1967 Annual Report ITT

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International Telephone and Telegraph Corporation

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Oil and investments

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International Telephone and Telegraph Corporation

Harold S. Geneen *
Chairman and President,
International Telephone and Telegraph Corporation

Arthur M. Hill *
Private investments, officer and director of various unlisted corporations and banks

Charles D. Hilles, Jr.
Director of various corporations

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Vice President,
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International Telephone and Telegraph Corporation

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†Member of Management Policy Committee

Management in action: Thousands of miles separate the meetings of ITT management shown above and on our cover. Yet both photographs are unified in their practical demonstration of the Company's basic philosophy in action: "The function of management is – *to manage.*" The cover picture is of ITT Corporate World Headquarters executives during their monthly General Management Meeting in New York City. The photograph above shows ITT World Headquarters executives during a combined monthly meeting in Brussels with ITT Europe area management. Headquarters executives go out into the field monthly for similar combined meetings with Latin America and Far East area managements. Our wrap-around cover, when opened full, provides a dynamic view of our management in action.

Contents

Annual Meeting

The annual meeting of stockholders will be held at 2:00 p.m. local time on Wednesday, May 8, 1968, in the Ballroom of the Brown Palace Hotel in Denver, Colorado.

Report on Progress

The year 1967 was the most successful in the Company's 47-year history. New peaks were reached in consolidated sales and revenues, net income, and earnings per share despite economic cross-currents in some areas of the world – demonstrating the effectiveness of our in-place worldwide, goal-disciplined management.

Consolidated sales and revenues of the ITT System reached \$2.76 billion, compared with restated 1966 sales and revenues of \$2.61 billion.

Consolidated income before extraordinary credit reached a record high in 1967 of \$119 million, an increase of 13% over net income of \$105 million for 1966, after restatement to include the earnings of companies added through poolings of interests.

Earnings per share of Common Stock as presently constituted after the recent 2-for-1 stock split were equal to \$2.27, or 11% higher than restated 1966 earnings of \$2.04 per share.

Approximately 50% of our earnings in 1967 and 1966 came from U. S. and Canadian sources. By contrast, similar earnings in 1965 accounted for 40% of total earnings, and only 30% in 1964.

Report on Management

As in the past eight years, the key to this steady progress is to be found in the proven ability of your Company's management to continually produce greater efficiency both in manpower and resources, and to continue to open new markets for our products and services. This will be of especial significance in 1968, since unquestionably it will be the determining factor in our continued profitable growth.

In the face of rising taxes and fluctuating currency values, there will be a critical need in the future for even greater emphasis on the bedrock fundamentals of efficient and quickly responsive performance. Close adherence to these fundamentals has yielded increasingly profitable results for your Company for the past eight years and we are confident they will continue to do so.

It is becoming increasingly clear that the development which took place during that time of a worldwide management group, now uniquely experienced in solving problems and evaluating opportunities in highly competitive environments, and under changing economic conditions, has become our most important asset, and your most important assurance of the future.

Eight years ago – on March 24, 1960 – in my first address to the New York Society of Security Analysts as President of the Company, I summarized the basic management philosophy by which ITT's future growth would be unswervingly guided: "management *must manage.*" By this was intended a philosophy of aggressive *anticipation* of goals and problems and of effective advanced counter-actions to insure our attainment of final objectives.

This philosophy has guided us during the past eight years. It is most evident in the high degree of information reporting and widespread knowledge of the Company's current progress that is forwarded to the top management – under this approach – and in our prompt reactions that follow.

But such a philosophy must have even broader objectives. In addition to managing the day-to-day operations, management must give broad direction to whole new enterprises, including new directions, in order to anticipate and to stay ahead of the changes in technology and long-range trends. Products, plants, and skilled workers must be directed by disciplined imagination into the opportunity areas of the future and these plans must be an integral part of our present-day decisions.

But even with this broad philosophy, *performance* is the only realistic measure of individual and collective management capability. Adherence to both of these principles is the key factor to the premise that our Company will continue its rate of progress, or even exceed it.

In order for you to better understand how our management works, we have included in this report pictures of "management in action." The most important part of that "action" lies in the trained judgment of the management individuals. However, equally important is the open, fact-conscious, problem-solving environment that has been created – the interaction of which with the individuals, both separately and as a group, has created an unusually advanced management group capability over the past eight years. Perhaps we should say several groups, because we now have several such groups, by area, by product, and by company.

Responsibility for monitoring on a continuous basis the operating performance of all units of the ITT System rests with the Office of the President – Operations – ITT. Two executive vice presidents of the Company, recently assigned to this responsibility under my direct supervision, now analyze performance compared with our plans, and follow up with line and staff organizations to assure that appropriate actions are taken and satisfactory results attained.

Numerically, we have made marked progress in the five-year period 1963-1967 in building and strengthening our executive management force worldwide. At the beginning of 1963 we had about 600 executives; today we have over 1600, and of these positions more than 800 have been filled from within. Our executive needs will continue to grow over the next few years.

Report on Operations

Since 1959, we have been adding building blocks through a planned program of diversification. As a result, we are in new areas of great potential, while at the same time maintaining ITT's leadership in its basic and traditional field of telecommunications.

Until 1959, ITT was primarily a one-product company. Today, we are active in a broad spectrum of major product and service areas. To present these in their simplest form, we have grouped them under five main categories in the narrative section of this report.

Our goal has been to achieve a balanced, growing, worldwide earnings power with strong built-in, long-term growth potential. This has been accomplished in a financially sound manner, so that conversion of every ITT convertible security outstanding would result in a dilution of less than 4%.

Capital expenditures in 1967 reached a record level of $238 million. The greater part of this expenditure was financed internally, through retained earnings and depreciation. Our overseas capital expenditures are financed by the ITT System companies in their own countries. In recent years our requirements for the export of capital have been minimal, so that the Federal Government's recent restrictions on capital exports will have no significant effect on our earnings.

On January 1, 1968, our government imposed mandatory limits on capital transfers for foreign investments and also established requirements for the repatriation of earnings. The regulations will not materially affect our operations. ITT's long-range contribution to the U. S. balance of payments is an important national asset.

Your Board of Directors on January 1, 1968, unanimously voted to terminate the merger agreement between ITT and the American Broadcasting Companies, Inc. because of long delays since the announcement of the merger in December, 1965 – delays over which neither company had control – and the indication of continued delays.

We have recently added to the ITT corporate family two major companies, whose combined annual sales exceeded $400 million in 1967: Levitt and Sons, Incorporated, a major residential construction firm, and Sheraton Corporation of America, which operates an international system of hotels and motor inns in the United States and throughout the world. Both of these organizations fit into ITT's long-term planning to expand into services that meet the demands of a rapidly increasing, more affluent population.

In addition, we are proposing to acquire Rayonier Incorporated, an important producer of chemical cellulose and lumber, and Pennsylvania Glass Sand Corporation, a leading producer of silica for the glass, chemical, metallurgical, ceramic and building industries.

The efforts and loyalty of our employees in our divisions and subsidiaries throughout the world, the cooperation of our suppliers, and the continuing confidence of our customers and shareholders contributed importantly to our success. On behalf of the Board of Directors, I wish to express our appreciation for these contributions to the successful growth of ITT.

For the Board of Directors

Chairman and President

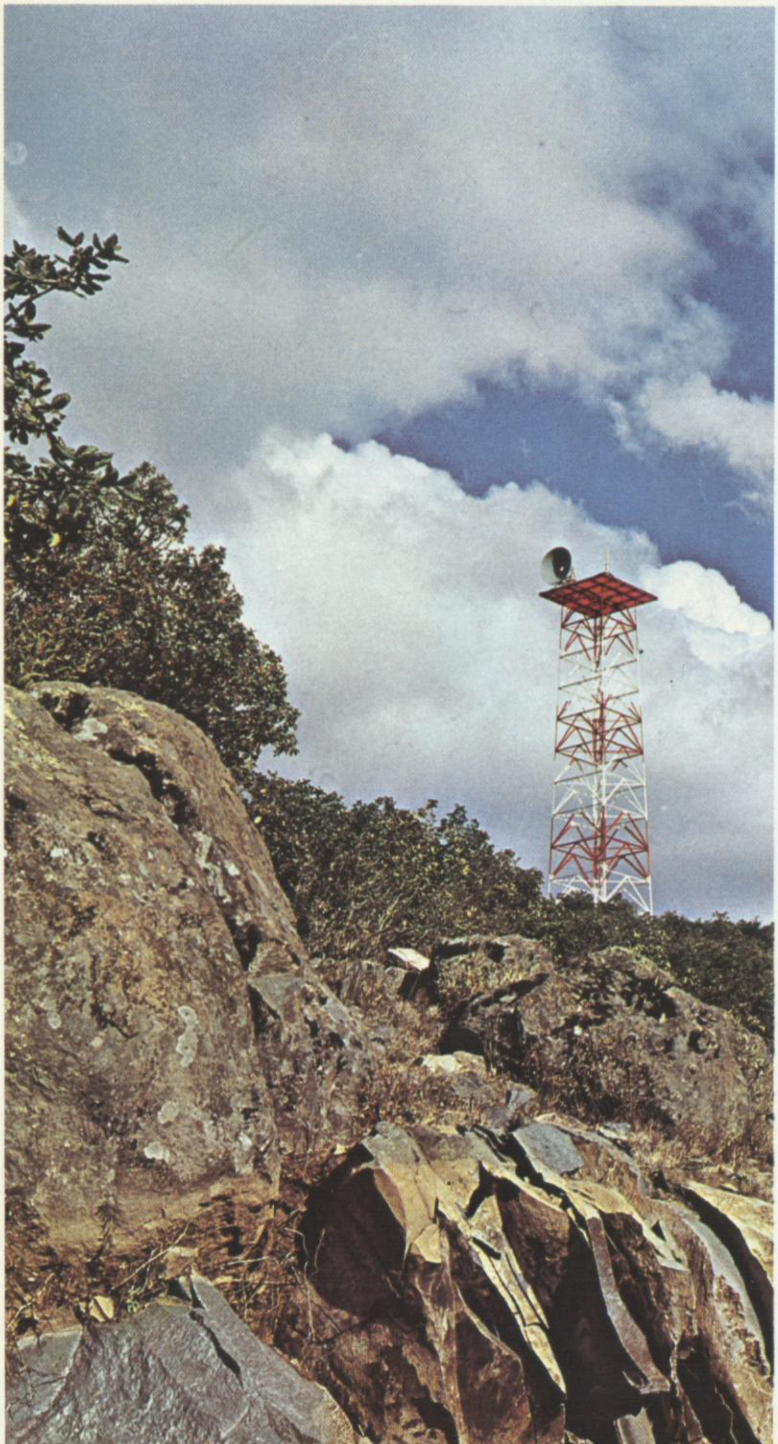
March 13, 1968

Highlights

	1967	1966*
Sales and Revenues	$2,760,572,000	$2,613,658,000
Income before Extraordinary Items	$ 119,221,000	$ 105,479,000
Per Share of Common Stock**	$2.27	$2.04
Net Income	$ 122,760,000	$ 105,479,000
Per Share of Common Stock**	$2.34	$2.04
Common Shares Outstanding (average)**	49,038,000	48,104,000
Dividends per Share of Common Stock**	$ .77½	$ .69⅜
Gross Plant Additions	$ 238,141,000	$ 215,273,000
Plant, Property and Equipment, less Reserves	$1,305,829,000	$1,180,183,000
Orders on Hand	$1,389,000,000	$1,348,000,000
Number of Employees	236,000	240,000
Number of Stockholders	131,000	109,000

** Restated to include data relating to companies added through poolings of interests.*
*** Restated for 2-for-1 stock split effective January 26, 1968.*

Right: ITT microwave installations such as the San Juan del Río antenna tower in the mountainous state of Querétaro link Mexico's expanding communication network, for which ITT has been a major equipment supplier since 1962. This network will bring the 19th Olympic Games in Mexico City to TV viewers in North America.



ITT today is far different from ITT of 1959 – when its activities were confined to its traditional area of telecommunications.

ITT today is the product of its management's program of bringing the Company into new areas of above-average growth potential and directing these new activities to achieve results beneficial to the Company's stockholders.

Since 1959, this continuing program of building and managing a new ITT, capable of competing successfully in this era of multi-product, multinational companies, has consistently set new records for sales, earnings, and earnings per share for 34 consecutive quarters. Sales and revenues have more than tripled. So have earnings and assets.

ITT today is many things . . .

An engineer testing transmitters in Madrid » a trans-Pacific cable joining here to there » thousands of modern telephone sets coming off assembly lines on four continents » the control center of a power dam in Africa » circuits as small as specks of dust » the "eyes" of an airliner landing in poor visibility » technicians tracking satellites and spacecraft in the Indian Ocean » a color TV set in a home this side of the Berlin wall » the world's largest commercial data processing complex » vacationers relaxing at a Sheraton hotel on one of Hawaii's Outer Islands » a place to park at Kennedy International Airport » teenagers learning how to repair a truck engine, or learning how to read » a telephone operator's "Buenos días, señor" from the world's southernmost city, Punta Arenas in Chile » children playing in sunlight in a planned-for-living Levitt community.

ITT is all of these, and much more. It is facilities, products, services – worldwide. It is people and markets – worldwide. It is an industrial and service system, unsurpassed in the manufacture of sophisticated technological products for today and tomorrow. Highly diversified, pursuing new areas of high promise, it is one of the most international of U. S.-based companies.

The following pages summarize ITT's operations during 1967.

In 1967, ITT continued to advance in all areas of its historic field of communications. From the earliest days of its corporate history, ITT has been a major contributor to the growth of the electrical communication industry.

The Company's telecommunication manufacturing activities, accounting for 29% of our worldwide sales, are carried on primarily in Europe, where we are a major supplier of the telecommunication requirements of all of Western Europe's telecommunication administrations. These activities are also conducted in North America, Latin America and Australia. Our International Communications Operations (ICO) Group is the world's largest American-based international record communication system. ITT's telephone operating companies, located in Chile, Peru, Puerto Rico and the Virgin Islands, have more than 618,000 telephones-in-service. This total is expected to pass the one-million mark during the next five years.

ITT made telephone history in 1967 with the inauguration in an Antwerp suburb of a new computerized electronic switching system using a general-purpose computer in a public telephone network. This advanced exchange is the latest example of ITT's management-controlled program to develop, through research, products for tomorrow's expanding telecommunication needs.

Manufacturing

The first integrated-circuit and computer-controlled electronic telephone switching system was completed and installed in Belgium. This new exchange, known as the 10C, represents a major advance by ITT's System-wide research, development and engineering. The 10C will compete with conventional electromechanical systems in price, while offering increased reliability and reduced costs of maintenance for telex and telephone switching.

ITT companies overseas received orders for more than $25 million of equipment from East European countries during 1967. These orders have been approved or licensed by the U. S. government.

One of our French companies is developing another computer-controlled switching system, which, under sponsorship of the French Telecommunication Administration, also promises cost reductions.

In America, too, the year saw the introduction of a new telephone switching system – the Pentaconta® A-1. First Pentaconta installation in the United States, the system is now in regular commercial service in Las Vegas.

ITT's largest and most comprehensive telephone switching project in the Far East was completed during the year – a contract with the Government of India calling for 48,000 lines of Pentaconta equipment, and the establishment jointly with the Government of a factory capable of producing 100,000 lines annually. We also completed 8,000 lines of Pentaconta switching equipment for 23 exchanges in South Vietnam – the first nationwide telecommunication system in the country for civil use.

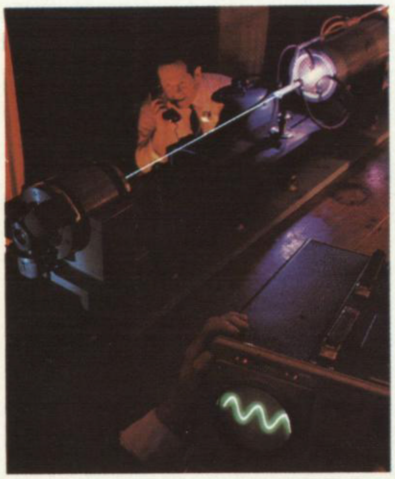
The first Pentaconta exchange in Costa Rica, the work of one of our French companies, was also cut over, and the same company obtained a contract in Colombia for four Pentaconta public exchanges.

New solid-state microwave products were introduced by ITT in the United States and Great Britain in 1967. The American system was designed especially for a comparatively young but growing market: the direct sale to pipeline companies, railroads and industrial firms.

In the Far East, major microwave contracts included a 1,000-mile-long radio link in Thailand from Malaya to Burma.

Our European and Australian firms stepped up their microwave as well as switching business with Latin America during the year. ITT's principal company in Germany is providing mainline microwave equipment for expansion of Mexico's telephone and television network, and microwave for the branch circuits is being manufactured by our Australian company.

ITT companies in England and Africa are providing the cable, repeaters and terminal equipment for 360 two-way telephone channels, or 8,640 telex, telegraph and data transmission links, in the 6,000-



Research in laser technology is carried on at ITT laboratories in the United States and Europe. French scientist in above photograph experiments with voice transmission by laser beam.

Below: An ITT microwave tower rises in sight of Taal volcano 60 miles south of Manila. During the year, ITT launched a new phase of its long-term contract for major expansion of the Philippine telecommunication system.

mile submarine cable that will link South Africa to the Iberian Peninsula and thence to the rest of the world.

Near Paris, an ultramodern laboratory will research new means for high-speed all-electronic telephone switching, as well as develop advanced lasers and explore the frontiers of space communications. This laboratory is part of ITT's expanding research, development and engineering efforts under which over 14,000 scientists and engineers are engaged in developing new technologies, products, and services.

Operator-dialing was inaugurated between Norway and the United States, with equipment jointly manufactured by ITT's Belgian and Norwegian companies. The latter company provided Norway's Telegraph Administration with the longest continuous submarine coaxial cable ever manufactured in that country – 22 miles.

The largest telephone expansion contract ever awarded in Latin America was received by the Company during the year: an order for 140,000 lines of Pentaconta equipment for Rio de Janeiro.

ITT's teleprinter activities were spearheaded by the highly competitive new Envoy Dataprinter introduced by ITT's 56-year-old British teleprinter firm.

Operations

ITT during 1967 reached agreements with the governments of Chile and Peru on long-range expansion programs for their telephone systems.

The agreement with our ITT subsidiary in Chile, which operates 90% of the country's telephones, provides for the installation of 190,000 new telephones over the next four years. Part of the cost of this expansion program will be met by the sale of up to 40% of our subsidiary's common stock to a government-owned development corporation.

The agreement with the government of Peru calls for our ITT subsidiary in Lima to add 67,000 telephone lines – doubling the size of that system over the next three years – and also provides for eventual ownership of the system by the company's Peruvian subscribers.

The Puerto Rico company launched a five-year program calling for more than 125,000 new telephones. Our company in the Virgin Islands – growing at the rate of 20% a year to meet demands of the expanding local population – increased its total plant substantially during 1967. Installation of direct dialing to Tortola, British Virgin Islands, was completed, and the new service is now in effect for station-to-station calls.

Our International Communications Operations Group (ICO) introduced a number of technological advances, thus improving ITT's leading position in international communications.

To meet the expanding need for communications between the United States and Europe, ITT Worldcom and other international carriers are planning to build a new trans-Atlantic coaxial cable (TAT-5), which will provide increased channel capacity and serve as a back-up to satellite circuits by early 1970.

In the field of high-speed data communications, ITT Worldcom in 1967 successfully conducted an experiment aimed at quadrupling the standard data transmission speed. During tests between New York and Honolulu, utilizing one of the Pacific satellites, speeds of 12,000 words per minute – fast enough to transmit the entire Bible in 65 minutes – were achieved.

The expansion of ITT facilities included inauguration of fully computerized switching systems in New York and automatic switching facilities in Honolulu, Lima, Manila, and San Juan. Telex service was extended to Venezuela and many Central American and African nations, and international Datel (data telephone) to France and Germany.

Left: Advanced equipment such as the electromechanical trunk display board in background enables telex operators at ITT World Communications New York headquarters to obtain up-to-the-minute status of radiotelegraph circuits in the company's global network.

Below: Lineman of ITT's Puerto Rico Telephone Company at work helping to carry out the company's five-year expansion program calling for 125,000 new telephones throughout the fast-growing Caribbean commonwealth.

Display at ITT System company in Norway shows radio and stereo models manufactured by ITT European companies and marketed around the world in 1967. They also manufacture TV sets, refrigerators, washing machines, deep-freezers, and home appliances.

Technician tests newly developed color sets of ITT affiliate in France. ITT System companies were ready with a wide variety of models when Europe's long-awaited color TV was launched in 1967.

The intricacies of a rose are matched by the high-density ITT Cannon NANO(TM) microminiature connector. ITT components range in size from the microscopic to the world's largest triode tube.

Components and Consumer Products

ITT System component activity continued strong during 1967. The products of this important field include advanced components for the electronics industry.

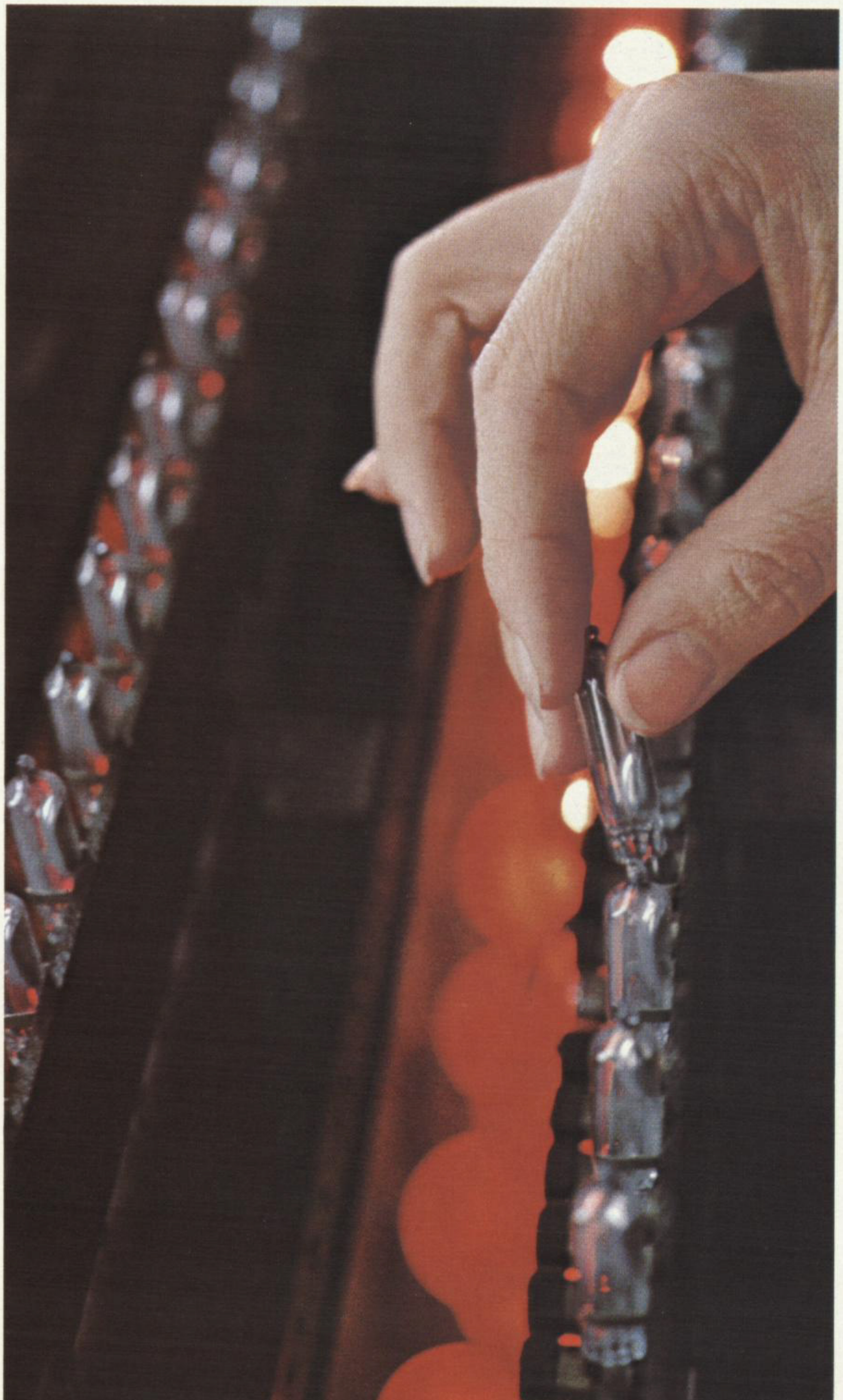
Our leading connector company, with facilities in the United States, Canada, and Europe, introduced the smallest connector in the industry – smaller than the head of a thumbtack yet containing nine electrical contacts. It will be used in the new 490-passenger Boeing 747 aircraft.

Other component activity centered on ITT's growing semiconductor business, with the manufacture of silicon planar transistors and diodes for use in submarine repeaters on the South Africa - Portugal cable, and the use of a new laser-controlled mask-making "camera" to increase the speed and economy of producing transistors and integrated circuits.

Demand increased for our Wire and Cable division's power cords for computers, industrial machines and tools, and for house trailers and household appliances. The division is also a major supplier of wire for use in U. S.-made commercial aircraft.

In the related field of illumination during 1967, we established a new lighting laboratory in Paris. The companies in our Illumination Products Group manufacture many varieties of lamps and fixtures for commercial and industrial lighting.

The introduction of color TV into Europe late in 1967 found ITT companies in England, France and Germany well prepared for the burgeoning new market. Anticipating the European market for color TV, our companies several years ago intensified their research and marketing programs, thereby cutting the lead time required to get color TV sets into quantity production. Their latest TV color sets were introduced at radio/TV exhibitions in Berlin and Paris during the fall.



ITT entered the technical and industrial products field in 1963 because the field offered – and continues to offer – increasingly favorable prospects for earnings. In terms of sales and earnings, the Technical Industrial Products Group has set record levels in each of the years since 1963. By 1967, sales of the TIP Group had accounted for 20% of ITT's consolidated sales and revenues.

Despite a slowdown in some of the industries served by the Group, Technical Industrial Products' sales and earnings in 1967 again increased to record highs.

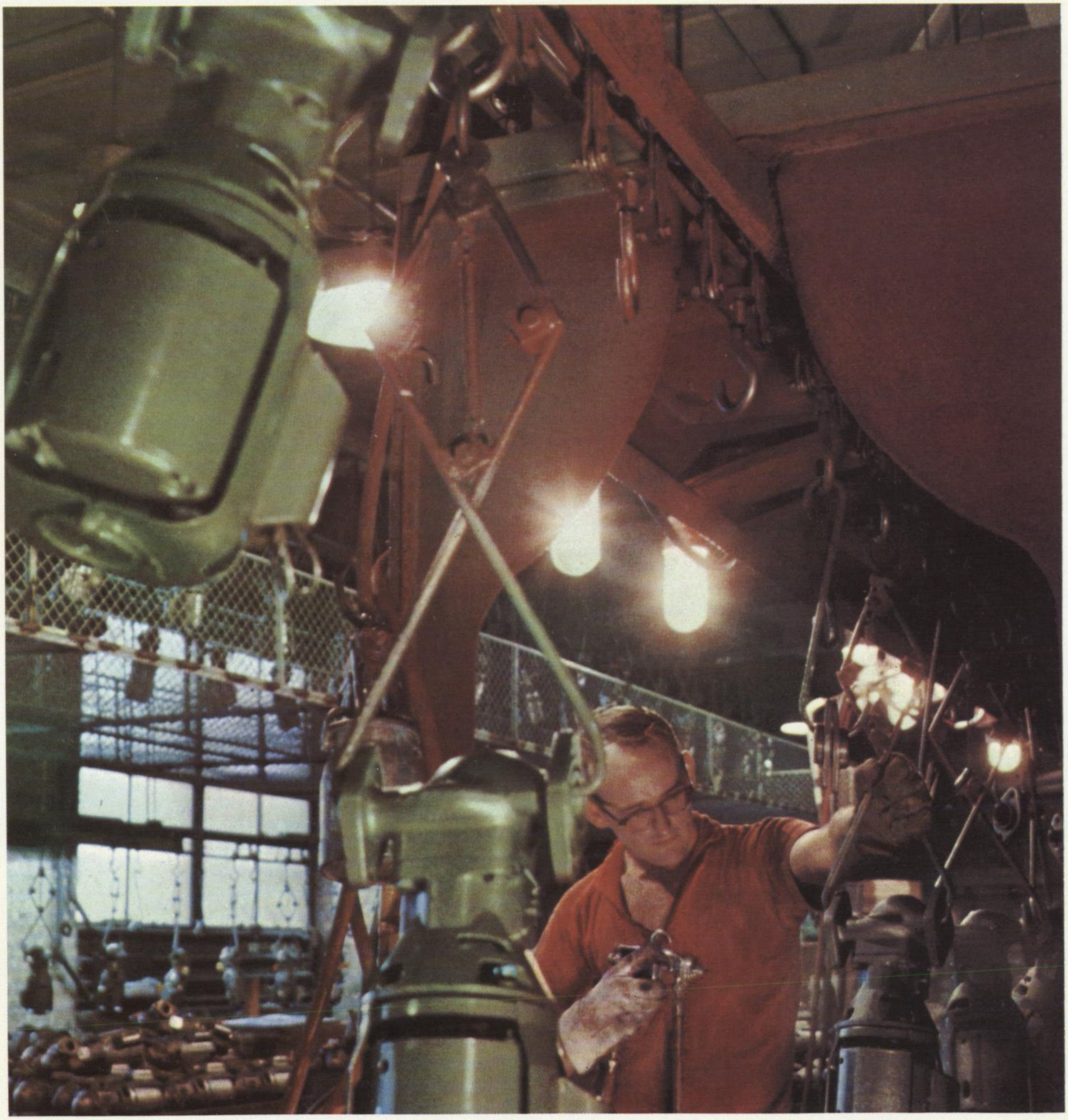
Technical and industrial products – serving the major markets of aerospace, construction, and the process control industries – include: heating and ventilating equipment, pumps, air compressors, and a broad line of controls, grinding wheels and other abrasive products.

In Europe, TIP products include alarm systems, control and signaling systems for railways and electric power, hydraulic equipment, as well as electronic measuring devices for the pulp industry.

Many TIP products are in the "taken for granted" aspects of daily life. A cellar or rooftop ITT Nesbitt heating and ventilating unit may be keeping you comfortable in your ranch-style home or high-rise apartment. ITT gas valves probably regulate your water heater and kitchen stove. The gas itself may be coming into your home from an underground natural-gas tank, controlled by a giant valve made by an ITT company in Rhode Island, and monitored by an electronic remote-flow system made by an ITT unit in California.

A Bell & Gossett booster pump and heat exchanger may control your home heating

Left: ITT technician examines hundreds of miniature mercury switches daily at a California plant of ITT Controls and Instruments. Switches are carefully inspected to maintain quality control before incorporation into residential thermostats.



Left: ITT in the United States and Norway is active in heating, ventilating and air-conditioning. Norwegian kindergarten shown is heated with floor-installed cable made by ITT's Oslo company.

Facing page: For 51 years an Illinois-based unit of ITT Fluid Handling division has supplied many kinds of pumps, heat exchangers, and related equipment to residential and industrial users.

Below: Many types of electric and electronic measuring and indicating devices are produced in the ultramodern plant of an ITT System manufacturing company at Annecy in southern France.

system. Your gas boiler may have a General Controls thermostat and Hydramotor valve. An ITT Jabsco pump may cool the engine of your pleasure boat, clear its bilges, or fill the milk carton at your dairy. Other ITT pumps could be essential elements of your dry-cleaner's equipment. In fact, your city's pollution-control system may also depend heavily on our pumps.

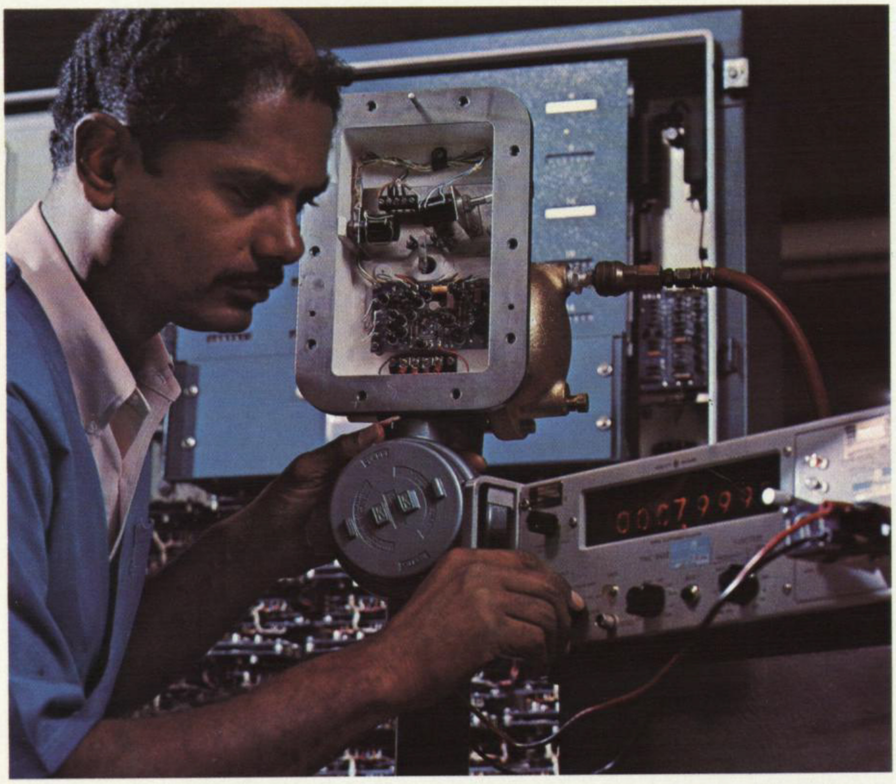
On a tour of Europe, you may drive a car equipped with ITT-made hydraulic brakes, and when you stop at traffic signals these could have been manufactured at an ITT plant in Germany or South Africa.

When you fly, your plane is almost certain to be equipped with solenoid valves and other vital control mechanisms manufactured by an ITT California division.

Several new TIP products were marketed during 1967, including our Nesbitt company's "second generation" line of rooftop multizone units. These heating and air-conditioning units make it possible for architects and engineers to provide for a building's total comfort requirements. To meet increasing demand for this new product, a total of 35,000 square feet of floor space was added to Environmental Products Division's facilities in Pennsylvania and California. Sales of packaged air-conditioning products continued to increase, while new roof-mounted gas duct furnaces, heating and cooling units and "make-up tempering" systems were offered to the trade.

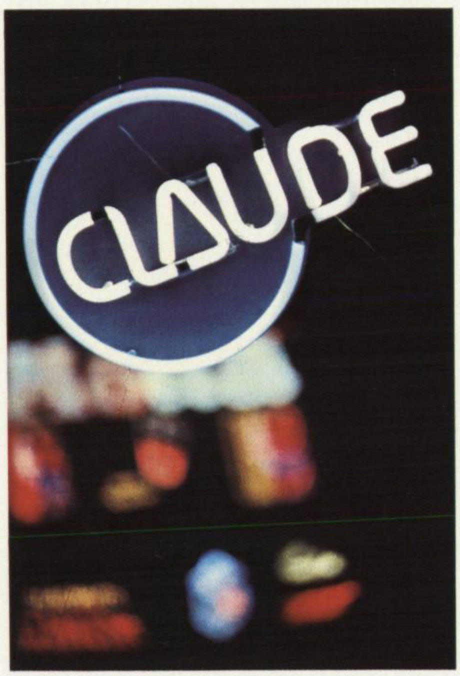
Improved gas-fired heaters have also been developed for foyers of institutions, supermarkets, and office buildings.

Several new product lines introduced by ITT Fluid Handling in 1967 include pumps



Above: Sensitive electronic transmitter developed by ITT on U. S. West Coast measures flow of gases through oil pipelines. The device has many other applications in automated operations.

Right: Management's search for new fields promising substantial growth has added a leading French lighting company and several U. S. lamp and fixture firms to the ITT System since 1966.



for pollution control, chemical processing, and the dry-cleaning industry. A new and more economical hydronic heating-and-cooling system has also been developed for high-rise and other large buildings.

ITT companies in the United States, Canada and overseas are continuing to strengthen their competitive position as designers and manufacturers of automatic pressure, temperature, level and flow controls, and valves for residential, commercial, industrial and aerospace requirements. Almost every commercial oil company in the world uses flow recorders marketed under our Barton brand name.

TIP management stresses technology, not only in research and development and in manufacturing, but also in marketing. This thrust was exemplified with the introduction in 1967 of equipment for several new and improved products used daily in the home.

A new oven-range cooking control that generates its own electricity directly from gas heat received industry-wide acclaim. Another device introduced during the year maintains food at perfect temperature for several hours before it is served.

A new decorator-styled magnetic switch thermostat opened further markets. It is smaller than conventional thermostats and eliminates confusion in dial settings by separating the temperature indicator from the regulator.

Ground was broken for a new plant in Belgium, principally for TIP products. Pneumatic tube systems included the extensive system manufactured by ITT's German company and installed at the new Schiphol Airport in Amsterdam by ITT's company in Holland.

Installation of remote control and signaling equipment for the Yugoslav Railway Administration continued during 1967, and test installation of similar equipment was undertaken in India for the state-owned Eastern Railways.

Like Technical Industrial Products, the field of Consumer and Business Services is a relatively new activity for ITT. This new area offers strong growth potential created by the expansion of world population and increasingly higher levels of disposable income.

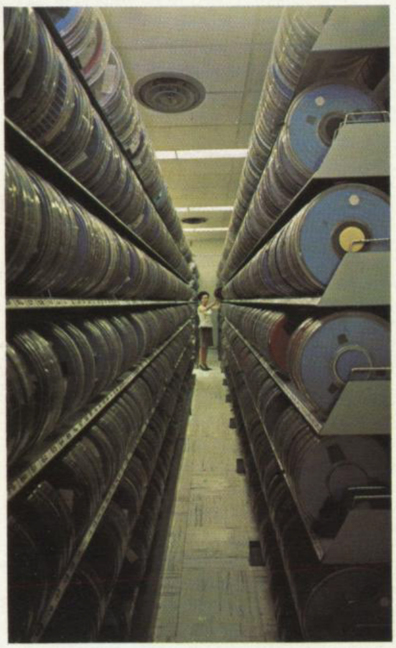
According to the National Bureau of Economic Research, the United States is now operating under a service economy, with non-manufacturing industries accounting for more than half of the national income and labor force.

Anticipating this trend, ITT entered the service field in 1964, and since then has steadily built up its service-oriented operations, currently offered primarily in the United States but growing rapidly abroad. These include: car rentals, parking, consumer loans, education and publishing, life insurance, data processing, mutual fund management, hotels and motor inns.

The merger with Sheraton Corporation of America on February 28, 1968, brought one of the world's famed hotel chains into the ITT System. Sheraton's hotels and motor inns in the United States and abroad offer more than 49,000 guest rooms and receive more than 12 million guests annually. Sheraton employs approximately 26,000 persons in a dozen lands, including the United States, Canada, the Bahamas, Puerto Rico, Corsica, Jamaica, Venezuela, Kuwait, Malta, the Philippines, and Australia. In addition, it has currently under construction or in the planning stage more than 30 hotels in the United States and overseas.

The Sheraton merger provides a broad extension of the services ITT already

ITT Avis, with sales five times those of 1962, ranks high among ITT's fastest-growing operations. Avis's 5,200 employees around the world really do "try harder" to remove "bugs" in serving the expanding car-rental market.



Magnetic tapes hold millions of customer-information items, stored under security conditions in fireproof libraries at ITT Data Services Eastern Regional Computer Center in New Jersey.

offers to the traveling public: international communications, public parking, and car-rental services.

The year also saw ITT's entrance into still another field, that of residential construction and administration, with the merger of Levitt and Sons, Incorporated, into the ITT System. Levitt has maintained an annual growth in sales and earnings in excess of 20% over the past six years. A recognized leader in the construction of single-family dwellings and the creation and operation of planned communities – including schools, shopping centers and other services – Levitt will be an ideal vehicle for ITT's participation in the future worldwide housing expansion. In the United States alone, during the next 30 years the present number of dwellings will have to be doubled.

The addition of Levitt and Sheraton to our consumer business has produced a shift in the major sources of the Company's sales and revenues. Our service revenues are now approximately 26% of total sales and revenues, whereas prior to these additions our service revenues amounted to 15%.

During the year, ITT Avis and its licensees continued their record internal growth. They now operate a worldwide fleet of cars and trucks in 1,291 cities, including 565 airports, in 40 countries. The 25 Avis reservation centers in principal cities of the United States, Europe and Asia confirm a total of well over 1,500,000 reservations a year.

ITT is also a leader in another of the world's fastest growing service industries – data processing services. In the United States, the ITT Data Services division operates data processing and computer programming centers in New York and Garden City, N. Y., Paramus and Princeton, N. J., Washington, D. C., Los Angeles, Boston, and other commercial and industrial centers. The division's services will be extended to more than 20 other cities in North America over the next two years.

In Europe, ITT operates data processing centers in London, Paris, Madrid, West Berlin and Stuttgart. Expansion of the division's facilities throughout Europe and other areas of the world is expected to lead to the establishment of a worldwide ITT data processing service network during the 1970's.

A major achievement of ITT Data Services during 1967 was the completion of development work on an advanced computer time-sharing system. This will enable the division's customers to communicate directly with remotely located computers from their offices, laboratories or other places of business. Offering a number of features unavailable through other time-sharing systems, this proprietary system is one of many computer software systems and specialized computer programs being developed by ITT Data Services to assure its position of leadership in this dynamic industry.

Other advances in the data communications area included introduction of new terminal sets in England and Sweden, and continued growth of the number of countries standardizing on ITT data modems.

ITT Consumer Services Corporation, whose Aetna unit celebrates its 50th anniversary in 1968, increased the number of its offices in continental United States and Puerto Rico. The primary business of ITT Aetna is that of making personal loans to employed people in the United States. All operations are supervised by the banking departments or other regulatory bodies of the states in which ITT Aetna offices are located, as well as in Puerto Rico.

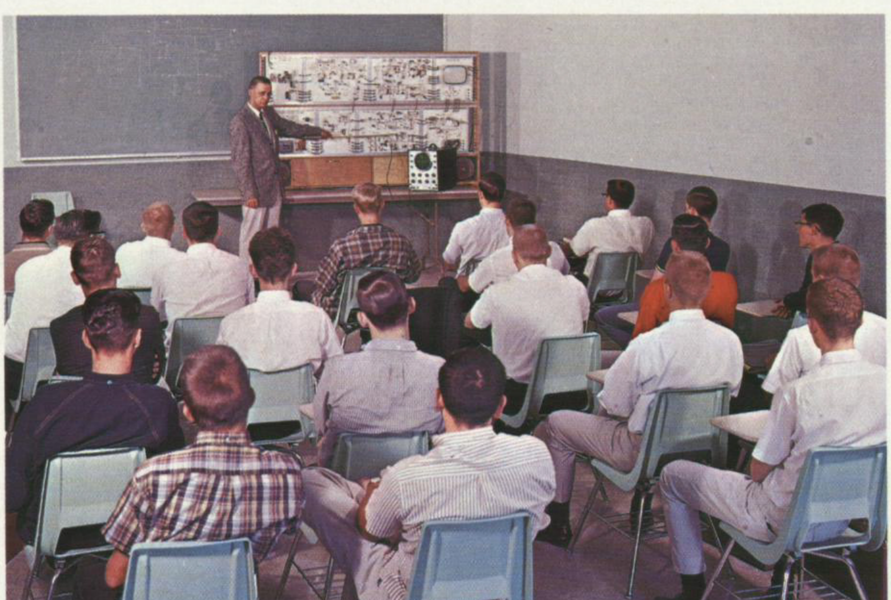
ITT also took further steps toward expanding its parking facilities through ITT Consumer Services' APCOA division, the first company to develop parking as a major source of revenues in U. S. airport terminals. The continued growth of urban renewal and downtown construction offers

The world's increasing leisure time invites tourists to the blue waters and coral sands of Hawaii's Outer Islands, where ITT luxury hotels such as the Sheraton Maui wait to serve them.

Top left: APCOA division of ITT Consumer Services Corporation operates parking facilities at several of the busiest airports in the United States, including New York's John F. Kennedy International Airport shown here.

Lower left: With the addition of Levitt and Sons, Incorporated, early in 1968, ITT entered the growing field of residential construction and operation. Levitt plans, builds and administers entire residential communities on both sides of the Atlantic.

Below: Instructor at one of four training centers operated by Indiana-based ITT Educational Services, Inc. teaches TV circuitry by means of oscilloscope and circuit demonstration board.



a rich and steadily widening field for APCOA services.

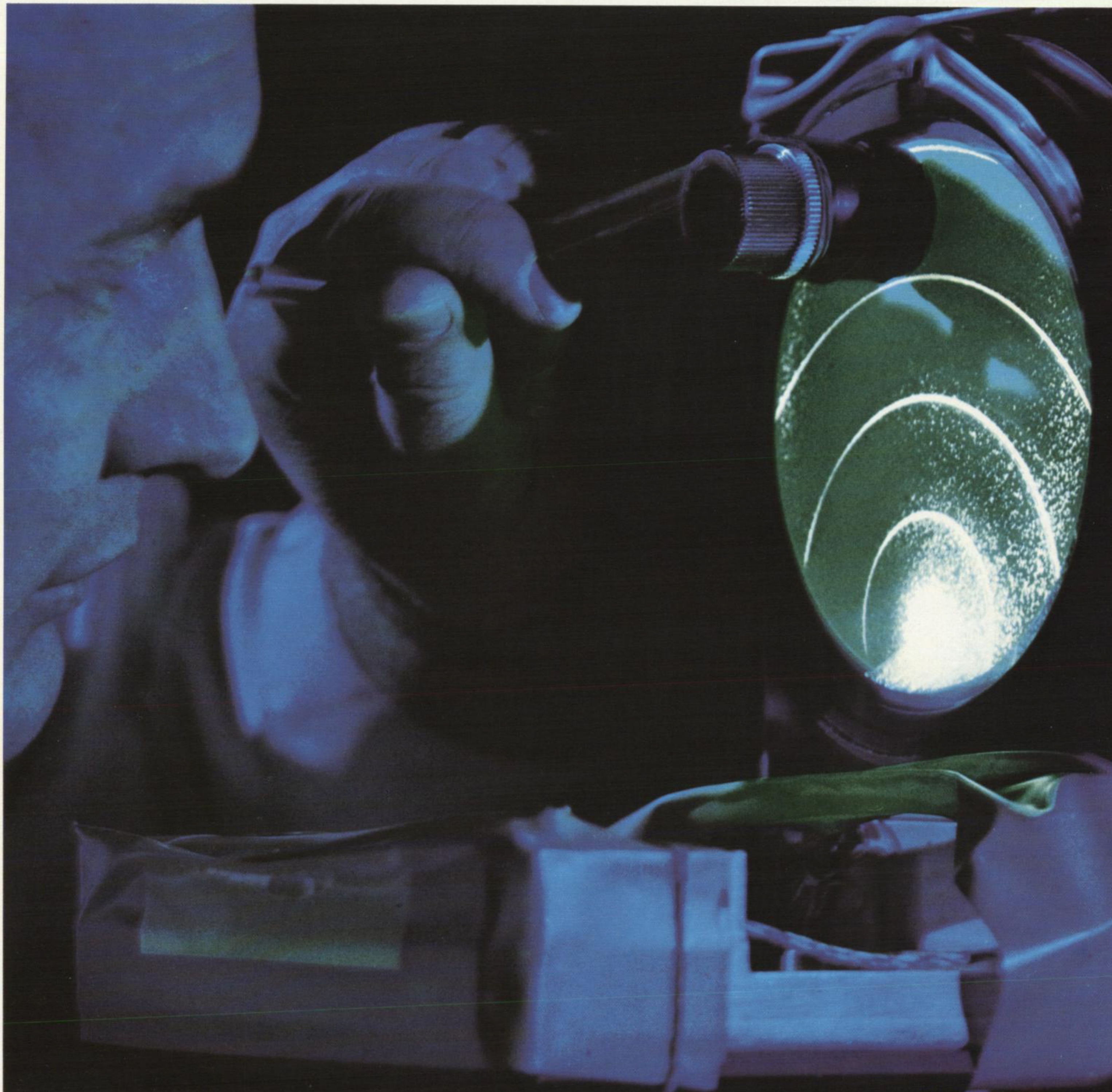
In the insurance sector, ITT's life insurance companies in 1967 reached a level of total insurance in force exceeding $500 million. ITT's insurance operations made significant gains in the United Kingdom, where sales and earnings of Abbey Life Insurance – jointly owned with Georgia International Life – set record levels for the fifth consecutive year.

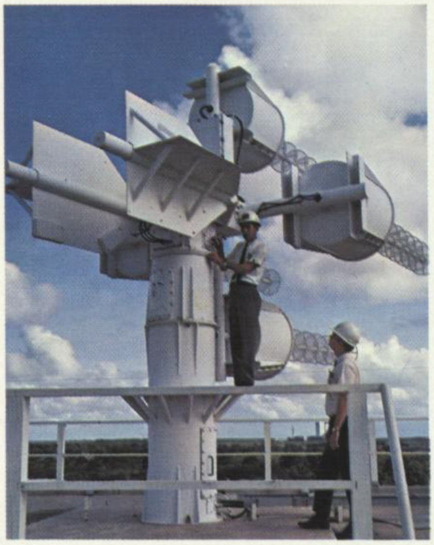
ITT broadened its activities in the field of training and education during the year. Howard W. Sams & Company of Indianapolis, a member of the ITT System since 1966, and a leading publisher of technical and educational books, substantially increased its printing and binding facilities. ITT Educational Services, Inc. added a business college and a new training center.

ITT's major Belgian affiliate acquired a company which is one of the primary suppliers of classroom exhibit material and audio-visual equipment to professional and industrial circles.

The field of education and training is by no means a new one for ITT. Since its inception in 1952, our leading service associate has trained more than 10,000 people for technical jobs in industry and government throughout the world, including thousands of technicians who have served on the Distant Early Warning Line. Since 1965, the same associate has operated and maintained the Kilmer Job Corps for the Office of Economic Opportunity. In these three years 3,000 Kilmer corpsmen have been graduated and more than 2,500 placed in jobs at an average starting wage of $1.80 an hour.

This associate was awarded a contract by the U. S. Post Office Department to give courses in postal technology and safety engineering at the Postal Service Institute, Bethesda, Maryland. ITT is the first, and at present the only, industrial contractor to participate in this program.





ITT engineers at Kennedy Space Center in Florida operate ultrasensitive telemetry antenna, part of extensive electronics system for analyzing flight and performance of NASA's Saturn V.

Left: ITT Iatron® storage tubes are widely used in military avionics systems as well as in radar. Produced at an ITT plant in Virginia, these fast-erase tubes allow display of TV images at standard frame rates without smearing.

Below: Orly Airport, where an ITT Paris-based company has installed special switching equipment that electronically and automatically handles 24,000 messages a day for the National Civil Air Traffic Control Center.

During the year, ITT continued as a major supplier of services and sophisticated equipment for air navigation and communication, including satellites and defense electronics, while its affiliates abroad contributed to the defense requirements of their own countries.

One of ITT's principal West Coast companies, ITT Gilfillan Inc., received a U. S. Army contract in 1967 to develop an omnidirectional mortar-locating radar.

An ITT division in New Jersey began delivering highly advanced microelectronic (Loran) navigation sets for aircraft during 1967. Another division in New Jersey was awarded a major Comsat contract for communication services at three satellite ground stations. ITT also won a contract to design, build, and operate Indonesia's first satellite-communication station.

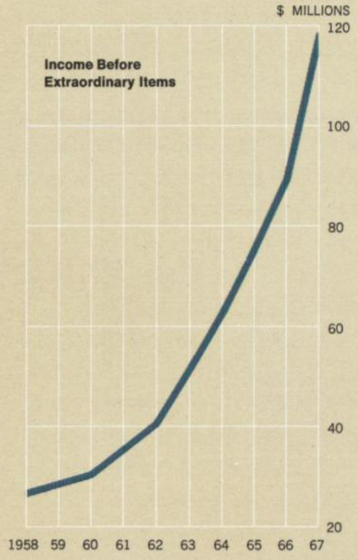
Late in the year, an electronic space camera, developed by one of ITT's Indiana divisions and the National Aeronautics and Space Administration (NASA), went into orbit aboard the ATS-III weather satellite 22,300 miles above the equator.

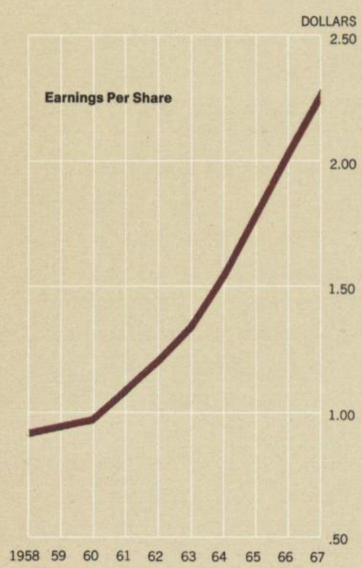
A new satellite earth station, built by ITT for the Spanish Telephone Administration, went into commercial operation at the end of the year. Designed to carry trans-Atlantic telephone and TV, the terminal will be part of the global Intelsat III commercial network scheduled to begin operation in 1968.

ITT engineering and technical specialists man radar, optical and telemetry equipment aboard ten ocean-going instrumentation ships, five of which are supporting the Apollo lunar landing program. ITT specialists also provide varied services, including data storage and logistics support, at NASA's Manned Spacecraft Center in Houston.

Our electro-optical business experienced rapid growth in 1967, with a new line of night-vision devices ranging from hand-held to helicopter-borne illuminators.

The financial statements include retroactively the accounts of, and the shares issued in exchange for, Levitt and Sons, Incorporated and Sheraton Corporation of America which were acquired in February 1968. In addition, the financial statements have been restated to give retroactive effect to the 2-for-1 split of the Common Stock and the change in the capital structure of the Corporation authorized by the stockholders at the special meeting held on January 25, 1968.





Net Income

The consolidated net income of International Telephone and Telegraph Corporation again reached record levels. During 1967, ITT earned $119,221,000 before extraordinary items. This compared with $105,479,000 earned in 1966, an increase of 13% after restatement to include the operations of companies added through "poolings of interests".

After deducting the preferred dividend requirements, ITT earned $2.27 per share on the average of 49,038,000 common shares outstanding during the year. The restated earnings for 1966 were equal to $2.04 per share. Thus, before extraordinary items, ITT achieved an increase of 11% in its earnings per common share.

Extraordinary Income Items

In the fourth quarter of 1967, ITT received payments on claims for damage to company properties during World War II. The payments by the Foreign Claims Settlement Commission amounted to approximately $17.4 million after applicable expenses, and this net recovery was established as a reserve for foreign operations. Extraordinary losses of $3.2 million applicable to the devaluation of the English Pound and the Spanish Peseta were charged to this reserve in 1967. These losses had been minimized through the Corporation's continuing program for the reduction of the adverse effects of devaluation of foreign currencies.

ITT, which continues to be the second largest holder of Comsat shares, sold 235,000 shares of the Communications Satellite Corporation and recorded a net profit of $6.9 million on the transaction. Concurrently, it established a reserve of $3.4 million to provide for the obsolescence of high frequency radio equipment whose long-term usefulness may be affected by Comsat operations.

The above transactions represented $.07 per average common share in 1967, raising the total earnings to $2.34 per share. There were no similar extraordinary items in 1966.

Sales and Revenues

Consolidated sales and revenues amounted to $2.76 billion in 1967 and represented an increase of 6% over the $2.61 billion in 1966 after restatement for all companies acquired through "poolings of interests" transactions. Sales and revenues from operations in the United States and Canada were approximately 50% of the worldwide total in both years.

As shown in the accompanying tabulation, the acquisition of Levitt and Sheraton has resulted in a substantial shift in the major sources of sales and revenues. The tabulation also shows a comparison of the 1967 data with 1966 restated for poolings of interests.

Orders on Hand

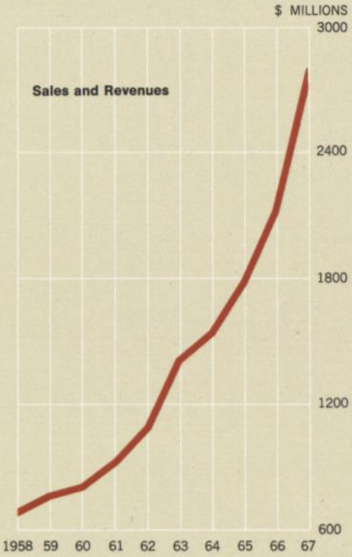
The orders on hand at December 31, 1967 amounted to $1.39 billion. The increase of 3% over the 1966 total of $1.35 billion represented another new record. This improvement was achieved despite the gradual reduction of the emphasis on projects having long-lead times.

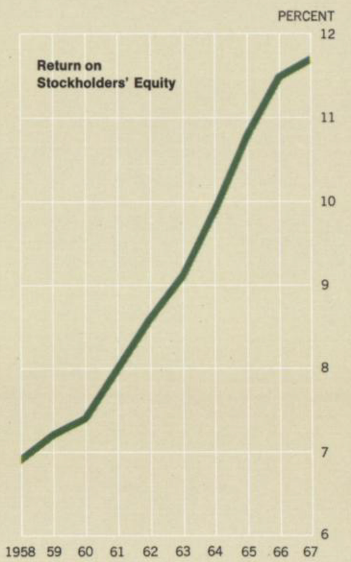
Taxes

Taxes charged against earnings in 1967 amounted to $204 million as compared with $196 million in 1966. The amounts in each year included $78 million representing domestic and foreign taxes on income.

Capital Expenditures

Capital expenditures for plant and facilities in 1967 amounted to $238 million, marking the seventh consecutive year in which such expenditures exceeded $100 million. Of this total, the expenditures for manufacturing facilities amounted to $112 million, requirements for consumer and business services amounted to $59 million, and the remaining $67 million was added to the plant in service of our telecommunications utility companies. Depreciation during 1967 amounted to $116 million compared with $101 million in 1966.





Sales and Revenues by Principal Product Areas	1967		1966	
	$ Millions	%	As Restated	As Reported
Manufacturing —				
Telecommunications Equipment . . .	$ 800	29%	28%	34%
Technical Industrial Products . . .	545	20	21	18
Components and Consumer Products .	301	11	11	14
Defense and Space Programs	225	8	9	11
	$1,871	68%	69%	77%
Consumer and Business Services	716	26	25	15*
Utility Operations	174	6	6	8
Total Sales and Revenues	$2,761	100%	100%	100%

* After reclassification of certain technical service revenues from Defense and Space Programs to conform to 1967 treatment.

Stockholders' Equity

Total stockholders' equity, including preferred shares, increased during 1967 to $1,144 million from $951 million at December 31, 1966 after restatement for companies added through "poolings of interests" transactions in 1967. The return on stockholders' average equity was 11.7% in 1967 as compared with 11.6% in 1966.

Net assets employed in the United States and Canada at the end of 1967 amounted to $633 million or 55% of the worldwide total, which is approximately the same percentage as at the close of 1966, after appropriate restatement for companies acquired.

New Financing

In October 1967, the Corporation completed a $100 million public offering consisting of one million shares of Cumulative Preferred Stock, $4.00 Convertible Series J. During the year the Corporation increased its line of credit with a nation-wide group of banks from $140 million to $150 million, with interest at the prime rate, of which $107 million is in the form of a 3-year revolving credit line. No borrowings have been made under this facility.

In May 1967, International Standard Electric Corporation, an ITT subsidiary, sold $35 million of 6% Sinking Fund Debentures in the European market. In February 1968, $50 million of 5% Sinking Fund Debentures was sold in the European market; these debentures are convertible on and after August 15, 1968 into the Common Stock of ITT. Both issues were offered to obtain funds from sources outside of the United States in cooperation with the U.S. program for improving its balance of payments position.

In December 1967, U.S. Telephone and Telegraph Corporation, a wholly-owned subsidiary, executed agreements with a group of institutional investors for their purchase of $45 million of its 6⅝% Promissory Notes due in 1988. The net proceeds of these notes will be applied to the repayment of outstanding bank borrowings.

ITT issued additional Preferred Shares, Series F, and issued Series H and K in connection with various "poolings of interests". In addition, and after appropriate action by the shareholders, it rescinded the previous authorization of its Convertible Participating Preference Shares.

Dividends on Common Stock

In the fourth quarter of 1967 and after recognition of the 2-for-1 stock split, the Board of Directors voted to increase the dividend on the Common Stock to an annual rate of 85¢ per share as compared to the prior rate of 75¢. This rise in the dividend rate represents the fourth increase within the past four years.

Financial Statements

The financial statements of the Corporation and its subsidiaries consolidated and the report of the independent public accountants are shown on the following pages. A ten-year summary of the financial highlights of the Corporation and subsidiaries consolidated follows the financial statements.

Consolidated Balance Sheets *as of December 31, 1967 and 1966*

Thousands of Dollars

Assets	1967	1966
Current Assets		
Cash	$ 138,785	$ 137,595
Accounts and notes receivable	541,294	504,519
Inventories	569,771	580,142
Other current assets	91,959	104,919
	1,341,809	1,327,175
Investments, Deferred Receivables and Other Assets		
Finance subsidiaries (Page 31)	87,824	76,149
Other investments, at cost	105,349	96,193
Accounts receivable due subsequent to one year	57,117	50,977
Other assets	63,244	53,585
	313,534	276,904
Plant, Property and Equipment, at cost	2,015,705	1,816,195
Less — Reserves for depreciation	709,876	636,012
	1,305,829	1,180,183
	$2,961,172	$2,784,262

Liabilities and Stockholders' Equity

	1967	1966
Current Liabilities		
Loans and current maturities of long-term debt	$ 347,911	$ 488,976
Accounts payable and accrued charges	380,203	372,922
Accrued taxes	84,982	85,284
	813,096	947,182
Reserves and Deferred Liabilities	196,330	162,659
Long-Term Debt (Page 27)	744,675	665,590
Minority Equity in Subsidiaries Consolidated	63,503	57,493
	1,817,604	1,832,924
Stockholders' Equity		
Cumulative Preferred Stock (Page 27)	273,064	171,829
Common Stock		
At December 31, 1967: Authorized 100,000,000 shares, $1 par value, Outstanding 49,940,354 shares	49,940	242,447
Capital Surplus	340,605	134,474
Retained Earnings	479,959	402,588
	1,143,568	951,338
	$2,961,172	$2,784,262

The accompanying notes to financial statements are an integral part of the above statements.

Consolidated Income *for the years ended December 31, 1967 and 1966*

Thousands of Dollars

	1967	1966
Sales and Revenues		
Manufacturing	$1,870,364	$1,804,863
Consumer and business services	715,915	649,325
Telecommunication utilities	174,293	159,470
	2,760,572	2,613,658
Costs and Expenses (including depreciation of $116,120 and $101,218)		
Cost of sales and operating expenses—		
Manufacturing	1,473,015	1,422,168
Consumer and business services	579,902	530,379
Telecommunication utilities	94,401	89,605
Selling and general expenses	362,290	330,434
	2,509,608	2,372,586
	250,964	241,072
Equity in net earnings of finance subsidiaries	9,243	5,497
Income from Operations	260,207	246,569
Dividends, interest and other income	23,240	19,251
Interest and other financial charges	(81,100)	(77,457)
	202,347	188,363
Income Taxes and Minority Equity		
U. S. and foreign income taxes	(78,116)	(78,019)
Minority common stockholders' equity in net income	(5,010)	(4,865)
Income before Extraordinary Items	119,221	105,479
Gain on sale of Comsat shares (net of applicable income taxes of $4,036) —$6,939, less provision for obsolescence of radio communications equipment (net of applicable income taxes of $1,600)—$3,400	3,539	—
Recovery on war damage award of $17,400 applied to reserve for foreign operations	—	—
Net Income	$ 122,760	$ 105,479
Per Share of Common Stock		
Income before extraordinary items	$2.27	$2.04
Extraordinary items	.07	—
Net income	$2.34	$2.04
Pro Forma net income (after extraordinary items) per share of Common Stock giving effect to conversion as of the beginning of the year of all convertible securities although such full conversion is unlikely for some time	$2.25	$1.96

The accompanying notes to financial statements are an integral part of the above balance sheets.

Consolidated Retained Earnings *for the years ended December 31, 1967 and 1966*

Thousands of Dollars

	1967	1966
BALANCE — Beginning of year, as previously reported		$316,555
Add — Restatement for companies added through poolings of interests in 1967		38,221
BALANCE — Beginning of year, as restated	$402,588	354,776
Add (Deduct) —		
Net income	122,760	105,479
Dividends of the Corporation —		
Preferred stock	(5,868)	(4,386)
Common stock — $.77½ and $.69⅜ per share	(33,901)	(28,673)
Dividends of companies prior to poolings of interests	(4,384)	(8,141)
Adjustment due to inclusion in 1966 of pooled companies on their previous different fiscal periods	(1,236)	—
Transfer to capital surplus, as required by Maryland law, of undistributed earnings of companies added through poolings of interests	—	(16,467)
BALANCE — End of year	$479,959	$402,588

Consolidated Capital Stock and Capital Surplus *for the year ended December 31, 1967*

Thousands of Dollars

	Capital Stock			
	Cumulative Preferred	Cumulative Preference	Common	Capital Surplus
BALANCE — Beginning of year, as previously reported	$102,354	$1,528	$210,839	$148,515
Add (Deduct) — Restatement for companies added through poolings of interests in 1967	67,947	—	31,608	(14,041)
BALANCE — Beginning of year, as restated	170,301	1,528	242,447	134,474
Add (Deduct) —				
Issue under public offering	100,000	—	—	—
Issues under employees' stock option and purchase plans	736	18	2,180	10,556
Issue in exchange for cumulative preference stock	18,115	(1,546)	—	(16,569)
Conversion of debt and preferred stock	(15,970)	—	4,970	18,305
Redemptions through retirement fund	(100)	—	—	—
Reduction to $1 par value per share	—	—	(199,762)	199,762
Expenses in connection with the issuance of capital stock	—	—	—	(4,076)
Transactions of companies prior to poolings of interests	(18)	—	105	(1,847)
BALANCE — End of year	$273,064	$—	$ 49,940	$340,605

The accompanying notes to financial statements are an integral part of the above statements.

Long-Term Debt *December 31, 1967*

Thousands of Dollars

International Telephone and Telegraph Corporation —		
4⅞% Promissory Notes, due 1969-84		$ 50,000
4.90% Sinking Fund Debentures, due 1968-87		44,675
5¼% Promissory Notes, due 1968-76		13,500
5⅞% Senior Notes, due semi-annually 1968-80		5,400
4% Convertible Subordinated Notes, due 1985		5,000
5¼% Convertible Subordinated Notes, due semi-annually 1971-75		4,000
Other		4,385
		126,960
Subsidiaries Consolidated —		
Payable in — U.S. Dollars — 5.8%*	$509,175	
German Deutschemarks — 6.0% *	47,134	
Swiss Francs — 4.2%*	46,374	
English Pounds — 8.1%*	31,486	
Other currencies	25,643	659,812
		786,772
Less — Amounts due within one year (included in current liabilities on balance sheet)		42,097
Total long-term debt		$744,675

***Average interest rate.**

Cumulative Preferred Stock *December 31, 1967*

Thousands of Dollars

Authorized 14,000,000 shares, without par value (liquidation value $100 per share) Outstanding in series —

Issue	Shares	Stated Value	Issue	Shares	Stated Value
$5.25 Series	38,000	$ 3,800	$4.00 Convertible Series E	223,012	$ 22,301
$5.25 Series B	28,424	2,842	$4.00 Convertible Series F	242,490	24,249
$4.00 Convertible Series	14,340	1,434	$4.00 Convertible Series H	567,389	56,739
$4.00 Convertible Series B	48,415	4,842	$4.00 Convertible Series J	1,000,000	100,000
$4.00 Convertible Series C	88,352	8,835	$4.00 Convertible Series K	277,846	27,785
$4.00 Convertible Series D	202,367	20,237	Total	2,730,635	$273,064

The accompanying notes to financial statements are an integral part of the above statements.

Notes to Financial Statements

Principles of Consolidation

The consolidated financial statements include the accounts of all significant majority-owned subsidiaries except the finance subsidiaries. The investments in the finance subsidiaries are carried at an amount equivalent to the equity in their underlying net assets. Combined financial statements for these finance subsidiaries are presented on page 31.

The consolidated financial statements include retroactively the accounts of, and shares issued in exchange for, companies added through poolings of interests since January 1, 1967, including Levitt and Sons, Incorporated (Levitt) and Sheraton Corporation of America (Sheraton) acquired in February, 1968. In view of their different fiscal years, operations of Levitt and Sheraton for the 12 months ended February 28, 1967 and April 30, 1967, respectively, have been included in the statement of consolidated income for 1966. The statements of consolidated income include in respect of Levitt and Sheraton for 1967 and 1966, respectively, sales and revenues of $400,298,000 and $382,010,000, with a minor effect on earnings per share of common stock after giving effect to shares issued in the exchanges.

Procedures followed in translating accounts of foreign subsidiaries into terms of U. S. dollars were consistent with those of preceding years. Net assets are translated, generally, at the applicable rates of exchange in effect at the year-end except for property and investment accounts which are translated at historic rates of exchange. Income accounts are translated, generally, at the average rates of exchange prevailing during the year, except for provisions for depreciation which are translated on the basis of the U. S. dollar equivalents of the related net asset accounts. Foreign exchange gains or losses, including those arising from translation of net assets at year-end (except for extraordinary losses on devaluation in 1967 of the English Pound, Spanish Peseta and related currencies), have been included in consolidated net income.

Approximately 50% of consolidated income for 1967 (before Parent Company interest and taxes) represents earnings of United States and Canadian operations. A general grouping of net assets as of December 31, 1967 by principal operations and location is shown on page 30.

Inventories

Inventories are stated, generally, at the lower of cost or market. Inventories include substantial amounts of costs accumulated under firm electronic equipment orders and defense contracts, less applicable progress payments. Inventories also include $81,755,000 and $56,031,000 at December 31, 1967 and 1966, respectively, of land and houses under development.

Capital Stock

At a special meeting held on January 25, 1968, the Corporation's stockholders authorized (a) a 2-for-1 split of the Common Stock, (b) an increase in the authorized Common Stock from 50,000,000 shares to 100,000,000 shares, (c) an increase in the authorized Cumulative Preferred Stock from 4,100,000 shares to 14,000,000 shares and a change from shares with $100 par value to shares without par value, and (d) reincorporation as a Delaware corporation in connection with which (i) the par value of the Common Stock was changed to $1 per share and (ii) 181,148 shares of Cumulative Preferred Stock, $4 Convertible Series H were issued in exchange for 154,563 shares of Cumulative Convertible Preference Stock (Participating). The accompanying consolidated balance sheet as of December 31, 1967 and related information in the notes have been restated to give retroactive effect to the foregoing.

At December 31, 1967, a total of 26,704 shares of the authorized and unissued Cumulative Preferred Stock and 778,068 shares of Common Stock were reserved for conversion or exchange of debt of the Corporation and its subsidiaries. In addition, 5,656,444 shares of Common Stock were reserved for conversion of outstanding shares of Preferred Stock and 115,398 shares of Common Stock were reserved for conversion of shares of Preferred Stock which could be issued on conversion or exchange of debt securities, or exercise of substitute stock options.

A maximum of 924,108 shares of Common Stock were reserved for conversion of shares of preferred stock of subsidiaries.

Under terms of the agreement covering the exchange for the net assets of Aetna Finance Company, a maximum of 92,246 shares of Common Stock were reserved for possible future issuance.

The Corporation has entered into an agreement for the acquisition of Rayonier Incorporated subject to fulfillment of certain conditions. Under the agreement, a maximum of 1,680,764 shares of Cumulative Preferred Stock, $4.50 Convertible Series I, and 5,237,230 shares of Common Stock (including 2,773,240 shares of Common Stock reserved for conversion of Preferred Stock proposed to be issued and for exercise of substitute stock options) are subject to future issuance. The Corporation has also entered into an agreement for the acquisition of Pennsylvania Glass Sand Corporation subject to fulfillment of certain conditions. Under the agreement, approximately 478,300 shares of Cumulative Preferred Stock, $4.50 Convertible Series I, and approximately 1,896,400 shares of Common Stock (including approximately 784,000 shares of Common Stock reserved for conversion of Preferred Stock proposed to be issued) are subject to future issuance. The possible future retroactive inclusion of Rayonier Incorporated and Pennsylvania Glass Sand Corporation in the consolidated results of operations on a pooling of interests basis would result in a slight increase in reported 1967 earnings per share.

A maximum of 184,167 shares of Common Stock and 5,861 shares of Cumulative Preferred Stock were reserved for issuance in connection with outstanding warrants of companies acquired.

Stock Options and Incentive Purchase Plan

Under the Corporation's several Stock Option Incentive Plans, shares of Common Stock have been made available for options to employees of the Corporation and its subsidiaries. Options granted are exercisable to the extent of one-third of the optioned shares after two years, to the extent of two-thirds after three years and in full after four years, but not after five years from date of grant. The price for the shares covered by each option is 100% of the fair market value on the date such option is granted. As at December 31, 1967, 1,481,618 shares have been issued on exercise of options since the inception of the Plans. A summary of shares subject to options during the year 1967 is shown below:

Balance, January 1, 1967 . . .		1,006,296
Add — Options granted at $38.32 to $59.54 per share		187,400
		1,193,696
Deduct —		
Options exercised at $19.60 to $32.50 per share	302,864	
Options cancelled	61,438	364,302
Balance, December 31, 1967 . .		829,394

At December 31, 1967, 296,518 shares were available for future options.

As part of the poolings of interests with several companies, the Corporation has also granted options to purchase shares of the Corporation's Preferred Stock and Common Stock as substitutes for stock options held by employees of those companies. The Substitute Stock Options were granted for the number of shares of Preferred Stock and Common Stock which generally would have been issued in respect of the optioned shares of such companies had they been outstanding at the dates of the poolings of interests. As at December 31, 1967, 25,410 shares of Preferred Stock and 122,604 shares of Common Stock have been issued on exercise of the Substitute Stock Options. A summary of shares subject to these options during the year 1967 is shown below:

	Preferred Stock		
	Cumulative Preferred	Cumulative Preference	Common Stock
Balance, January 1, 1967 . . .	15,511	4,354	74,268
Add (Deduct) —			
Options granted	—	—	60,686
Options exercised	(7,355)	(1,797)	(32,718)
Options cancelled	(764)	—	(2,712)
Exchange of shares	2,997	(2,557)	—
Balance, December 31, 1967 . .	10,389	—	99,524

Under the Career Executive Incentive Stock Purchase Plan adopted in 1967, 1,800,000 shares of Common Stock may be sold to employees of the Corporation and its subsidiaries. The purchase price per share is not less than the higher of book value of such shares at the end of the preceding year or 50% of the fair market value on the date such shares are sold to the employee. Shares sold under this plan are restricted as to sale or disposition by the employee with such restrictions lapsing from time to time as to portions of the shares purchased as the employee's service continues. If the employee terminates employment before the restrictions on the shares are removed, the shares are to be sold to the Corporation at the original purchase price. During 1967, 100,400 shares were sold to employees at $25.97 per share.

Pension Plans

The Corporation and some of its subsidiaries have in effect individual pension plans which are generally non-contributory for the employee and provide for various types of retirement and death benefits. The companies provide for costs of such plans in accordance with actuarial determinations and the costs applicable to past service at the time of adoption or modification of the plans are amortized over a period of years, the maximum being forty years. The total pension expense for 1967 amounted to $17,756,000 compared to $17,303,000 for 1966. In the case of funded plans, the companies deposit the amounts provided with trustees. For substantially all plans at December 31, 1967, the total of pension funds and the accrued liabilities for pension obligations was in excess of the vested benefits.

Retained Earnings

At December 31, 1967, $36,191,000 of the Parent Company's retained earnings of $75,743,000 was available for payment of dividends on capital stock of the Corporation.

The undistributed earnings of foreign subsidiaries included in consolidated retained earnings should not be understood to represent U. S. dollars immediately available, since the retained earnings of some foreign subsidiaries are subject to certain restrictions on the amount of dividends that may be paid and to taxes payable on declaration of dividends.

Commitments and Contingencies

In 1967, the Corporation received payments of approximately $17,400,000 (after related expenses) on an award by the Foreign Claims Settlement Commission of the United States for damages to properties of foreign subsidiaries in World War II. In view of the Corporation's extensive foreign investments with the attendant risks of extraordinary currency devaluations, war damage, expropriation, etc., the net amount of recovery was applied to a reserve for foreign operations. This reserve was subsequently charged with losses incurred upon devaluation of the English Pound, Spanish Peseta and related currencies; such losses aggregated $3,225,000 after net gains on forward exchange contracts.

At December 31, 1967, the Corporation and its subsidiaries consolidated were obligated under long-term lease contracts expiring on varying dates to the year 2065 with aggregate annual rentals of approximately $37,000,000.

A U. S. government agency has indicated that under the terms of a contract with such agency, the Corporation may be liable for liquidated damages of a substantial amount for failure to meet delivery schedules specified in the contract. The Corporation believes that negotiations presently in progress will not result in the assessment of any significant amount of damages.

At December 31, 1967, the Corporation and its subsidiaries consolidated, in accordance with continuing operating arrangements, have guaranteed borrowings of wholly-owned finance subsidiaries of approximately $27,000,000, and are contingently liable for receivables discounted of approximately $114,000,000.

The ultimate liability with respect to other guarantees, pending lawsuits, taxes, claims, etc., is not considered to be material in relation to the financial position of the Corporation and its subsidiaries consolidated.

General Grouping of Net Assets *December 31, 1967*

Thousands of Dollars

	Consolidated	Manufacturing	Consumer and Business Services	Telecom-munication Utilities
ASSETS				
Current Assets	$1,341,809	$1,020,958	$258,542	$ 62,309
Investments, Deferred Receivables and Other Assets	313,534	171,893	80,199	61,442
Plant, Property and Equipment (net)	1,305,829	515,331	352,641	437,857
	2,961,172	1,708,182	691,382	561,608
LIABILITIES				
Current Liabilities	813,096	510,527	181,499	121,070
Reserves and Deferred Liabilities	196,330	154,187	18,514	23,629
Long-Term Debt	744,675	271,865	294,054	178,756
Minority Equity in Subsidiaries Consolidated	63,503	31,089	8,381	24,033
	1,817,604	967,668	502,448	347,488
NET ASSETS	$1,143,568	$ 740,514	$188,934	$214,120
NET ASSETS EMPLOYED				
United States and Canada	$ 632,808	$ 376,541	$176,558	$ 79,709
Foreign	510,760	363,973	12,376	134,411
	$1,143,568	$ 740,514	$188,934	$214,120

The accompanying notes to financial statements are an integral part of the above statement.

Auditors' Report

ARTHUR ANDERSEN & CO.

To The Stockholders,
International Telephone and Telegraph Corporation:

We have examined the consolidated balance sheets of International Telephone and Telegraph Corporation (a Delaware corporation) and subsidiaries consolidated as of December 31, 1967 and 1966, the combined balance sheets of the ITT Finance Subsidiaries as of such dates, the related statements of consolidated and combined income and retained earnings for the years then ended and the statement of consolidated capital stock and capital surplus for the year ended December 31, 1967. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were unable to obtain confirmation of receivables from certain governments; however, we have applied other auditing procedures as to such receivables. We did not examine the financial statements of certain subsidiaries included in the accompanying statements, but we were furnished with reports of other auditors thereon.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the accompanying financial statements present fairly the financial position of International Telephone and Telegraph Corporation and subsidiaries consolidated and of the ITT Finance Subsidiaries as of December 31, 1967 and 1966, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

New York, N. Y.,
March 1, 1968.

Arthur Andersen & Co.

ITT Finance Subsidiaries

Combined Balance Sheets *as of December 31, 1967 and 1966*

Thousands of Dollars

	1967	1966
ASSETS		
Cash	$ 29,611	$ 20,066
Notes and installment obligations receivable, ($63,936 pledged to secure short-term obligations) net of unearned income and reserves—		
Affiliated companies	62,952	92,965
Other customers	314,135	284,288
Investments in life insurance companies, at underlying equity	12,616	8,396
Investments in property, leased to affiliated companies	13,947	13,112
Other assets	11,116	8,063
	$444,377	$426,890
LIABILITIES		
Bank loans and other short-term obligations	$176,788	$162,163
Accounts payable and accrued charges	13,265	10,672
Long-term debt, due 1969-87—average interest rate 5.2%	166,500	177,906
	356,553	350,741
ITT EQUITY		
Subordinated debt and advances	22,708	20,890
Capital stock and capital surplus—increased in 1967 by capital contributions	39,677	36,607
Retained earnings—$13,546 restricted as to payment of dividends	25,439	18,652
	87,824	76,149
	$444,377	$426,890

Combined Income and Retained Earnings *for the years ended December 31, 1967 and 1966*

Thousands of Dollars

	1967	1966
INCOME (including $7,994 and $7,377 from affiliated companies)		
Interest	$ 46,109	$ 39,719
Commissions	4,136	3,968
Rentals and other income	3,041	1,859
	53,286	45,546
EXPENSES		
Interest	19,234	17,550
Administrative expenses, etc.	24,476	21,064
U. S. and foreign income taxes	3,627	3,055
	47,337	41,669
	5,949	3,877
Equity in net earnings of life insurance companies	3,294	1,620
NET INCOME	9,243	5,497
Add — Retained earnings at beginning of year	18,652	15,529
(Deduct) — Dividends	(2,456)	(2,374)
RETAINED EARNINGS at end of year	$ 25,439	$ 18,652

Ten-Year Summary*

(Dollar amounts in thousands except per share figures)

	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
Results for Year										
Sales and revenues	$2,760,572	2,121,272	1,782,939	1,542,079	1,414,146	1,090,198	930,500	811,449	765,640	687,451
U. S. and foreign taxes	$ 204,069	162,179	135,615	120,034	87,345	65,812	54,133	50,266	45,343	42,410
Income before extraordinary items	$ 119,221†	89,910	76,110	63,164	52,375	40,694	36,059†	30,570†	29,036	26,600
Per common share	$ 2.27	2.04	1.79	1.55	1.35	1.21	1.09	.98	.95	.92
Return on stockholders' equity	11.7%	11.5%	10.8%	9.9%	9.1%	8.6%	8.0%	7.4%	7.2%	6.9%
Dividends per common share	$ .77½	.69⅜	.61⅞	.55	.50	.50	.50	.50	.50	.45
Gross plant additions	$ 238,141	168,049	145,629	119,336	123,241	114,584	105,311	66,809	84,219	71,989
Provision for depreciation	$ 116,120	73,875	63,737	50,713	39,378	30,763	31,341	25,066	27,433	24,516
R & D expenditures	$ 210,000	220,000	182,000	174,000	170,000	150,000	131,000	126,000	117,000	78,000
Year-End Position										
Net current assets	$ 528,713	318,957	367,012	308,055	333,849	296,155	268,422	269,324	222,269	233,963
Plant, property and equipment (net)	$1,305,829	895,438	789,849	668,240	572,469	462,323	391,347	288,461	355,115	303,609
Total assets	$2,961,172	2,360,435	2,021,795	1,668,853	1,469,168	1,235,781	1,088,310	923,944	932,269	869,006
Long-term debt	$ 744,675	433,834	428,134	309,795	293,408	266,815	182,509	148,478	165,512	158,963
Stockholders' equity	$1,143,568	820,007	739,620	659,925	592,429	483,531	465,061	415,814	415,088	395,739
Stockholders' equity per common share	$ 17.39	16.78	15.69	15.06	14.29	14.11	13.76	13.26	13.36	13.43
Year-End Statistics										
Orders on hand	$1,389,000	1,233,000	1,140,000	1,004,000	917,000	778,000	731,000	623,000	551,000	511,000
Shares of common stock outstanding (thousands)	49,940	42,168	40,530	38,720	36,924	33,258	32,750	31,362	31,060	29,452
Stockholders	130,671	109,203	106,298	104,413	100,269	92,362	94,719	87,818	88,230	67,112
Telephones in service	618,566	621,265	580,193	549,679	517,553	460,980	454,401	430,391	594,405	538,712
Employees	236,000	204,000	199,000	185,000	173,000	157,000	149,000	132,000	136,000	130,000

* *The above data are as reported in the ITT Annual Reports for the respective years, except that number of shares and per share amounts have been adjusted for 2-for-1 stock split effective January 26, 1968.*

† *Extraordinary credits in 1967, 1961 and 1960 amounted to $3,539, $7,620 and $7,902, respectively.*

Transfer Agents for Common Stock

Office of the Corporation, 320 Park Avenue, New York, N. Y. 10022

Continental Illinois National Bank and Trust Company of Chicago, Chicago, Ill. 60690

Dresdner Bank AG, Frankfurt-am-Main, Germany

Transfer Agent for Cumulative Preferred Stock

Office of the Corporation, 320 Park Avenue, New York, N. Y. 10022

Registrars for Common Stock

First National City Bank, New York, N. Y. 10015

Harris Trust and Savings Bank, Chicago, Ill. 60690

First National City Bank, Frankfurt-am-Main, Germany

Registrar for Cumulative Preferred Stock

First National City Bank, New York, N. Y. 10015

Trustee and Registrar for 4.90% Sinking Fund Debentures

Morgan Guaranty Trust Company of New York, New York, N. Y. 10015

General Offices

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