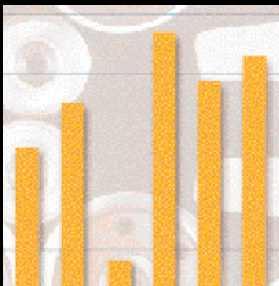




Building Value
Through Profitable
Growth



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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%

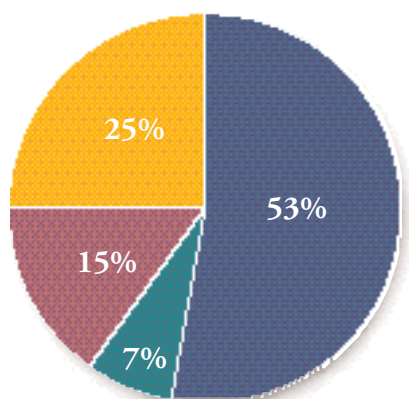
(1) Excluding gains on disposal of assets, restructuring charges and other special items.

(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



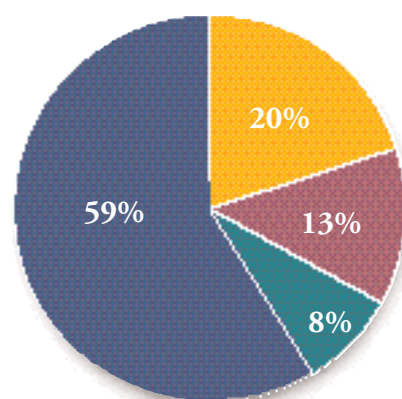
Specialty Metals

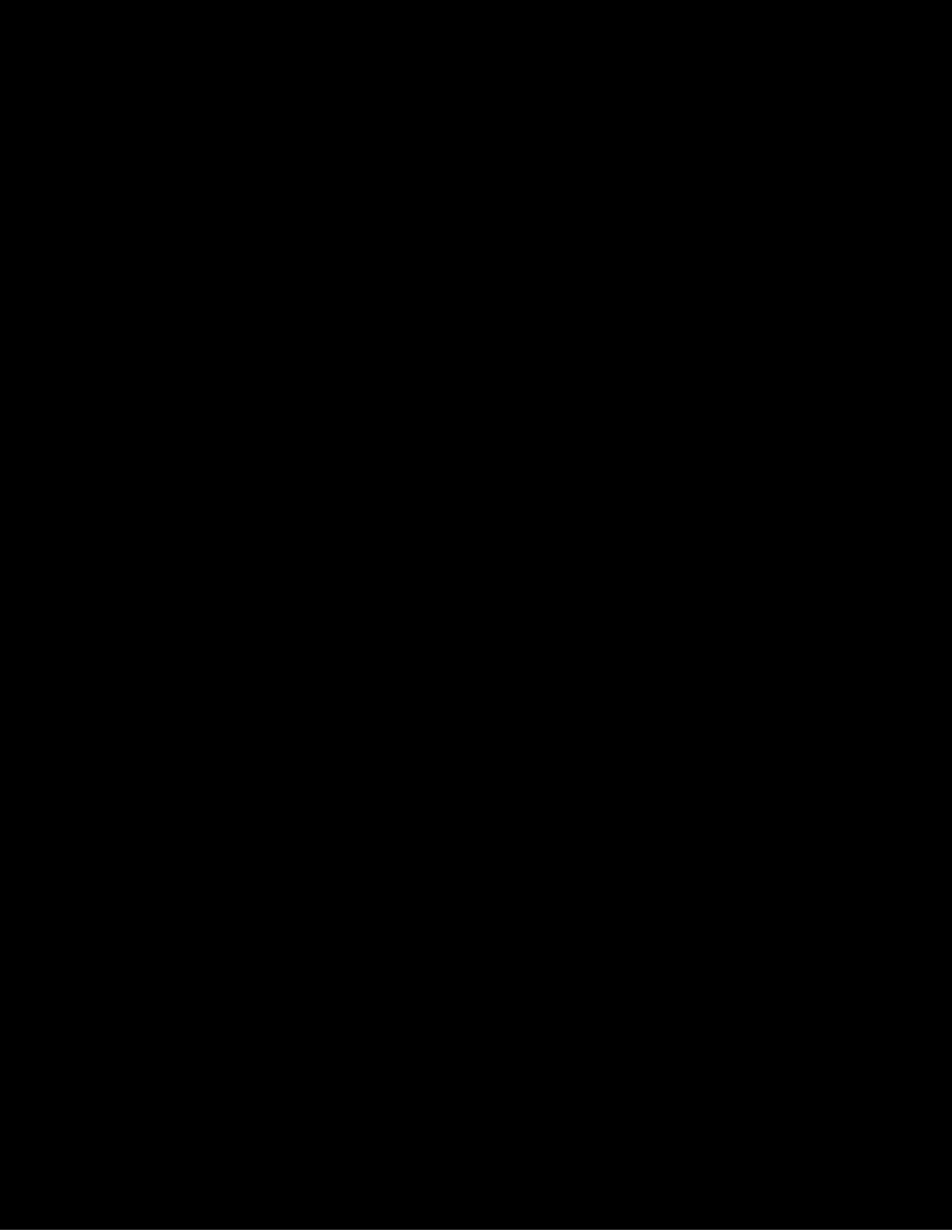
Aerospace &
Electronics

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

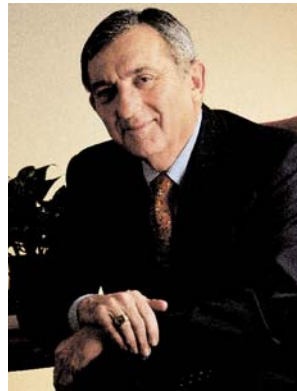
Our top management team is in place to implement all these programs. Dr. Robert Mehrabian, formerly president of Carnegie Mellon University, was appointed senior vice president and segment executive in charge of our aerospace and electronics companies. He has already made a significant

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.

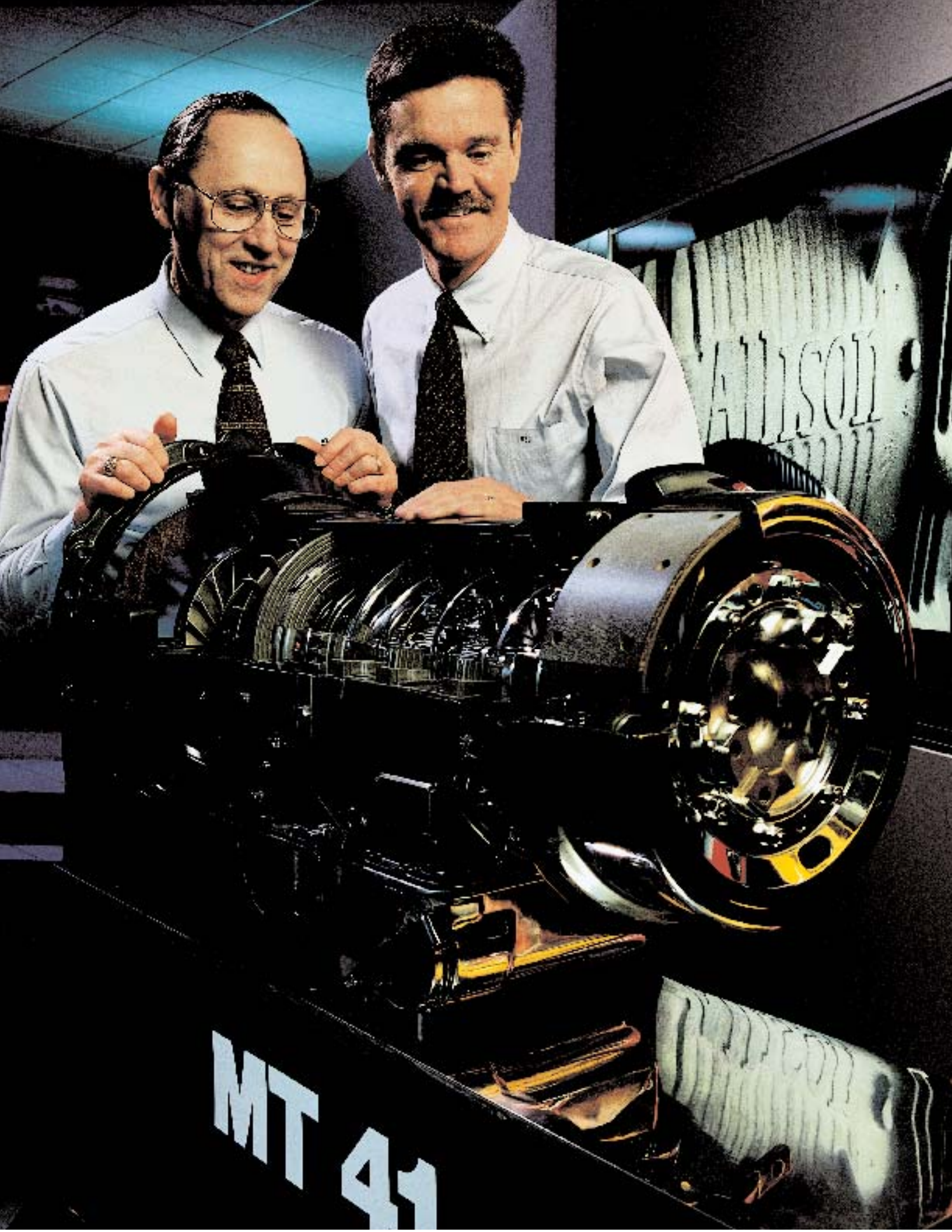
Incremental improvements also are important to Allegheny Teledyne's specialty metals companies. Allegheny Ludlum's Brackenridge stainless steel

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.



MT 41

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.

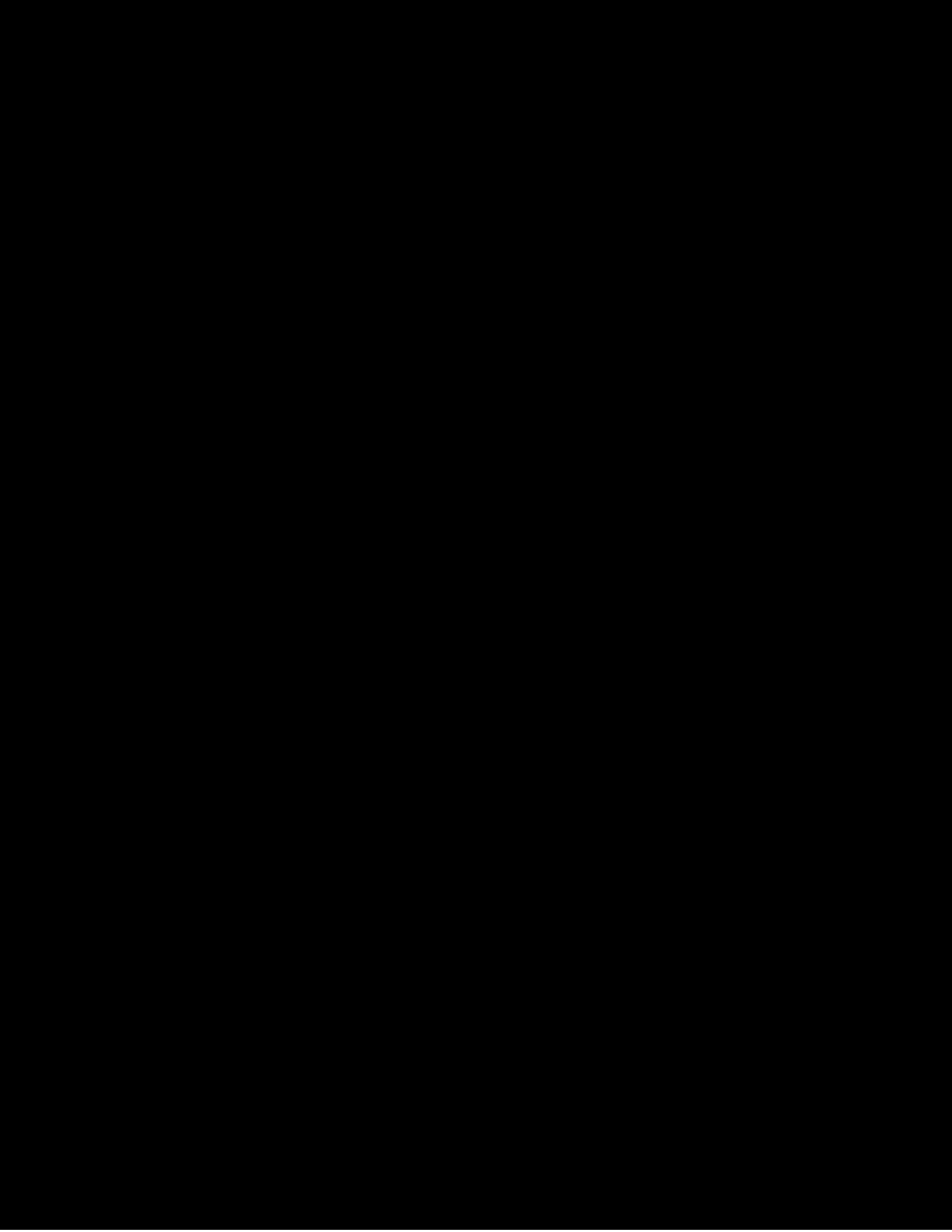
For example, the company's monolithic microwave integrated circuits act as microwave power amplifiers in automated teller machine networks that use satellite communications so that customers can access bank accounts from remote locations. Also, Teledyne Electronic Technologies' molded plastic electronic 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.



p r e s e n c e Expanding global

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.

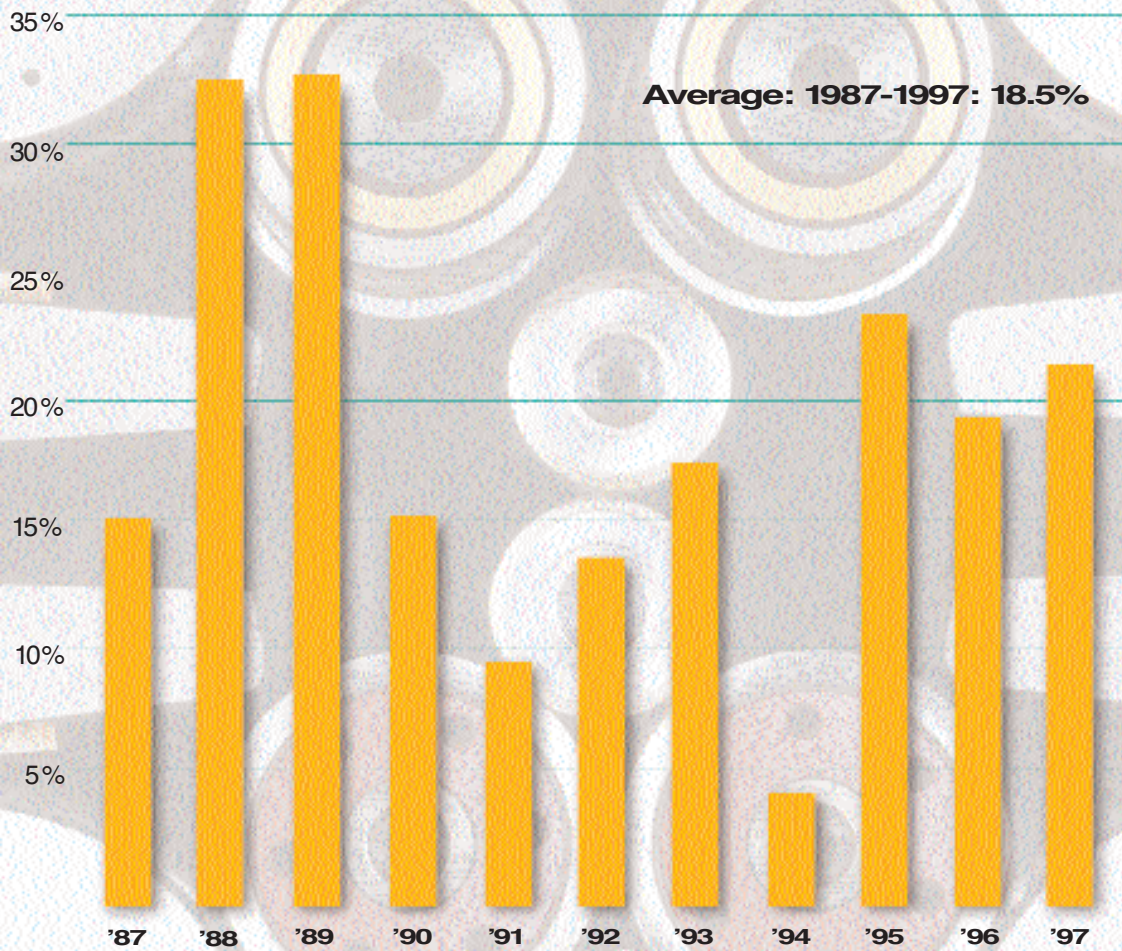
Allvac's and Rodney Metals' international facilities are used by Allegheny Ludlum, which produces high-technology alloys in addition to numerous grades of high value stainless steels, to market these alloys to its growing base of international customers.

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.

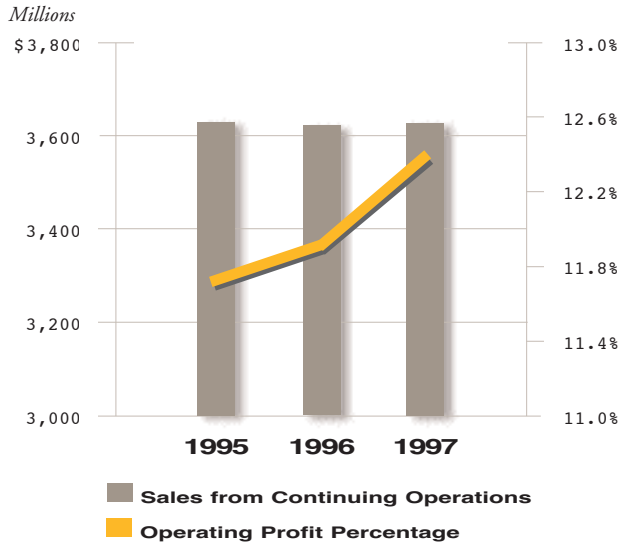
The acquisition of the aerospace division of United Kingdom-based Sheffield Forgemasters Limited in February, 1998 is designed to supplement the melting and forging capacity of Allegheny Teledyne's existing high performance metals companies and to enhance their ability to serve customers in Europe. The 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.

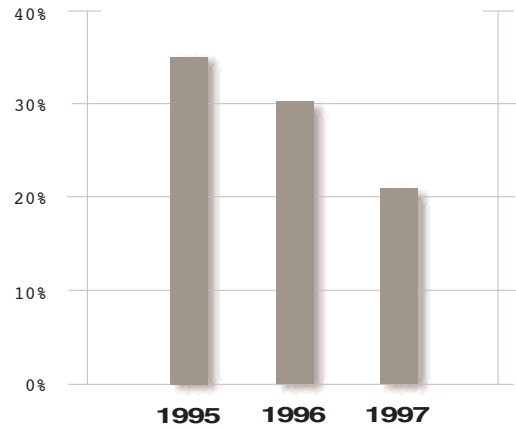
Total capital spending reached \$96 million in 1997. For 1998, the company has a \$150 million capital spending plan which earmarks approximately 44 percent for specialty metals, 23 percent for aerospace and electronics, 25 percent for industrial, and 8 percent for consumer businesses.

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

