chief Operating Officer of Aluminum Company of America prior to 1991. (4) (5)

Robert Mehrabian

Age 56, has been Senior Vice President of Allegheny Teledyne Incorporated since August 1997. Previously, he served as President of Carnegie Mellon University. (6)

W. Craig McClelland

Age 63, is the Chairman and Chief Executive Officer of Union Camp Corporation, a manufacturer of paper products. (3) (4) (5)

William G. Ouchi

Age 54, is a professor of management at the Anderson Graduate School of Management at the University of California at Los Angeles. (2) (4) (5)

Charles J. Queenan, Jr.

Age 67, is Senior Counsel to Kirkpatrick & Lockhart LLP, attorneys-at-law. (1) (4)

George A. Roberts

Age 79, is a private investor. He served as Chairman of the Board of Directors of Teledyne from January 1991 through March 1993. (1) (3) (6)

James E. Rohr

Age 49, is President of PNC Bank Corp. He also serves as President and Chief Executive Officer of its Pennsylvania bank, PNC Bank, National Association. (2) (6)

Fayez Sarofim

Age 69, is the Chairman of the Board and President of Fayez Sarofim & Co., a registered investment advisor. (2)

Thanks and best wishes to Fayez Sarofim, who will retire as a member of the Board of Directors in May 1998.

Committees of the Board:

- (1) Executive Committee
- (2) Audit and Finance Committee
- (3) Committee on Governance
- (4) Personnel and Compensation Committee
- (5) Stock Incentive Award Subcommittee
- (6) Technology Committee

Corporate Self-Governance: Ethics, Compliance & Quality

Allegheny Teledyne is committed to uncompromising ethical standards, strict adherence to law, and continuous attention to customer satisfaction.

These commitments constitute the foundation upon which Allegheny Teledyne conducts its business.

The *Allegheny Teledyne Incorporated Corporate Objectives and Guidelines for Employee Conduct* sets forth clear standards to guide all employees in the conduct of everyday business. Its objective is to have all employees reflect the highest level of integrity and ethics in their dealings with customers, suppliers, and stockholders, with the public and government agencies, as well as with fellow employees.

Allegheny Teledyne encourages employees to communicate concerns before they become problems. The corporate ombudsman at Allegheny Teledyne has been extremely effective in allowing employees to surface important concerns. Building and maintaining trust, respect and communications between employees and management and between fellow employees is critical to the overriding goal of efficiently producing high quality products, providing the maximum level of customer satisfaction, and ultimately fueling profitability and growth.

Training is an important part of the Allegheny Teledyne self-governance effort. Programs include ethics refresher sessions, export compliance training, government contract compliance training, environmental compliance training, as well as training in various human resources areas. Our goal is to optimize every training hour.

In order to monitor the effectiveness of its compliance efforts, Allegheny Teledyne conducts regular audits throughout the organization to confirm adherence to internal compliance procedures.

The management and employees of Allegheny Teledyne are committed to a strong self-governance program. This commitment is aligned with our corporate goal to enhance stockholder value. Maintaining our reputation for quality, reliability, integrity, and customer responsiveness is critical to achieving this goal.

Investor Information

Corporate Headquarters

1000 Six PPG Place
Pittsburgh, PA 15222
412-394-2800

Annual Meeting

The Annual Meeting of Stockholders will be held in:
Room 1000 Auditorium
10th Floor
Two Mellon Bank Center (Union Trust Building)
435 Fifth Avenue
Pittsburgh, Pennsylvania
On May 14, 1998 at 11:00 a.m.

Transfer Agent and Registrar

ChaseMellon Shareholder Services
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
800-406-4850
(Information about stock certificates, dividend checks
and dividend tax information)

Direct Deposit of Dividends

Electronic deposit of dividends is available to Allegheny Teledyne stockholders who wish to have dividends directly deposited into personal checking, savings or other accounts. For more information, contact ChaseMellon Shareholder Services as listed above, or contact the Senior Vice President, General Counsel and Secretary at corporate headquarters.

Dividend Reinvestment

The company offers an automatic dividend reinvestment service for stockholders which enables them to reinvest cash dividends and invest voluntary cash payments in additional shares of Allegheny Teledyne common stock without paying brokerage commission and service charges. For more information contact:
Mellon Bank N.A.
Dividend Reinvestment Service
P.O. Box 3340
South Hackensack, NJ 07606
800-406-4850

Stockholder Publications

Annual reports, proxy statements and other information are mailed to all stockholders of record. For additional information contact:
Corporate Communications and Investor Relations
at corporate headquarters or 412-394-2819.

Independent Auditors

Ernst & Young LLP
Pittsburgh, PA

Form 10-K

Allegheny Teledyne Incorporated's Annual Report on Form 10-K for fiscal year 1997 (without exhibits) is available upon written request to the Senior Vice President, General Counsel and Secretary at the corporate headquarters.

Stock Exchange Listing

The common stock of Allegheny Teledyne Incorporated is traded on the New York Stock Exchange (symbol ALT). Options on the company's stock are traded on the Chicago Board of Options Exchange.



Internet Home Page

Allegheny Teledyne's Internet home page can be found at <http://www.alleghenyteledyne.com>.



This Annual Report is printed on recycled paper.



Allegheny Teledyne Incorporated is a group of technology-based manufacturing companies with significant concentration in specialty metals, complemented by aerospace and electronics, industrial, and consumer products.

Ethical behavior is our hallmark and guides our business activities. Our core values are customer satisfaction, mutual respect, integrity, innovation, and citizenship.

We seek to provide working environments which encourage individuals and teams to excel.

Our goal is sustained profitable growth, built on relentless improvement of customer value, leading to enhanced stockholder value.