Danaher

Corporation

1998 Annual Report

About the Cover:
Our 1997 annual report cover depicted a “swift-flowing” river – the origin and inspiration of our company and the Danaher name. This year, our 1998 cover features a team of Fluke associates negotiating their way down the rapids of Colorado’s Arkansas River.

The Fluke Corporation was acquired by Danaher in July 1998. Teams of Fluke associates make regular trips to the Royal Gorge to enjoy the excitement, challenge, natural beauty and camaraderie of white-water rafting.

Just as these individuals are shown steering their way through a turbulent passage, Danaher in 1998 also experienced a challenging operating environment. Despite the white water around us, we ended the year with record results and momentum for the future.

Danaher Corporation
Danaher Corporation designs, manufactures and markets industrial and consumer products with strong brand names, proprietary technology and major market positions in two principal businesses: Process/Environmental Controls and Tools and Components.

Through a focused strategy, Danaher has become a leading manufacturer, competing effectively on a global basis by leveraging product value, quality and customer service. Today, Danaher’s 18,000 associates are located in more than 20 countries around the world.

Contents

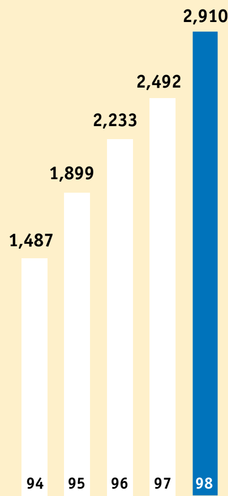
Financial Highlights	1
Letter to Shareholders	2
Danaher Business Segments	5
Company Overviews	6
Financial Section	12
Management and Directors	30
Shareholders’ Information	inside back cover

Financial Highlights

(000's omitted, except per share data and number of associates)	1998	1997
Operations:		
Net sales	$2,910,038	$2,492,002
Operating profit	366,838	301,056
Net earnings	182,946*	176,606
Earnings per common share (diluted)	1.32*	1.28
Excluding pooling charge	1.53	1.28
Depreciation expense	78,827	65,916
Capital expenditures, net	90,265	86,881
Number of associates	18,000	16,000
Financial Position at Year-end:		
Total assets	2,738,715	2,183,875
Total debt	472,557	199,019
Stockholders' equity	1,351,831	1,139,219
Total debt as a percent of total capitalization	26%	15%
Return on equity	14.7%*	16.5%
Book value per share	10.01	8.45

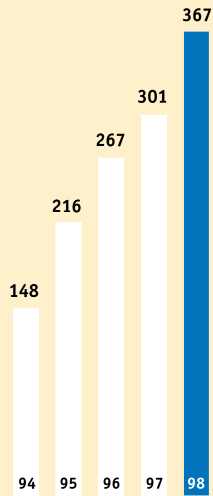
*Includes $28.6 million after-tax costs ($0.21 per share) from the merger with the Fluke Corporation

Net Sales
(dollars in millions)



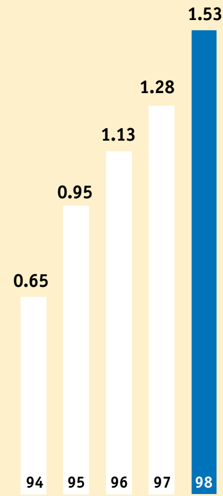
18% compounded annual growth rate

Operating Profit
(dollars in millions)



25% compounded annual growth rate

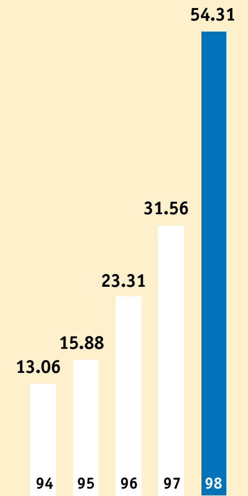
Earnings per Share*
(in dollars)



24% compounded annual growth rate

*From continuing operations, excluding Fluke pooling charge of $0.21 per share in 1998

Year-end Market Price of Stock
(in dollars)



43% compounded annual growth rate

We anticipated the challenges experienced in 1998, and we have proven our ability to be a growth company in cyclically difficult times.

To Our Shareholders

In 1998, Danaher associates demonstrated the agility, flexibility, stamina and creativity required to deliver another great year, setting new records for sales, earnings, earnings per share and cash flow. During the last six years, Danaher, like many other manufacturing companies, was thriving in a relatively stable, global economic environment. In 1998, that stability disappeared. However, we achieved record performance levels in 1998 despite this far more challenging operating environment.

Once again, I am drawn to the analogy of the "swift-flowing" river – the origin and inspiration of our company and the Danaher name. The team of Fluke associates on the front cover, shown negotiating the Arkansas River on their raft, is symbolic of the situation we faced in 1998. As a river flows, waters are interrupted by faster moving, more turbulent passages. Clearly, in 1998, manufacturers were tested by softening demand in the U.S. and turmoil in a number of international markets. This challenged our corporate ability to plot and execute a course through difficult times. Our associates successfully anticipated and navigated through troubled waters, and achieved record results and strategic objectives as well.

1998 Performance Danaher's sales grew to $2.9 billion in 1998, 17% above last year's record performance. Comparable company sales increased 5%. Gross margin improved 1.5% in 1998, allowing us to continue increasing investments in marketing and research and development while improving operating profitability. Net earnings and earnings per share in 1998, before the inclusion of one-time costs associated with the Fluke acquisition, were up 20% over our record performance in 1997. Operating cash flow increased $29 million to a record $331 million. The Fluke transaction has been accounted for as a pooling of interests. Our financial statements, therefore, reflect the combined results of the Fluke and Danaher Corporations for all periods presented.

Growth In 1998, we continued to grow faster than the industries in which we participate. We plan to keep exceeding industry growth rates in our existing businesses, accelerating international growth and expanding through acquisitions. During 1998, the economic dislocation in Asia, plus declines in various industries, negatively impacted our business, primarily in our Process/Environmental Controls Business Segment.

Despite these external pressures, we were able to grow our total sales by 17%, with 5% coming from core operations and the remaining 12% from acquisitions. Our Tools and Components Business Segment grew core revenues by 8.5%, which was substantially greater than the industry's average.

New products were a key factor in achieving accelerated growth. In 1998, 27% of our total sales came from products introduced during the last three years. Our 1998 sales outside the U.S., including both exports and direct sales abroad, reached $812 million and now constitute 28% of total sales. With our strong free cash flow, acquisitions remain a major component of Danaher's growth strategy.

Acquisitions During 1998, we completed three significant acquisitions: Pacific Scientific Company, Fluke Corporation and Dr. Bruno Lange GmbH. In total, these newly acquired companies are expected to add approximately $850 million in annualized sales. Each of these companies fits within our Process/Environmental Controls Business Segment and strengthens our position

in motion control, environmental and power quality products and services. The largest acquisition of the year was our purchase, in July, of the Fluke Corporation, a leading worldwide manufacturer of portable, electronic test tools. The addition of Fluke is important, as it brings to Danaher a premier brand name with a global presence. More information concerning the Fluke acquisition can be found in this report on pages 10 and 11.

The Pacific Scientific Company brought to Danaher an international designer, manufacturer and marketer of motion control, process control and safety equipment, providing increased capabilities in a wide range of targeted end markets.

During the summer, we also acquired Dr. Bruno Lange GmbH, a major addition to our environmental business. Dr. Lange, based in Germany, is a leading European marketer and manufacturer of products used to analyze industrial and municipal water quality.

Financial Strength Our historically strong cash flow has allowed us to acquire strategic companies and still end 1998 with a 26% debt to total capital ratio. We have supplemented our cash generation with a public debt offering. In October 1998, we issued $250 million of 6% notes due in October 2008. The positive reception of the notes, both at issuance and in the aftermarket, bodes well for our ability to access this market again in the future, if the need arises. Moody's and Standard & Poor's rated the debt as A2/A+. Clearly, we are well positioned to fund both internal growth and future acquisitions.

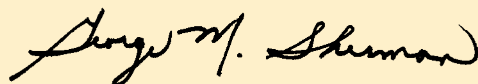
Recognition We were pleased to reach another milestone in 1998: Danaher was selected by Standard & Poor's to enter the S&P 500, the widely followed index of large capitalization public corporations. In addition to recognition among this elite group of companies, the selection is expected to provide greater trading volume and liquidity for Danaher shareholders.

Operating Philosophy Danaher distinguishes itself from other companies by equipping accomplished people with a powerful operating system. Despite the varied nature of our product lines, customers, manufacturing facilities and channels of distribution, the entire company is bonded together by the cohesive and pervasive operating philosophy we call the Danaher Business System (DBS). The process begins with outstanding people and superior market- and customer-driven plans. Then, the Danaher Business System provides the tools and methodology to achieve stretch goals. Our energies are focused on selected customer-oriented breakthroughs and continuous improvements designed to ensure our long-term success. Examples of our operating philosophy at work can be found on pages 6 to 11.

Outlook We anticipated the challenges experienced in 1998, and we have proven our ability to be a growth company in cyclically difficult times. The economic outlook for 1999 is still uncertain and remains clouded by acute financial problems in Asia and Latin America, as well as by global industrial overcapacity. During 1998, we took the necessary action to prepare for what could be an even more difficult environment in 1999 and still allow us to achieve our growth goals.

Steering a raft in difficult times requires training, fitness and teamwork. Our associates at all levels of the organization were prepared for and overcame the turbulence they encountered in 1998. They deserve our appreciation for their accomplishments. We also thank our customers and suppliers for their continued teamwork and cooperation as we strive to win together. Our associates, customers and suppliers are all partners in this adventure.

We remain committed to our goals: above-average growth with reduced cyclicality; top-quartile financial performance; and superior shareholder value. The sustainable competitive advantage we have achieved fuels our confidence for the future.

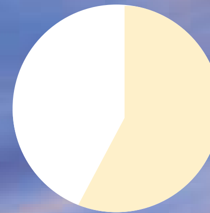


George M. Sherman
President and Chief Executive Officer

Danaher Business Segments

1998 Sales

- Process/Environmental Controls **56%**
- Tools and Components **44%**



1998 Operating Profit

- Process/Environmental Controls **58%**
- Tools and Components **42%**

Process/Environmental Controls

The Process/Environmental Controls Business Segment produces a broad range of monitoring, sensing, controlling, measuring, counting, electrical power quality and electronic test products, systems, instruments and components. Significant additions in 1998 included the Pacific Scientific Company (motion control, particulate measurement, switch control and safety products), the Fluke Corporation (electronic test instruments) and Dr. Bruno Lange GmbH (water quality analytical instrumentation). In addition, the segment's business lines include A.L. Hyde, American Sigma, Anderson Instruments, Clark Controls, Communication Technology, Contronics, Current Technology, Cyberex, Danaher Controls, Dolan-Jenner, Gems Sensors, Hengstler, Jennings Technology, Joslyn Electronic Systems, Joslyn Hi-Voltage, Joslyn Sunbank, KACO, Kistler-Morse, McCrometer, M&M Precision Systems, Namco Controls, Partlow, QualiTROL, Radiometer, Sonix, Veeder-Root, Warrick and West.

Tools and Components

The Tools and Components Business Segment manufactures and distributes a broad range of hand tools, tool holders, storage containers, hardware, wheel service equipment, fasteners and components for consumer, industrial and professional markets. Products are sold through retail channels; independent mobile tool distributors; industrial, utility and agricultural distributors; and original equipment manufacturers. Typical hand tool customers range from do-it-yourselfers and professional/industrial end users to automotive mechanics. Component customers, generally OEMs, include portable drill and heavy-duty diesel engine manufacturers. Products from the Tools and Components Business Segment are marketed under well-recognized brand names, including Allen™, Ammco®, Armstrong®, Coats®, Sears Craftsman®, Delta®, Holo-Krome®, Jacobs®, Joslyn, K-D®, Matco®, NAPA® and SATA.

From the beginning, Sunbank management recognized the Danaher Business System (DBS) as a process that would support breakthroughs in performance.

Customer Satisf

The Joslyn Sunbank Company is a leading designer and manufacturer of electrical interconnect products, including connectors, connector accessories and flexible conduit wiring assemblies. Products are largely custom designed and manufactured to meet specific customer needs. Sunbank, headquartered in Paso Robles, California, also operates a satellite factory in Tijuana, Mexico. When acquired as part of Danaher's purchase of Joslyn in late 1995, growth and business results were below expectations.

From the beginning, Sunbank management recognized the Danaher Business System (DBS) as a process that would support breakthroughs in performance. After benchmarking other Danaher operations, the Sunbank team embarked on the implementation of DBS principles. The focus was placed on quality, delivery of service improvement and cost.

action

Danaher Business System principles were implemented in both the California and Mexico operations, with language being the only differentiating factor. Initially, teams from all units of the organization were formed and trained in the principles of standard work and cellularized one-piece flow manufacturing. Sunbank has since used other DBS tools, including Policy Deployment, Visual Management, SMED, 5S and Kanban.

Business and financial results have improved dramatically. Scrap was reduced 71%; on-time delivery improved 57%; lead time was reduced 60%; inventory turns increased 53%; sales per associate increased 57%; and factory floor space was reduced 66%. During the three years since the introduction of DBS, sales volume has increased at double-digit growth rates.

These improvements have been recognized by a significant customer, the Boeing Company. In 1998, in competition with 4,500 suppliers, Joslyn Sunbank was one of six recipients of the Boeing Company's "President's Award for Excellence." This honor is given to suppliers who demonstrate excellence and work together with Boeing to achieve world-class practices.

Strong brands, innovative new products and continuous improvement in manufacturing capabilities have combined to yield significant competitive advantages for Delta.

Focused Growt

Delta Consolidated Industries is a leading manufacturer of pickup truck toolboxes and industrial storage boxes. Strong brands, innovative new products and continuous improvement in manufacturing capabilities have combined to yield significant competitive advantages for Delta. Similar to our mechanics hand tool business, Delta serves the do-it-yourselfer and professional tradesman through industrial, automotive and retail distribution channels. Since joining Danaher in late 1994, Delta has utilized the Danaher Business System (DBS) to achieve not only new product innovations, but also quality breakthroughs guided by the "voice of the customer."

For many years, Delta's growth had come primarily from truck boxes and the expansion of large retail distributors. In 1997, Delta identified an opportunity for growth in its industrial storage products. Delta product managers spent months visiting industrial job sites and listening to customers. This fieldwork highlighted major opportunities for new product breakthroughs. Armed with the professionals' needs in mind, a

h

cross-functional development team introduced a new line of storage boxes in record time. By early 1998, the new Jobox® brand products provided customers with a more user-friendly design, increased storage capacity, and greater strength and security than found in competitive products. New marketing programs were developed which communicated Jobox advantages directly to the end user. These new products provided momentum for market share gains and a 20% sales growth in Delta's industrial business.

New products were only part of Delta's success in 1998. Delta's manufacturing operation, located in Jonesboro, Arkansas, used DBS tools to achieve dramatic improvements in the quality of Jobox products. The first step was to reorganize production into one-piece flow cells, which resulted in the immediate identification of quality problems. Six Sigma Analysis was used to determine the root causes of problems and develop permanent solutions. One example of this process involved improving seam welding integrity and fit.

Statistical analysis identified exact locations of tooling wear that created part inconsistencies. After implementing a permanent fix, defects were reduced dramatically and capacity increased by 100%. Quality improvements using Six Sigma Analysis have resulted in a 75% reduction in parts-per-million defects in the past two years.

This powerful combination of new products and quality improvements, driven by the voice of the customer, successfully fueled growth at Delta in 1998.

With over half of its sales outside the United States, Fluke, whose strong brand recognition centers around its distinctive yellow and gray products, has earned a global reputation for quality, durability and ease of use.

Brand Strength

The July acquisition of the Fluke Corporation provides Danaher with an excellent growth platform for electronic test and measurement products and services. Fluke, with headquarters in Everett, Washington, is the worldwide leader in portable, electronic test tools used by engineers, electronic technicians and electricians for installation and maintenance. With over half of its sales outside the United States, Fluke, whose strong brand recognition centers around its distinctive yellow and gray products, has earned a global reputation for quality, durability and ease of use. In addition to its range of products, Fluke brought to Danaher new markets, new channels of distribution and a highly skilled team of associates.

Fluke associates have been designing and manufacturing award-winning products for many years. For example, in 1998, judges of the Industrie Forum Design Hannover (Germany) recognized Fluke's T-5 Electrical Tester and the Fluke 43 Power Quality Analyzer with industrial design and user interface awards. In the past three years,

Fluke has received an unprecedented eleven iF Awards. Immediately following the acquisition, the Fluke team began crafting a new market-driven strategic plan consistent with the Danaher Business System (DBS) methodology. The result is an aggressive and highly focused plan aimed at accelerating growth and competitive advantage in Fluke's two major markets: industrial tools and networks. In industrial tools, Fluke is the worldwide leader in digital multimeters (DMMs). This position will serve as the foundation for market share growth in DMMs and in related product categories which serve both the industrial and electrical markets. In networks, Fluke engineers are bringing to market products which the world has never seen before. These include test tools for network engineers and frontline network technicians. Opportunities abound as Fluke produces installation and maintenance tools that keep business-critical networks up and running.

Concurrent with the development of their strategic plan, the Fluke team began to embrace the manufacturing principles of DBS. In Danaher's fastest Kaizen implementation to date, Fluke tore apart its bread-and-butter multimeter assembly line and rebuilt it, using just-in-time manufacturing principles, with phenomenal results. DBS practices will continue to be integrated at Fluke to promote efficiency in areas ranging from product development to customer delivery. These improvements, in turn, will further enhance this excellent brand's quality image in the global marketplace.

Selected Financial Data

(000's omitted except per share data)	1998	1997	1996	1995	1994
Sales	$2,910,038	$2,492,002	$2,233,193	$1,899,463	$1,486,680
Operating profit	366,838	301,056	267,406	215,992	147,840
Earnings from continuing operations	182,946*	176,606	154,357	128,289	86,404
Per share					
Diluted	1.32*	1.28	1.13	0.95	0.65
Basic	1.36*	1.32	1.16	0.97	0.66
Discontinued operations	—	—	79,811	2,550	9,331
Per share					
Diluted	—	—	0.59	0.02	0.07
Basic	—	—	0.60	0.02	0.07
Net earnings	182,946*	176,606	234,168	130,839	95,735
Earnings per share					
Diluted	1.32*	1.28	1.72	0.96	0.72
Basic	1.36*	1.32	1.76	0.99	0.73
Dividends per share	0.07	0.09	0.08	0.07	0.06
Total assets	2,738,715	2,183,875	2,046,731	1,755,978	1,343,908
Total debt	472,557	199,019	239,927	294,547	204,441

*** Includes $28.6 million after-tax costs ($0.21 per share) from the merger with the Fluke Corporation**

Results of Operations Danaher Corporation (the "Company") operates a variety of businesses through its wholly-owned subsidiaries. These businesses are conducted in two business segments: Process/Environmental Controls and Tools and Components. In its Process/Environmental Controls segment, the Company is a leading producer of compact electronic test instruments, leak detection sensors for underground fuel storage tanks and motion, position, temperature, pressure, level, flow, water quality and power reliability and quality control devices. In Tools and Components, the Company is the principal manufacturer of Sears, Roebuck and Co.'s Craftsman® line, National Automotive Parts Association (NAPA®) line, K-D® automotive line, and the Matco®, Armstrong® and Allen™ lines of mechanics' hand tools. The Company also manufactures Allen™ wrenches, Jacobs® drill chucks and diesel engine retarders, Delta® storage containers and Coats® and Ammco® wheel service equipment.

Presented below is a summary of sales by business segment (000's omitted).

	1998		1997		1996	
	$	%	$	%	$	%
Process/Environmental Controls	1,615,529	55.5	1,299,241	52.1	1,129,750	50.6
Tools and Components	1,294,509	44.5	1,192,761	47.9	1,103,443	49.4
	2,910,038	100.0	2,492,002	100.0	2,233,193	100.0

Process/Environmental Controls The Process/Environmental Controls segment includes Fluke Corporation, Veeder-Root Company, Danaher Controls, Partlow, Anderson Instruments, West Instruments, Ltd., QualiTROL Corporation, A.L. Hyde Company, Hengstler, American Sigma, the controls product line business units of Joslyn Corporation and Pacific Scientific Company, Namco Controls, Dolan-Jenner, M&M Precision Systems, Communications Technology Corporation, Current Technology, Inc., Gems Sensors, Inc. and Dr. Bruno Lange GmbH. These companies produce and sell compact electronic test instruments, underground storage tank leak detection systems and temperature, level, motion and position sensing devices, water/wastewater test and monitoring instruments, power switches and controls, power protection products, aviation safety products, liquid flow measuring devices, quality assurance products and systems, and electronic and mechanical counting and controlling devices. These products are distributed by the Company's sales personnel and independent representatives to original equipment manufacturers, distributors and other end users.

1998 Compared to 1997 Sales in 1998 were 24% higher than in 1997. The acquisitions of Pacific Scientific Company and Dr. Lange GmbH, the full year effect of the Gems Sensors acquisition in August, 1997 and several minor business acquisitions and dispositions provided a 22% increase from 1997. The remainder of the sales change was generated by an increase in unit volume of 2%, with prices essentially flat. Operating margins increased from 13.2% to 13.8%, due to higher sales of environmental products, cost reductions and the elimination of Fluke's 1997 European restructuring activities, offset by lower operating margins of businesses acquired in 1998.

1997 compared to 1996 Sales in 1997 were 15% higher than in 1996 for this segment. The acquisitions of Gems Sensors and Current Technology in 1997, as well as the full-year effect of the Acme-Cleveland acquisition in July, 1996, contributed 9% of the increase. Of the remaining increase, higher unit volume contributed 7% and increased average pricing provided 1%, while foreign currency translation resulted in a 2% decrease. Operating margins decreased from 13.6% to 13.2%, largely from restructuring activities at Fluke's European operations.

Tools and Components The Tools and Components segment is comprised of the Danaher Hand Tool Group (including Special Markets, Asian Tools and Professional Tools divisions), Matco Tools, Jacobs Chuck Manufacturing Company, Delta Consolidated Industries, Jacobs Vehicle Systems, Hennessy Industries and the hardware and electrical apparatus lines of Joslyn Manufacturing Company ("JMC"). This segment is one of the largest domestic producers and distributors of general purpose and specialty mechanics' hand tools. Other products manufactured by these companies include tool boxes and storage devices, diesel engine retarders, wheel service equipment, drill chucks, custom designed headed tools and components, hardware and components for the power generation and transmission industries, high quality precision socket screws, fasteners, and high quality miniature precision parts.

1998 Compared to 1997 Sales increased 8.5% from 1997 to 1998. Unit volume increases of 10%, offset by price decreases of 1.5%, accounted for this increase. Operating profit margins increased from 12.1% in 1997 to 12.3% in 1998, driven by the higher sales levels and productivity gains. Demand levels were strong across the consumer, professional and international hand tool lines. Sales of diesel engine retarders were also strong in 1998.

1997 Compared to 1996 Sales in 1997 were 8% higher than in 1996. An acquisition in the first quarter of 1997 accounted for 3%, price increases provided less than 1% and higher shipment volume provided 5%. Demand for drill chucks and diesel engine retarders was particularly strong in 1997. Operating margins increased from 11.6% to 12.1%, reflecting increased fixed cost leverage as well as continued process improvements in manufacturing operations.

Discontinued Operations In January, 1996, the Company divested its Fayette Tubular Products subsidiary. As the Company no longer operates in the Transportation business segment, Fayette's operation is shown as a discontinued operation. A gain of approximately $80 million was recognized in the first quarter of 1996.

Gross Profit Gross profit margin in 1998 was 37.4%, a 1.5 percentage point improvement compared to 1997. Productivity improvements were achieved in all business segments. Higher volume levels and a shift in mix to the higher gross margin products of the acquired companies in the Process/Environmental Controls business segment contributed to the improvement.

Gross profit, as a percentage of sales, in 1997 was 35.9%, a 1.0 point decrease compared to the 36.9% achieved in 1996. The Fluke European restructuring was the largest contributor to this decline. A shift in product mix associated with the acquisitions also impacted gross profit.

Operating Expenses In 1998, selling, general and administrative expenses were 24.8% of sales, an increase of 1 percentage point from 1997 levels. This principally reflects the higher operating expense levels of the businesses acquired in 1998.

Selling, general and administrative expenses for 1997 as a percentage of sales were approximately 1.1 percentage points lower than the 1996 level. This reflects improved fixed cost ratios associated with higher sales levels.

Interest Costs and Financing Transactions The Company's debt financing is composed of publicly issued 6% notes due 2008, privately placed debt maturing in April, 2003 at an average interest cost of 7.2%, uncommitted lines and a revolving credit facility which provides for senior financing of $250 million for general corporate purposes. The interest rates for borrowing under the facility float with base rates. Interest expense in 1998 was $11.7 million higher than in 1997 as average borrowing levels increased due to acquisitions. Interest expense in 1997 was 21% lower than in 1996 due to substantial cash flow generated from operations.

Income Taxes The 1998 effective rate of 39.2% is 0.6 percentage points higher than in 1997. This increase results from the nondeductible nature of certain expenses associated with the Company's merger with Fluke Corporation in July, 1998. The 1997 effective tax rate of 38.6% is 0.2 percentage points higher than in 1996, reflecting a greater impact of nondeductible amortization resulting from acquisitions.

Inflation The effect of inflation on the Company's operations has been minimal in 1998, 1997, and 1996.

Readiness for Year 2000 The Company continues to monitor progress against its Year 2000 Readiness Plan, which is discussed in the Current Report dated July 9, 1998. There have been no significant changes in the plan or cost estimates since that report and progress to date has been in accordance with the timetables described in the plan. The plan described therein includes assessment, remediation, testing and contingency planning. The assessment phase is essentially complete. Remediation and testing activities at the Company's operating units are at various stages, with the majority of work completed on critical systems. Relevant third parties, particularly key suppliers, have been contacted to assess and monitor their Year 2000 readiness. In addition, the Company has developed contingency plans to mitigate the impact of any unsuccessful remediation or third party failures.

The Company believes that its overall exposure to Year 2000 impacts is substantially reduced by the diversity of the Company's operations and information systems. The incremental costs associated with the Year 2000 program have not been material to the Company's financial results and are not expected to be significant in the future. However, there can be no assurance that the Company's efforts or those of relevant suppliers and other third parties will be successful or that any potential failure would not have a material adverse effect on the Company's operating results or financial condition.

European Monetary Union On January 1, 1999, several member countries of the European Union established fixed conversion rates between their existing currencies and adopted the Euro as their new common legal currency. This Euro conversion may affect cross-border competition and pricing strategies in the broader European market. The new currency also impacts the Company's information systems. In addition, final accounting, tax and governmental legal and regulatory guidance have not been provided. Based on the current state of information and the Company's current assessment, the Euro conversion is not expected to have a material adverse effect on the Company's operating results or financial condition.

Financial Instruments and Risk Management The Company is exposed to market risk from changes in foreign currency exchange rates and interest rates, which could impact its results of operations and financial condition. The Company manages its exposure to these risks through its normal operating and financing activities. There were no material derivative instrument transactions during any of the periods presented. The Company has generally accepted the exposure to exchange rate movements relative to its investment in foreign operations without using derivative financial instruments to manage this risk.

The fair value of the Company's fixed rate long-term debt is sensitive to changes in interest rates. The value of this debt is subject to change as a result of movements in interest rates. Sensitivity analysis is one technique used to evaluate this potential impact. Based on a hypothetical immediate 100 basis point increase in interest rates at December 31, 1998, the market value of the Company's fixed rate long-term debt would be impacted by a net decrease of $19 million. This methodology has certain limitations, and these hypothetical gains or losses would not be reflected in the Company's results of operations or financial conditions under current accounting principles.

Recent Accounting Pronouncements In June, 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes new accounting and reporting standards for derivative financial instruments and for hedging activities. This statement is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

In March, 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use." This statement provides guidance on accounting for the costs of computer software developed or obtained for internal use. The adoption of this statement is also not expected to have a material impact on the Company's results of operations, financial position or cash flows.

Liquidity and Capital Resources The Company acquired Pacific Scientific Company for approximately $420 million in cash in March, 1998 and Acme-Cleveland Corporation for approximately $200 million in July, 1996. See Note 2 to Consolidated Financial Statements for a further discussion of the impact of acquisitions. In January, 1996, the Company sold its Fayette Tubular Products subsidiary for $155 million in cash consideration; the proceeds were used to reduce short-term borrowings.

As discussed previously, $250 million of the Company's debt is fixed at an average interest cost of 6%, and $71 million is fixed at an interest rate of 7.2%. Substantially all remaining borrowings are short-term in nature and float with referenced base rates. As of December 31, 1998, the Company has unutilized commitments under its revolving credit facility of $250 million.

Cash flow has been strong in all periods from 1996 through 1998. Operations generated $331 million, $302 million and $254 million in cash in 1998, 1997 and 1996, respectively. The principal use of funds has been capital expenditures of $90 million, $87 million and $64 million in 1998, 1997 and 1996, respectively, and net cash paid for acquisitions of $526 million, $147 million and $246 million in 1998, 1997 and 1996, respectively. Cash flow for 1996 included the $155 million proceeds from the Fayette sale. The net result of the above, combined with working capital changes, was an increase in debt of $274 million in 1998, and decreases in debt of $41 million in 1997 and $55 million in 1996.

The Company's funds provided from operations, as well as the existing bank facility and available credit lines, should provide sufficient available funds to meet the Company's working capital, capital expenditure, dividend and debt service requirements for the foreseeable future.

Report of Independent Public Accountants

To the Shareholders and Board of Directors of Danaher Corporation:

We have audited the accompanying consolidated balance sheets of Danaher Corporation (a Delaware corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an 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 provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of Danaher Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Washington, D.C.
January 27, 1999

Consolidated Statements of Earnings

(in thousands, except per share data)

Year Ended December 31,	1998	1997	1996
Sales	$2,910,038	$2,492,002	$2,233,193
Cost of sales	1,821,084	1,598,431	1,409,693
Selling, general and administrative expenses	722,116	592,515	556,094
Total operating expenses	2,543,200	2,190,946	1,965,787
Operating profit	366,838	301,056	267,406
Other expense	40,796	—	—
Interest expense	24,931	13,211	16,813
Earnings from continuing operations before income taxes	301,111	287,845	250,593
Income taxes	118,165	111,239	96,236
Earnings from continuing operations	182,946	176,606	154,357
Gain on sale of discontinued operations, net of income taxes of $0	—	—	79,811
Net earnings	$ 182,946	$ 176,606	$ 234,168
Basic earnings per share:			
Continuing operations	$1.36	$1.32	$1.16
Discontinued operations	—	—	.60
Net earnings	$1.36	$1.32	$1.76
Average shares outstanding	134,745	133,999	132,950
Diluted earnings per share:			
Continuing operations	$1.32	$1.28	$1.13
Discontinued operations	—	—	.59
Net earnings	$1.32	$1.28	$1.72
Average common stock and common equivalent shares outstanding	138,885	137,730	136,123

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

Consolidated Balance Sheets

(in thousands)

As of December 31,	1998	1997
Assets		
Current assets:		
Cash and equivalents	$ 41,923	$ 70,821
Trade accounts receivable, less allowance for doubtful accounts of $24,000 and $19,000	467,108	403,858
Inventories	323,486	265,122
Prepaid expenses and other	54,387	92,252
Total current assets	886,904	832,053
Property, plant and equipment, net	471,025	403,488
Other assets	96,213	84,982
Excess of cost over net assets of acquired companies, less accumulated amortization of $159,000 and $129,000.	1,284,573	863,352
	$2,738,715	$2,183,875
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable and current portion of debt	$ 59,639	$ 35,910
Trade accounts payable.	158,596	152,066
Accrued expenses	470,470	392,321
Total current liabilities	688,705	580,297
Other liabilities	285,261	301,250
Long-term debt	412,918	163,109
Stockholders' equity:		
Common stock, one cent par value; 300,000 shares authorized; 146,702 and 146,337 issued; 135,107 and 134,741 outstanding	1,467	1,464
Additional paid-in capital	374,412	344,843
Accumulated other comprehensive income	(2,703)	(13,259)
Retained earnings	978,655	806,171
Total stockholders' equity	1,351,831	1,139,219
	$2,738,715	$2,183,875

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

Consolidated Statements of Cash Flows

(in thousands of dollars)

Year Ended December 31,	**1998**	**1997**	**1996**
Cash flows from operating activities:			
Earnings from continuing operations	$ 182,946	$ 176,606	$ 154,357
Depreciation and amortization	108,651	91,702	82,424
(Increase) decrease in accounts receivable	3,393	(54,195)	(18,230)
Decrease in inventories	12,543	9,921	40,189
(Decrease) increase in accounts payable	(13,625)	23,842	11,145
Change in other assets and liabilities	37,430	54,455	(15,918)
Total operating cash flows	331,338	302,331	253,967
Cash flows from investing activities:			
Payments for additions to property, plant and equipment, net	(90,265)	(86,881)	(63,981)
Disposition of businesses	16,250	—	155,000
Net cash paid for acquisitions	(525,713)	(147,238)	(246,427)
Net cash used in investing activities	(599,728)	(234,119)	(155,408)
Cash flows from financing activities:			
Proceeds from issuance of common stock	29,572	8,742	8,893
Dividends paid	(10,462)	(11,932)	(11,215)
Borrowings (repayments) of debt	219,177	(40,916)	(55,371)
Purchase of common stock	—	(19,909)	(12,110)
Net cash provided by (used in) financing activities	238,287	(64,015)	(69,803)
Effect of exchange rate changes on cash	1,205	(897)	(299)
Net change in cash and equivalents	(28,898)	3,300	28,457
Beginning balance of cash and equivalents	70,821	67,521	39,064
Ending balance of cash and equivalents	$ 41,923	$ 70,821	$ 67,521
Supplemental disclosures:			
Cash interest payments	$ 24,558	$ 13,782	$ 17,458
Cash income tax payments	$ 66,640	$ 79,972	$ 91,584
Common stock issued for acquisitions	$ —	$ —	$ 8,883

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

Consolidated Statements of Stockholders' Equity

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income
Balance, December 31, 1995	144,597	$1,446	$344,453	$420,089	$ 6,398	—
Net earnings for the year	—	—	—	234,168	—	$234,168
Dividends declared	—	—	—	(11,510)	—	—
Common stock issued for options exercised	966	10	13,855	—	—	—
Purchase of common stock	—	—	(12,110)	—	—	—
Unrealized gain on securities held	—	—	—	—	4,000	4,000
Common stock issued for acquisitions	594	6	8,877	—	—	—
Decrease from translation of foreign financial statements	—	—	—	—	(3,949)	(3,949)
Balance, December 31, 1996	146,157	$1,462	$355,075	$642,747	$ 6,449	$234,219
Net earnings for the year	—	—	—	176,606	—	176,606
Dividends declared	—	—	—	(12,278)	—	—
Common stock issued for options exercised	180	2	8,742	—	—	—
Purchase of common stock	—	—	(19,909)	—	—	—
Decrease from translation of foreign financial statements	—	—	—	—	(17,408)	(17,408)
Unrealized gain on securities held	—	—	—	—	1,700	1,700
Sale of securities held	—	—	—	—	(4,000)	(3,500)
Other	—	—	935	(904)	—	—
Balance, December 31, 1997	146,337	$1,464	$344,843	$806,171	$(13,259)	$157,398
Net earnings for the year	—	—	—	182,946	—	182,946
Dividends declared	—	—	—	(10,462)	—	—
Common stock issued for options exercised	365	3	29,569	—	—	—
Sale of securities held	—	—	—	—	(1,700)	(1,700)
Increase from translation of foreign financial statements	—	—	—	—	12,256	12,256
Balance, December 31, 1998	146,702	$1,467	$374,412	$978,655	$ (2,703)	$193,502

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

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies:

Accounting Principles The consolidated financial statements include the accounts of the Company and its subsidiaries. The accounts of certain of the Company's foreign subsidiaries are included on the basis of a fiscal year ending November 30. This procedure was adopted to allow sufficient time to include these companies in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated upon consolidation. Preparation of these consolidated financial statements necessarily includes the use of management's estimates.

Inventory Valuation Inventories include material, labor and overhead and are stated principally at the lower of cost or market using the last-in, first-out method (LIFO).

Property, Plant and Equipment Property, plant and equipment are carried at cost. The provision for depreciation has been computed principally by the straight-line method based on the estimated useful lives (3 to 35 years) of the depreciable assets.

Other Assets Other assets include principally deferred income taxes, equity securities, noncurrent trade receivables and capitalized costs associated with obtaining financings which are being amortized over the term of the related debt. Available for sale equity securities have been shown at their fair market value.

Fair Value of Financial Instruments For cash and equivalents, the carrying amount is a reasonable estimate of fair value. For long-term debt, rates available for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

Excess of Cost Over Net Assets of Acquired Companies This asset is being amortized on a straight-line basis over forty years. $29,824,000, $25,786,000 and $22,796,000 of amortization was charged to expense for the years ended December 31, 1998, 1997 and 1996, respectively. When events and circumstances so indicate, all long-term assets, including the Excess of Cost Over Net Assets of Acquired Companies, are assessed for recoverability based upon cash flow forecasts. Should an impairment exist, fair value estimates would be determined based on the cash flow forecasts, discounted at a market rate of interest.

Foreign Currency Translation Exchange adjustments resulting from foreign currency transactions are generally recognized in net earnings, whereas adjustments resulting from the translation of financial statements are reflected as a component of accumulated other comprehensive income within stockholders' equity. Net foreign currency transaction gains or losses are not material in any of the years presented.

Statements of Cash Flows The Company considers all highly liquid investments with a maturity of three months or less at date of purchase to be cash equivalents.

Income Taxes The Company provides income taxes for unremitted earnings of foreign subsidiaries which are not considered permanently reinvested in that operation.

Earnings Per Share The computation of diluted earnings per share is based on the weighted average number of common shares and common stock equivalents outstanding during the year.

Discontinued Operations In January, 1996, the Fayette Tubular Products subsidiary was sold for approximately $155 million. A gain of approximately $80 million was recognized in 1996.

Accumulated Other Comprehensive Income Consists of the following as of December 31 (000's omitted):

	1998	1997	1996
Cumulative foreign translation adjustment	$(2,703)	$(14,959)	$2,449
Unrealized gain on securities	—	1,700	4,000
	$(2,703)	$(13,259)	$6,449

(2) Acquisitions:

On July 9, 1998, Fluke Corporation was acquired and merged into the Company. The Company issued 17,785,122 shares of common stock in exchange for all outstanding Fluke shares. The transaction was a tax-free reorganization and was accounted for as a pooling-of-interests. Accordingly, the financial statements as presented have been restated to reflect the combined companies. Fluke Corporation's year end was a 52/53-week fiscal year ending on the last Friday in April. To combine with the Company, the twelve month periods ending January 23, 1998 and January 24, 1997 for Fluke have been utilized. Fluke is engaged in the manufacture and marketing of compact, professional electronic test tools. Reflected in Other expense is a one-time charge of $40.8 million ($28.6 million after-tax or $.21 per diluted share) to reflect the costs of the transaction and integrating and implementing efficiencies associated with information, operational and administrative systems. The majority of these costs are cash expenses and have been incurred during 1998.

The Company acquired Pacific Scientific Company as of March 9, 1998. Total consideration was approximately $420 million. The fair value of assets acquired was approximately $520 million and approximately $100 million of liabilities were assumed. The transaction is being accounted for as a purchase.

The unaudited pro forma information for the period set forth below gives effect to this transaction as if it had

occurred at the beginning of the period. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time (unaudited, 000's omitted):

Year Ended December 31,	1998	1997
Net Sales	$2,981,620	$2,802,462
Net Earnings from continuing operations	181,290	169,610
Earnings per share from continuing operations (diluted)	$ 1.31	$ 1.23

In 1997, the Company acquired Gems Sensors and Current Technology and several other entities. Aggregate consideration for these transactions was approximately $147 million. The fair value of the assets acquired was approximately $167 million and approximately $20 million of liabilities were assumed in the acquisitions. The transactions have been accounted for as purchases. These acquisitions had no significant impact on 1997 results of operations. These entities have combined annual sales levels of approximately $130 million.

The Company obtained control of Acme-Cleveland Corporation (Acme) as of July 2, 1996. Total consideration for Acme was approximately $200 million. The fair value of assets acquired was approximately $240 million, including $140 million of excess cost over net assets acquired, and approximately $40 million of liabilities were assumed. The transaction was accounted for as a purchase.

(3) Inventory:
The major classes of inventory are summarized as follows (000's omitted):

	December 31, 1998	December 31, 1997
Finished goods	$122,141	$ 99,983
Work in process	74,385	67,056
Raw material	126,960	98,083
	$323,486	$265,122

If the first-in, first-out (FIFO) method had been used for inventories valued at LIFO cost, such inventories would have been $7,393,000 and $8,940,000 higher at December 31, 1998 and 1997, respectively.

(4) Property, Plant and Equipment:
The major classes of property, plant and equipment are summarized as follows (000's omitted):

	December 31, 1998	December 31, 1997
Land and improvements	$ 25,517	$ 23,926
Buildings	174,803	158,872
Machinery and equipment	712,298	601,689
	912,618	784,487
Less accumulated depreciation	(441,593)	(380,999)
Property, plant and equipment	$ 471,025	$ 403,488

(5) Financing:
Financing consists of the following (000's omitted):

	December 31, 1998	December 31, 1997
Notes payable due 2008	$250,000	$ —
Notes payable due 1999–2003	71,200	85,900
Other	151,357	113,119
	472,557	199,019
Less-currently payable	59,639	35,910
	$412,918	$163,109

The Notes due 2008 were issued in October 1998 at an average interest cost of 6.1%. The Company has complied with covenants relating to limitations on secured debt and sale and leaseback transactions. The carrying amount approximates fair value.

The Notes due 1999-2003 had an original average life of approximately 6.5 years and an average interest cost of 7.2%. Principal amortization began in December 1995 and continues through April 2003. The estimated fair value of the Notes was approximately $73.0 million at December 31, 1998, and was approximately equal to their carrying value as of December 31, 1997.

Other includes principally short-term borrowings under uncommitted lines of credit which are payable upon demand. The carrying amount approximates fair value. The Company has a bank credit facility which provides revolving credit through September 30, 2001, of up to $250 million. The Company has complied with covenants relating to maintenance of working capital, net worth, debt levels,

interest coverage, and payment of dividends applicable to the Notes due 1999–2003 and the revolving credit facility. The facility provides funds for general corporate purposes at an interest rate of LIBOR plus .125%. There were no borrowings under the bank facility during the three years ended December 31, 1998. The Company is charged a fee of .075% per annum for the facility. Commitment and facility fees of $187,500, $187,500 and $234,000 were incurred in 1998, 1997 and 1996, respectively. The weighted average interest rate for short-term borrowings was 5.8%, 5.9% and 5.8% for each of the three years ended December 31, 1998.

Other debt is classified as noncurrent as management intends to refinance it and the bank credit facility provides the ability to refinance maturities to September 30, 2001.

The minimum principal payments during the next five years are as follows: 1999–$59,639,000; 2000–$885,000; 2001–$127,271,000; 2002–$735,000; 2003–$30,374,000 and $253,653,000 thereafter.

(6) Accrued Expenses and Other Liabilities:

Selected accrued expenses and other liabilities include the following (000's omitted):

	December 31, 1998		December 31, 1997	
	Current	Noncurrent	Current	Noncurrent
Compensation and benefits	$107,386	$46,022	$79,640	$42,883
Claims, including self insurance and litigation	15,051	85,286	12,171	80,452
Post retirement benefits	5,000	75,500	5,000	75,553
Environmental and regulatory compliance	38,209	67,926	33,465	59,085
Taxes, income and other	57,548	1,174	53,457	1,091

Approximately $17 million of accrued expenses and other liabilities were guaranteed by bank letters of credit.

(7) Pension and Employee Benefit Plans:

The Company has noncontributory defined benefit pension plans which cover certain of its domestic hourly employees. Benefit accruals under most of these plans have ceased, and pension expense for defined benefit plans is not significant for any of the periods presented. It is the Company's policy to fund, at a minimum, amounts required by the Internal Revenue Service.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for some of its retired employees. Certain employees may become eligible for these benefits as they reach normal retirement age while working for the Company.

The following sets forth the funded status of the plans as of the most recent actuarial valuations using a measurement date of September 30 (millions):

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Change in benefit obligation				
Benefit obligation at beginning of year	$194.6	$164.7	$ 70.8	$ 72.2
Service cost	12.0	10.4	0.4	0.4
Interest cost	15.6	14.2	4.9	5.0
Plan participants' contributions	—	—	—	—
Amendments	(20.0)	—	—	—
Actuarial gain	18.4	19.9	0.6	(5.6)
Acquisition	65.5	6.7	—	3.5
Benefits paid	(18.3)	(21.3)	(3.9)	(4.7)
Benefit obligation at end of year	267.8	194.6	72.8	70.8
Change in plan assets				
Fair value of plan assets at beginning of year	232.6	196.9	—	—
Actual return on plan assets	5.4	47.5	—	—
Acquisition	70.1	6.0	—	—
Employer contribution	(2.0)	(2.0)	—	—
Benefits paid	(18.3)	(15.8)	—	—
Fair value of plan assets at end of year	287.8	232.6	—	—
Funded status	20.0	38.0	(72.8)	(70.8)
Unrecognized net actuarial (gain)	(2.7)	(18.1)	(7.7)	(9.8)
Prepaid (accrued) benefit cost	$ 17.3	$ 19.9	$ (80.5)	$(80.6)
Weighted-average assumptions as of December 31				
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets	10.0%	10.0%	—	—

For measurement purposes, an 8 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate was assumed to decrease gradually to 6 percent by 2002 and remain at that level thereafter.

	Pension Benefits 1998	Pension Benefits 1997	Other Benefits 1998	Other Benefits 1997
Components of net periodic benefit cost				
Service cost	$ 12.0	$ 10.4	$ 0.4	$ 0.4
Interest cost	15.6	14.2	4.9	5.0
Expected return on plan assets	(22.0)	(18.8)	—	—
Recognized net actuarial (gain)	(0.3)	—	(1.0)	(1.0)
Net periodic benefit cost	$ 5.3	$ 5.8	$ 4.3	$ 4.4

The Company acquired Pacific Scientific Company on March 9, 1998, including their pension and postretirement benefit plans.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$0.5	$(0.4)
Effect on postretirement benefit obligation	7.1	(6.8)

Substantially all employees not covered by defined benefit plans are covered by defined contribution plans which generally provide funding based on a percentage of compensation.

Pension expense for all plans amounted to $29,581,000, $29,791,000 and $25,894,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

(8) Stock Transactions:

The common stock of the Company was split two-for-one to holders of record as of May 5, 1998. All common stock and per share amounts have been restated to reflect the stock split for all periods presented.

The Company has adopted a non-qualified stock option plan for which it is authorized to grant options to purchase

up to 15,000,000 shares. Under the plan, options are granted at not less than existing market prices, expire ten years from the date of grant and generally vest ratably over a five-year period. An option to acquire 2,000,000 shares was granted to a senior executive outside of the plan in 1990.

Changes in stock options were as follows:

	Number of Shares Under Option (thousands)
Outstanding at December 31, 1995 (average $7.12 per share)	6,880
Granted (average $18.81 per share)	1,774
Exercised (average $3.88 per share)	(967)
Cancelled	(377)
Outstanding at December 31, 1996 (average $10.18 per share)	7,310
Granted (average $24.78 per share)	3,204
Exercised (average $7.63 per share)	(180)
Cancelled	(207)
Outstanding at December 31, 1997 (average $14.86 per share)	10,127
Granted (average $43.11 per share)	1,154
Exercised (average $9.52 per share)	(365)
Cancelled	(611)
Outstanding at December 31, 1998 (at $3.19 to $45.69 per share, average $17.26 per share)	10,305

As of December 31, 1998, options with a weighted average remaining life of 6.6 years covering 5,741,000 shares were exercisable at $3.19 to $30.63 per share (average $10.17 per share) and options covering 3,361,000 shares remain available to be granted.

Options outstanding at December 31, 1998 are summarized below:

Exercise Price	Number Outstanding (thousands)	Average Exercise Price	Average Remaining Life	Number Exercisable (thousands)	Average Exercise Price
$3.19 to $4.71	1,496	$ 3.33	1 year	1,496	$ 3.33
$5.03 to $7.47	1,482	$ 6.35	4 years	1,482	$ 6.35
$7.97 to $11.75	1,236	$10.17	6 years	1,121	$10.03
$14.13 to $21.00	1,421	$15.69	7 years	786	$15.48
$21.25 to $30.63	3,665	$24.38	9 years	856	$24.04
$35.19 to $45.69	1,005	$43.11	10 years	0	N/A

Nonqualified options have been issued only at fair market value exercise prices as of the date of grant during the periods presented herein, and the Company's policy does not recognize compensation costs for options of this type. Beginning in 1996, the pro-forma costs of these options granted subsequent to January 1, 1995 have been calculated using the Black-Scholes option pricing model and assuming a 6% risk-free interest rate, a 10-year life for the option, a 15% expected volatility and dividends at the current annual rate. The weighted average grant date fair market value of options issued was $18 per share in 1998, $10 per share in 1997 and $8 per share in 1996. Had this method been used in the determination of income, net income would have decreased by approximately $7.8 million in 1998, $5.3 million in 1997 and $1.4 million in 1996 and diluted earnings per share would have decreased by $.06 in 1998, $.04 in 1997 and $.01 in 1996. These proforma amounts may not be representative of the effects on proforma net income for future years.

(9) Leases and Commitments:

The Company's leases extend for varying periods of time up to 10 years and, in some cases, contain renewal options. Future minimum rental payments for all operating leases having initial or remaining noncancelable lease terms in excess of one year are $29,000,000 in 1999, $23,000,000 in 2000, $17,000,000 in 2001, $13,000,000 in 2002, $10,000,000 in 2003 and $22,000,000 thereafter. Total rent expense charged to income for all operating leases was $32,000,000, $25,000,000 and $23,000,000 for the years ended December 31, 1998, 1997, and 1996, respectively.

(10) Litigation and Contingencies:

A former subsidiary of the Company is engaged in litigation in multiple states with respect to product liability. The Company sold the subsidiary in 1987. Under the terms of the sale agreement, the Company agreed to indemnify the buyer of the subsidiary for product liability related to tools manufactured by the subsidiary prior to June 4, 1987. The cases involve approximately 3,000 plaintiffs, in state and federal courts in multiple states. All other major U.S. air tool manufacturers are also defendants. The gravamen of

these complaints is that the defendants' air tools, when used in different types of manufacturing environments over extended periods of time, were defective in design and caused various physical injuries. The plaintiffs seek compensatory and punitive damages. The Company's maximum indemnification obligation under the contract is approximately $85,000,000. The Company has accepted an agreement in principle to settle all claims. Completion of this settlement agreement will not result in a material adverse effect on the Company's results of operations or financial condition.

A subsidiary, Joslyn Manufacturing Company (JMC), previously operated wood treating facilities that chemically preserved utility poles, pilings and railroad ties. All such treating operations were discontinued or sold prior to 1982. These facilities used wood preservatives that included creosote, pentachlorophenol and chromium-arsenic-copper. While preservatives were handled in accordance with then existing law, environmental law now imposes retroactive liability, in some circumstances, on persons who owned or operated wood-treating sites. JMC is remediating some of its former sites and will remediate other sites in the future. The Company has made a provision for environmental remediation; however, there can be no assurance that estimates of environmental liabilities will not change.

JMC is a defendant in a class action tort suit. The suit alleges exposure to chemicals, allegedly causing various physical injuries, and property devaluation resulting from wood treating operations previously conducted at a Louisiana site. The number of injuries related to the alleged exposures and the amount of alleged damages are all disputed and uncertain. The Company has tendered the defense of the suit to its insurance carrier. The Company has reached agreement with its insurance carrier which fixes its liability for this matter to a stated amount which will not have a material adverse effect on its results of operations or financial condition.

In addition to the litigation noted above, the Company is from time to time subject to routine litigation incidental to its business. These lawsuits primarily involve claims for damages arising out of the use of the Company's products, some of which include claims for punitive as well as compensatory damages. The Company is also involved in proceedings with respect to environmental matters including sites where the Company has been identified as a potentially responsible party under federal and state environmental laws and regulations. The Company believes that the results of the above noted litigation and other pending legal proceedings will not have a materially adverse effect on the Company's results of operations or financial condition, notwithstanding any related insurance recoveries.

A subsidiary of the Company has sold, with limited recourse, certain of its accounts and notes receivable. A provision for estimated losses as a result of the limited recourse has been included in accrued expenses. No gain or loss arose from these transactions.

(11) Income Taxes:

The provision for income taxes for the years ended December 31 consists of the following (000's omitted):

	1998	1997	1996
Federal:			
Current	$ 84,026	$95,249	$69,357
Deferred	13,091	(1,276)	8,233
State and local	6,007	12,925	6,600
Foreign	15,041	4,341	12,046
Income tax provision	$118,165	$111,239	$96,236

Deferred income taxes are reflected in prepaid expenses and other current assets and in other assets. Deferred tax assets (the valuation allowances relate to foreign jurisdictions where operating loss carryforwards exist) consist of the following (000's omitted):

December 31,	1998	1997
Bad debt allowance	$ 8,397	$ 6,686
Inventories	8,183	3,656
Property, plant and equipment	(40,867)	(37,478)
Post retirement benefits	33,795	32,319
Insurance, including self insurance	24,316	21,755
Environmental compliance	25,031	26,043
Other accruals	35,392	47,062
All other accounts	(15,873)	(7,425)
Operating loss carryforwards	—	15,203
Gross deferred tax asset	78,374	107,821
Valuation allowances	—	(10,852)
Net deferred tax asset	$ 78,374	$ 96,969

The effective income tax rate for the years ended December 31 varies from the statutory Federal income tax rate as follows:

Percentage of Pre-Tax Earnings

	1998	1997	1996
Statutory Federal income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
Permanent differences in amortization of certain assets for tax and financial reporting purposes	3.9	3.3	2.9
State income taxes (net of Federal income tax benefit)	1.3	2.9	1.7
Taxes on foreign earnings	(1.7)	(2.6)	(1.2)
Costs of Fluke merger	0.7	—	—
Effective income tax rate	39.2%	38.6%	38.4%

(12) Segment Data:

The Company operates within two major business segments: Process/Environmental Controls and Tools and Components. The Tools and Components segment has a customer which accounted for approximately 10%, 11% and 11% of total sales in 1998, 1997 and 1996, respectively.

Operating profit represents total revenues less operating expenses, excluding interest and taxes on income. The identifiable assets by segment are those used in each segment's operations. Intersegment amounts are eliminated to arrive at consolidated totals.

The detail segment data is presented in the following table (000's omitted):

Operations in Different Industries—

Year Ended December 31,	1998	1997	1996
Total Sales:			
Process/Environmental Controls	$1,615,529	$1,299,241	$1,129,750
Tools and Components	1,294,509	1,192,761	1,103,443
	$2,910,038	$2,492,002	$2,233,193
Operating Profit:			
Process/Environmental Controls	$ 222,520	$ 171,141	$ 153,513
Tools and Components	159,225	144,370	128,118
Other	(14,907)	(14,455)	(14,225)
	$ 366,838	$ 301,056	$ 267,406
Identifiable Assets:			
Process/Environmental Controls	$1,680,998	$1,264,384	$1,130,856
Tools and Components	994,364	832,614	861,345
Other	63,353	86,877	54,530
	$2,738,715	$2,183,875	$2,046,731
Liabilities:			
Process/Environmental Controls	$ 542,173	$ 404,883	$ 371,821
Tools and Components	374,726	421,526	412,850
Other	469,985	218,247	256,327
	$1,386,884	$1,044,656	$1,040,998
Depreciation and Amortization:			
Process/Environmental Controls	$ 63,540	$ 46,794	$ 42,187
Tools and Components	45,111	44,908	40,237
	$ 108,651	$ 91,702	$ 82,424
Capital Expenditures:			
Process/Environmental Controls	$ 50,073	$ 48,577	$ 32,635
Tools and Components	40,192	38,304	31,346
	$ 90,265	$ 86,881	$ 63,981

Notes to Consolidated Financial Statements

Operations in Geographical Areas—

Year Ended December 31,	1998	1997	1996
Total sales:			
United States	$2,328,352	$1,979,346	$1,796,303
Germany	149,841	115,618	119,149
United Kingdom	121,084	121,679	100,710
All other	310,761	275,359	217,031
	$2,910,038	$2,492,002	$2,233,193
Long-lived assets:			
United States	$1,765,211	$1,275,514	$1,224,919
Germany	22,931	19,187	20,887
United Kingdom	21,157	17,570	14,289
All other	42,512	39,551	40,352
Less: Deferred taxes and financial instruments	(78,374)	(96,969)	(98,364)
	$1,773,437	$1,254,853	$1,202,083
Sales outside the United States:			
Direct Sales	$ 581,686	$ 512,656	$ 436,890
Exports	230,000	212,000	156,000
	$ 811,686	$ 724,656	$ 592,890

(13) Quarterly Data-Unaudited (000's omitted except per share data)

1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net Sales	$646,240	$736,428	$724,839	$802,531
Gross Profit	228,146	273,445	283,987	303,376
Operating Profit	74,014	91,874	99,127	101,823
Net earnings	44,203	52,208	28,460*	58,075
Earnings per share:				
Basic	$ .33	$ .39	$ .21*	$ .43
Diluted	$ .32	$ .38	$ .20*	$ .42

1997	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net Sales	$581,530	$608,369	$626,785	$675,318
Gross Profit	198,316	220,824	232,815	241,616
Operating Profit	55,950	76,244	83,084	85,778
Net earnings	31,756	44,838	49,258	50,754
Earnings per share:				
Basic	$ .24	$ .34	$ .37	$ .38
Diluted	$ .23	$ .33	$ .36	$ .37

* Includes $28.6 million after-tax costs ($0.21 per share) from the merger with Fluke Corporation

Management and Directors

Major Operating Company Executives

A.L. Hyde Company
Kurt C. Glaser
President

American Sigma, Inc.
Richard W. Wissenbach
President

Communications Technology Corporation
Benjamin W. Jeffrey
President

Current Technology, Inc.
Joseph W. Roark
President

Cyberex, Inc.
Maureen F. Austin
President

Danaher Controls
James W. Appelgren
President

Danaher Tool Group
Professional Tools Division
Jake R. Nichol
President

Danaher Tool Group
Special Markets Division
Thomas R. Sulentic
President

Delta Consolidated Industries
Thomas P. Joyce, Jr.
President

Dr. Bruno Lange GmbH
Hermann E. Braun
President

Fluke Corporation
H. Lawrence Culp, Jr.
President

Gems Sensors, Inc.
Joseph A. Hahn
President

Hengstler GmbH
Hermann E. Braun
President

Hennessy Industries, Inc.
Vincent E. Piacenti
President

Jacobs Chuck Manufacturing Company
C. Michael Heath
President

Jacobs Vehicle Systems, Inc.
William J. Butler
President

Jennings Technology Company
John P. Williamson
President

Joslyn Hi-Voltage Company
James F. Domo
President

Joslyn Manufacturing Company
Gary P. Prasser
President

Joslyn Sunbank Company
P. Edward Prutzman
President

M&M Precision Systems Corporation
James E. Helton
President

Matco Tools Corporation
Thomas N. Willis
President

Namco Controls Corporation
Alex A. Joseph
President

Pacific Scientific Automation Technology Group
William T. Fejes, Jr.
President

Pacific Scientific Company
Fisher Pierce Division
Steven L. Breitzka
President

Pacific Scientific Company
Instruments Division
Daniel A. Pryor
President

Pacific Scientific Energetic Materials Co.
Thomas L. Walsh
President

Pacific Scientific Safety & Aviation Group
Richard G. Knoblock
President

Partlow/West Corporation
Craig B. Purse
President

QualiTROL Corporation
Ronald N. Meyer
President

Veeder-Root Company
Scott G. Clawson
President

Corporate Officers

George M. Sherman
President and Chief Executive Officer

Patrick W. Allender
Senior Vice President, Chief Financial Officer and Secretary

C. Scott Brannan
Vice President - Administration and Controller

Dennis D. Claramunt
Vice President and Group Executive

Daniel L. Comas
Vice President - Corporate Development

H. Lawrence Culp, Jr.
Vice President and Group Executive

Mark C. DeLuzio
Vice President - Danaher Business System

James H. Ditkoff
Vice President - Finance and Tax

Dennis A. Longo
Vice President - Human Resources

Steven E. Simms
Vice President and Group Executive

John P. Watson
Vice President and Group Executive

Directors

Mortimer M. Caplin
Partner
Caplin & Drysdale

Donald J. Ehrlich
President, Chairman and Chief Executive Officer
Wabash National Corp.

Walter G. Lohr, Jr.
Partner
Hogan & Hartson

Mitchell P. Rales
Chairman of the Executive Committee
Danaher Corporation

Steven M. Rales
Chairman of the Board
Danaher Corporation

George M. Sherman
President and Chief Executive Officer
Danaher Corporation

A. Emmet Stephenson, Jr.
President
Stephenson and Company

Shareholder's Information

Auditors

Arthur Andersen LLP
Washington, D.C.

Shareholders' Information

Shareholder requests for information or assistance, please write or call our corporate office.

Danaher Corporation
c/o Investor Relations
1250 24th Street, N.W. Suite 800
Washington, D.C. 20037
(202) 828-0850

Internet Address

http://www.danaher.com

Stock Listing

Symbol: DHR
New York and Pacific Stock Exchanges

Transfer Agent

SunTrust Bank
Atlanta, Georgia

Form 10-K

A copy of the Annual Report to the Securities and Exchange Commission on Form 10-K may be obtained by writing to Danaher Corporation.

Market Prices of Common Stock

	1998		1997	
	High	Low	High	Low
First Quarter	38 3/32	29 1/2	25	20 13/16
Second Quarter	38 7/8	34 25/32	25 15/16	19 13/16
Third Quarter	45 3/4	30	29 7/32	24 29/32
Fourth Quarter	54 5/16	29 3/8	31 7/8	26 29/32

High and low per share data are as quoted on the New York Stock Exchange.

Danaher Corporation
1250 24th Street, NW
Suite 800
Washington, D.C. 20037
202 828 0850

Donside
Danaher 1998 Annual Report

Design
Nebel Design Inc.
Glen Burnie, Maryland

Printing
E. John Schmitz
Sparks, Maryland

Paper
Cover: Consort Royal Brilliance basis 100
Text 1: Consort Royal Brilliance basis 100
Text 2: Nekoosa Solutions Sisal basis 70

Production Notes
Cover: 4 color process plus PMS 285 plus flood UV coating
Text 1: 4 color process plus PMS 130 plus spot dull varnish
Text 2: one color (black)
Printed in 175-line screen

Any questions about this piece or our grades,
please call Donside at 1 800 220 8577.