ANNUAL REPORT 1968

SERVING PEOPLE AND NATIONS EVERYWHERE

ITT

The steadily multiplying population of the world, together with the explosive advance of scientific and medical technologies over the past fifty years, not only has led to an increasing demand for services as well as goods but also has created the means of satisfying that demand. As a result, during the late Fifties the United States became the first nation to operate in a service-dominated economy. Today, service industries employ more than half of the nation's work force and play a growing role in the economy of other countries throughout the world.

Historically associated with services related to its basic field of communications since its founding nearly fifty years ago, ITT *early in the Sixties became one of the first major corporations to broaden its base in services, which today are a major* ITT *"product."*

The wrap-around cover of this report presents the artist's conception of the vigor and diversity of ITT's day-to-day activities in serving people and nations everywhere. This presentation is the work of illustrator Bernie Fuchs, who has painted such noted personalities as John F. Kennedy and Martin Luther King, and holds awards from The Artists Guild Inc. and the Society of Illustrators, both of New York. Copies of this panoramic view of ITT, unfolded and suitable for framing, are available on written request to the Secretary of the Corporation.

Contents

ITT World Headquarters

320 Park Avenue, New York, N.Y. 10022

Directors

Richard E. Bennett
Executive Vice President,
International Telephone and Telegraph Corporation

Eugene R. Black*
Consultant

Raymond L. Brittenham
Senior Vice President–Law and Counsel,
International Telephone and Telegraph Corporation

George R. Brown*
Oil and investments

Francis J. Dunleavy
Executive Vice President,
International Telephone and Telegraph Corporation

Russell F. Erickson
President and Chief Executive Officer,
ITT Rayonier Incorporated

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

Charles T. Ireland, Jr.
Vice President,
International Telephone and Telegraph Corporation

Hugh Knowlton*
Limited Partner, Kuhn, Loeb & Co., investment bankers

J. Patrick Lannan*
Financial consultant

R. Newton Laughlin
Chairman of the Board,
ITT Continental Baking Company

John A. McCone*
Chairman of Joshua Hendy Corporation

Richard S. Perkins*
Chairman of the Executive Committee,
First National City Bank, New York

Hart Perry
Executive Vice President–Finance,
International Telephone and Telegraph Corporation

Warren Lee Pierson*
Chairman of the Board of Directors,
All America Cables and Radio, Inc., an ITT subsidiary

Felix G. Rohatyn*
Partner, Lazard Frères & Co., investment bankers

Ted B. Westfall
Executive Vice President,
International Telephone and Telegraph Corporation

**Member of Executive Committee*

Officers

Harold S. Geneen†
Chairman and President

Richard E. Bennett†
Executive Vice President

Francis J. Dunleavy†
Executive Vice President

Hart Perry†
Executive Vice President–Finance

Ted B. Westfall†
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Howard J. Aibel†
Senior Vice President and General Counsel

Frank P. Barnes
Senior Vice President

Raymond L. Brittenham†
Senior Vice President–Law and Counsel

Henri G. Busignies
Senior Vice President and Chief Scientist

Albert E. Cookson†
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Senior Vice President

John Hanway, II†
Senior Vice President

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Senior Vice President and Comptroller

Stanley Luke
Senior Vice President

Lyman C. Hamilton, Jr.
Vice President and Treasurer

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Secretary

Vice Presidents

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Robert H. Savage
Henry H. Scudder
John Seath
Ellery W. Stone
Robert J. Theis
Jack H. Vollbrecht
Edward R. Wallace
Arthur T. Woerthwein

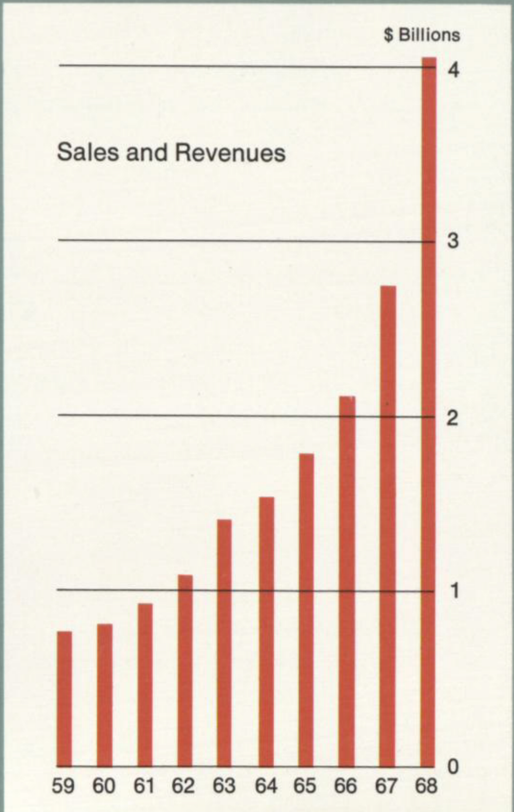
†Member of Management Policy Committee

Highlights

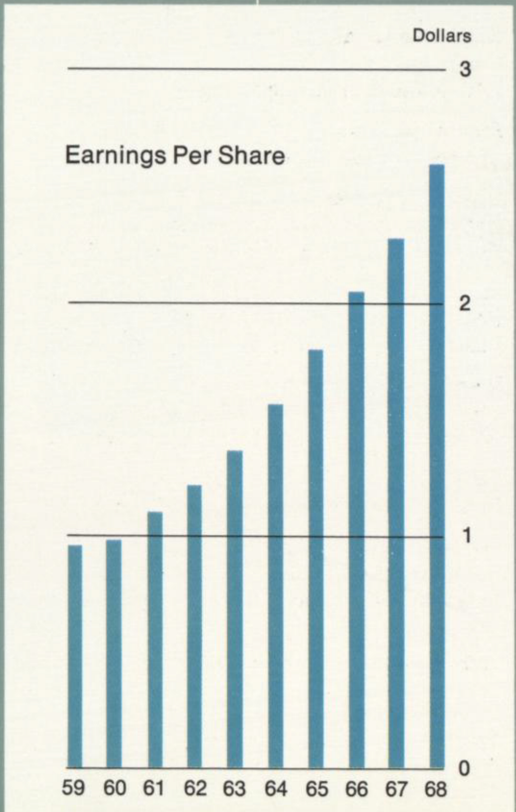
	1968	1967*
Sales and Revenues	$4,066,502,000	$3,577,801,000
Income before Extraordinary Items	$ 180,162,000	$ 153,767,000
Per Share of Common Stock**	$2.58	$2.29
Net Income	$ 192,404,000	$ 157,306,000
Per Share of Common Stock	$2.77	$2.35
Dividends per Share of Common Stock	$.87½	$.77½
Gross Plant Additions	$ 362,069,000	$ 283,469,000
Plant, Property and Equipment, less Reserves	$1,835,793,000	$1,636,083,000
Orders on Hand (Manufacturing)	$1,529,000,000	$1,295,000,000
Number of Employees	293,000	236,000
Number of Stockholders	185,000	131,000

** Restated to include financial data relating to companies added through poolings of interests.*

*** After recognition of residual securities (reducing per share amounts by $.04 in each year).*



As reported in ITT Annual Reports.



As reported in ITT Annual Reports.

To Our Stockholders

In June of this year your management will have completed ten years of building a diversified worldwide operating company serving people and nations everywhere. The history of our Company's progress over that nine-year period is already known to you.

This is a report of ITT's performance for the ninth year only of that history—1968. It was a year in which the Company continued to build on its inner strength and yet remain flexible in its structure to meet the developing and complex demands of a changing world and changing business environment.

The performance in 1968 produced these results:

For the first time in our Company's 48-year history, consolidated sales and revenues exceeded $4 billion, an increase of 14% over restated 1967 sales of $3.6 billion.

Consolidated net income, excluding extraordinary net credits, climbed to a record level of $180 million, up 17% over restated net income of $154 million for 1967.

Earnings per common share, based on the average number of shares outstanding, after recognition of residual securities and after the Federal surtax, were equal to $2.58 for 1968, up 13% from restated 1967 earnings of $2.29 per share. The Federal surtax in 1968 amounted to 6 cents per common share.

Earnings per common share, after giving recognition to the full dilutive effect of all convertible securities, were equal to $2.48 per share, an increase of 13% over the comparable restated figure for 1967 of $2.20 per share.

In addition, extraordinary items amounted to a favorable credit of $12.2 million, equal to 19 cents a share, resulting from the net gain of $16.8 million on the sale of 716,250 common shares of Communications Satellite Corporation stock and the after-tax provision of $4.6 million for obsolescence of radio communication facilities.

The dividend rate on our common stock was raised in December to an annual rate of 95 cents per share, marking the fifth increase in the last five years in the dividend rate.

All figures for 1968 include the operations of Rayonier Incorporated, Pennsylvania Glass Sand Corporation, and Continental Baking Company, which were acquired during the year. Comparable figures for 1967 have been restated to include operations of these companies and others acquired in "pooling of interests" transactions.

The increase of 13% in per share earnings over the preceding year marked a significant improvement in the Company's 11% annual average growth rate over the period from 1959 through 1967.

This growth, this building, is the consequence of well-managed planning—for example, our two five-year plans—which has resulted in a highly product-diversified but strongly unified operating company.

As a result, your management is confident that sales and earnings will continue to grow at least at the rate of the past nine years, and probably surpass it.

The Company's growth has been accomplished despite increased taxes, currency fluctuations, balance of payments controls and other problems encountered worldwide—because of its depth of management and experience.

This record further reflects the quality of the operating management developed worldwide by our Company. Our central management, in both numbers and experience, is broad and in depth. Moreover, it is an operating management that combines with our division operating managements and goes deep into the roots of all of our businesses, insuring their profitable operation.

This management is young but widely experienced in our Company, its problems and its opportunities. It has been built largely from internal promotions, supplemented by additions from other operations including those which have affiliated with us and from management consulting firms as well as from other specialist fields. This is how we have set in place a management for our growth.

As a consequence, we have shown the unique capability to handle new problems and new opportunities, and to continue to build constructively at a high rate of profitable growth as our diversification broadens and the company grows in each area. As a result, internal growth has been and will continue to be by far our largest growth factor. Hence our confidence in the continuance of that growth.

Outstanding examples of the results accomplished by this management group in 1968:

» For the first time in the history of this Company, earnings from U.S. and Canadian sources accounted for approximately 60% of total earnings, compared with 50% in 1967 and only 30% as recently as 1964, as reported in the ITT Annual Reports for those years.

» Our unbroken history of year-to-year increases in sales, net income and earnings per share was extended to 38 consecutive quarters—a record equaled during this period by few U.S. companies comparable in size to ITT.

» Our consumer-oriented service areas—including business and financial services, food processing and utility operations—amounted to 42% of ITT's worldwide sales, compared with approximately 15% in this area reported by ITT as recently as five years ago. Earnings from our service operations amounted to 45% of ITT's total. The quality of these earnings is a reflection of our constructive growth plans.

» Our telecommunications manufacturing operations, in which ITT is the world's second largest manufacturer and the largest outside the U.S., accounted for 21% of 1968 sales, and 24% of earnings, representing the largest single contributor to total earnings in 1968.

» Industrial and consumer products also reached a new high in sales and earnings for 1968, and accounted for 24% of sales and 18% of earnings.

» Our new activities in the area of natural resources—represented by our 1968 acquisitions of Rayonier and Pennsylvania Glass Sand—accounted for 6% of sales and 12% of earnings.

» Our Defense-Space activities continue to represent a declining percentage of ITT sales and earnings, although we will continue to serve the U.S. as well as overseas countries as an important supplier in this area.

» Our manufacturing order backlog at the end of 1968 reached a new high of over $1.5 billion, more than $200 million over the previous high at the 1967 year-end, on a restated basis.

» Our expenditures for plant and equipment last year reached a record high of $362 million, an increase of 28% over the restated level of $283 million in 1967. The greater part of these expenditures was financed internally through retained earnings and depreciation.

It is of prime importance to underline that over 70% of our reported sales and earnings during the nine-year period through 1968 came from within. Less than 30% during this period came from acquisitions. Companies that joined ITT have grown at a faster rate *after* they came with our Company.

An additional result is the fact that nearly every one of our new affiliated companies has moved into new trading markets worldwide, again utilizing our management knowledge and experience, producing benefits not only to the nation but to our stockholders as well.

We have become, in the process, more than ever a worldwide enterprise whose operations as a major manufacturer in our traditional field of telecommunications overseas are now balanced by our activities in the areas of consumer-oriented service industries and natural resources, and by our domestic operations.

In our telecommunication equipment manufacture, we produce roughly one-third of Western Europe's requirements and lesser but substantial proportions for other countries throughout the world.

While continuing to build and strengthen our telecommunications activities, we broadened our base by entering new fields of operations, especially in the service and leisure-time areas. We are, for example, now active in such areas as car rentals, food processing and services, hotels and motor inns, residential home construction, data processing, life insurance, education, publishing and business and financial services.

As the theme of this Annual Report states, ITT today—in all of its worldwide activities—is a company "serving people and nations everywhere"—and we expect to continue to grow in these fields.

In order for the people and nations of the world to enjoy rapidly rising standards of living, without a parallel rise in costs, the dynamics of "economy of size" must be put to maximum use in both the public and private sectors. Economy of size does not mean bigness for the sake of bigness, but rather the most efficient employment of men, money and machines. The large-scale problems of our world demand large-scale solutions.

Because of their diversity and financial resources, companies such as ITT are uniquely positioned and qualified to put the economy-of-size principle into effective practice.

During the past year we added to the ITT corporate family a number of major companies whose products are particularly suited to help meet such basic requirements of people everywhere as food, shelter and clothing. These include Rayonier Incorporated, a leading producer of chemical cellulose and lumber; Continental Baking Company, a major company in the bread, cake and frozen food industry; Thorp Finance Corporation, a consumer finance company; and Pennsylvania Glass Sand Corporation, a key producer of silica and special clay products for the glass, chemical, metallurgical, ceramic and building industries.

We have recently reached agreement in principle which has been ratified by both Boards under which the Hartford Fire Insurance Company would be affiliated with ITT. The Hartford Fire Insurance Company is one of the oldest and largest of the traditional property and casualty insurance writers in the United States.

Two other important proposed acquisitions were in process as this report was going to press. These were: Canteen Corporation, a leader in the fast-growing vending and food service industry, and Grinnell Corporation, a major producer of automatic fire protection systems and equipment.

The success of the Company's program for quality growth through diversification into areas of high earnings potential attests to the economic soundness of your management's basic philosophy. The overriding responsibility of management is to direct the course set for our diverse operations, to anticipate obstacles to the fulfillment of those goals, and to take prompt, effective counteraction against them—in short, to insure profitable results by participation.

Moreover, your management, in consultation with those of all companies in the System, sets high performance standards. We plan for and achieve improvements in earnings ranging between 10% and 15% annually. To accomplish this objective, your Company's line and staff managements assist acquired companies in developing and evaluating forward plans and in setting goals higher than would have otherwise been set. In addition, ITT establishes financial and reporting controls to insure decisions, actions and progress on plans for System companies.

From top to bottom the spirit of ITT is to work a little harder in order to achieve a more than average rate of progress.

Our objective has been to achieve a measure of excellence in performance and to reach well-defined goals. One measure of our progress has been the achievement of a balanced, growing worldwide earnings power, with strong long-term growth promise. Another measure is that we have managed our growth program in such a financially sound manner that full conversion (which would appear to be remote) of all ITT dilutive convertible securities outstanding would result in a per share earnings dilution of less than 4%.

The record shows that in making these acquisitions we have used equity securities rather than debt. In other words, our acquisition program has not been financed at the expense of either the U.S. Treasury or the nation's taxpayers.

At the end of 1968, our employees in our divisions and subsidiaries throughout the world totaled 293,000, making the Company the seventh largest private employer worldwide. Their jobs—the products they make and the services they perform—have been backed by the investments made by our 185,000 stockholders.

It is fitting to note that in June, 1970 your Company will mark its 50th anniversary.

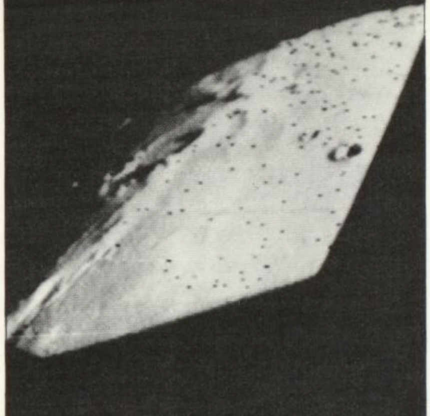
On the basis of the achievements of these past years, our experienced management in place, our new fields of growth, our continuing to function as a worldwide diversified operating company, we are confident of maintaining—and probably surpassing—our already established growth rate to and into our second half-century as a Company.

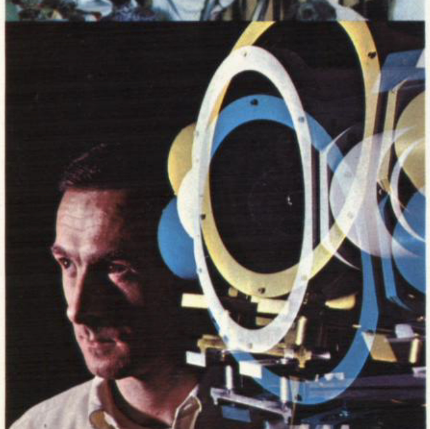
On behalf of the Board of Directors, I wish to express our appreciation to our employees, customers, suppliers and stockholders for their contributions to the successful growth of ITT.

For the Board of Directors.

Chairman and President

March 11, 1969





In helping to meet the expanding requirements of people and nations, ITT *is constantly at work around the international clock—in 67 nations on six continents. The scope of the Company's activities, extending from the Arctic to the Antarctic and quite literally from the bottom of the sea to the moon, broadened significantly in 1968. They are summarized below and described in the pages that follow.*

Telecommunication Equipment and Operations

In this traditional ITT field, manufacture of telecommunication equipment is carried on primarily in Europe but also in North America, Latin America, and Australia. Our operating activities include the International Communications Group, headquartered in New York, and four telephone companies in South America and the Caribbean.

Industrial and Consumer Products

Our technical industrial products are those required by the aerospace, automotive, construction, process control, and lighting industries—heating and ventilating equipment, pumps, hydraulic equipment, control and signaling systems, electronic measuring devices, and semiconductors and other components. ITT manufactures electrical and electronic consumer products in Europe, Africa, and the Far East. They include television and radio sets, phonographs, tape recorders, and electrical housewares.

Consumer and Business Services

Included in this group are subsidiaries serving such industries as car rentals, hotels and motor inns, home building, data processing, food, education, publishing, consumer loans, mutual fund management and life insurance. The growth in these areas, which contributed approximately 15% of sales as recently as five years ago, reflects our company's long-range objective of broadening its earnings base by expansion into the service and leisure-time areas, with above-average long-term growth potential. During 1968 our additions to this group included Continental Baking Company, a leading U.S. food company, and Thorp Finance Corporation, a consumer finance company with 140 offices in four midwestern states.

Natural Resources

The Company entered the field of natural resources in 1968 with the addition to the ITT System of Rayonier Incorporated, an important producer of chemical cellulose and lumber, and Pennsylvania Glass Sand Corporation, a leading producer of silica. These materials provide the basic products required by scores of industries, including clothing, films, glass containers, paints, and television tubes.

Defense-Space

We have long been a major supplier of air navigation and communication equipment vital to the defense-space requirements of the United States, and our foreign affiliates similarly contribute to their own national defense-space programs.

Year of Apollo

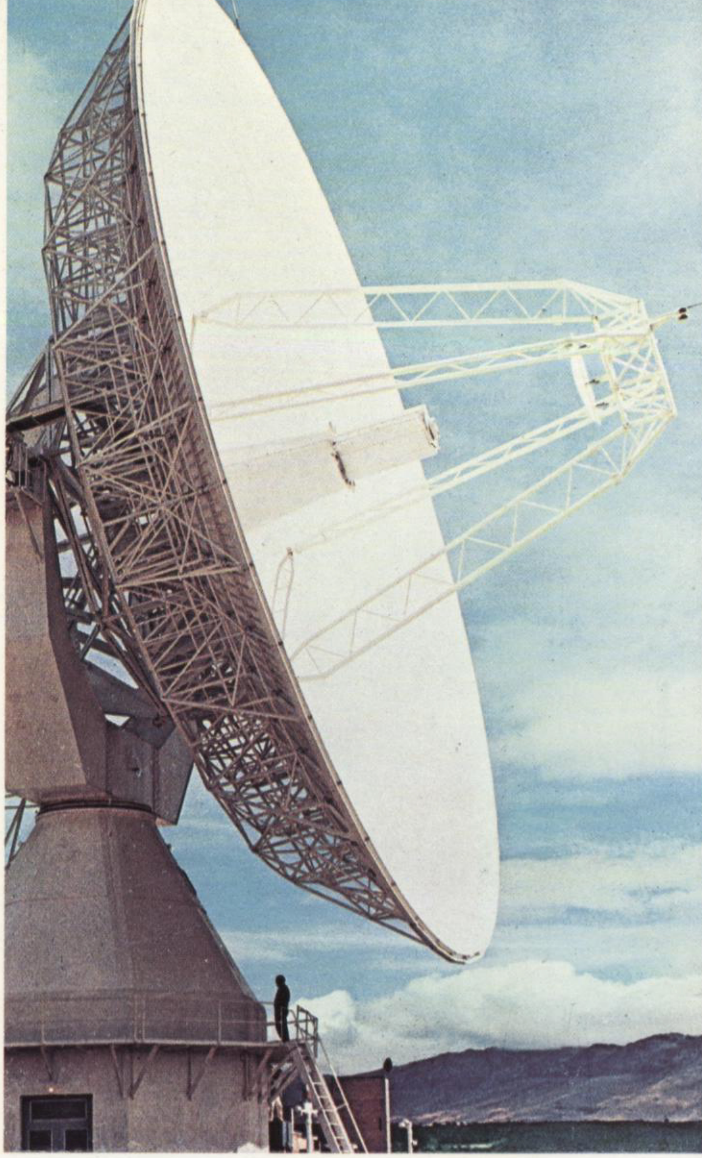
As one of the world's largest international suppliers of telecommunication equipment and services, the Company's long-established leadership in this field enabled it in 1968 to play a major role in the communication systems of Apollo 8, which made the first manned orbit of the moon on December 24-25. The farthest-reaching voyage of the space age thus far, it was also the most dramatic. Equipment designed and built by ITT helped to bring millions of TV viewers on a conducted tour of the orbiting spacecraft's cabin and let them watch while Apollo's television camera scanned the surface of the moon, nearly a quarter of a million miles distant from their TV sets.

For the National Aeronautics and Space Administration, our operation of the Kennedy Space Center's entire communication complex kept voice and data flowing to all points from pre-launch up to the end of the craft's powered flight. Our equipment worldwide not only contributed to tracking the rest of the flight of Apollo 8, but also to the pick-up and retransmittal, via the satellite Intelsat III, of the first live television pictures from moon orbit seen on home screens throughout the Western Hemisphere. The communication system of the satellite itself was designed and built by ITT Defense Communications.

Two of our U.S. divisions, ITT Cannon Electric and ITT Wire and Cable, jointly installed the closed-circuit TV system aboard the carrier *Yorktown,* which allowed crew members below decks to witness the Apollo 8 astronauts' triumphant return.

In March, 1969, ITT equipment played similar communication roles in the flight of Apollo 9.

This total capability, tested and proven in communications, is a distinguishing characteristic of the ITT System in all fields of the Company's activities. It derives from management, technical, scientific and engineering skills constantly applied to the development of more efficient ways to meet the increasing needs of people and nations for goods and services in mankind's greatest technological era.

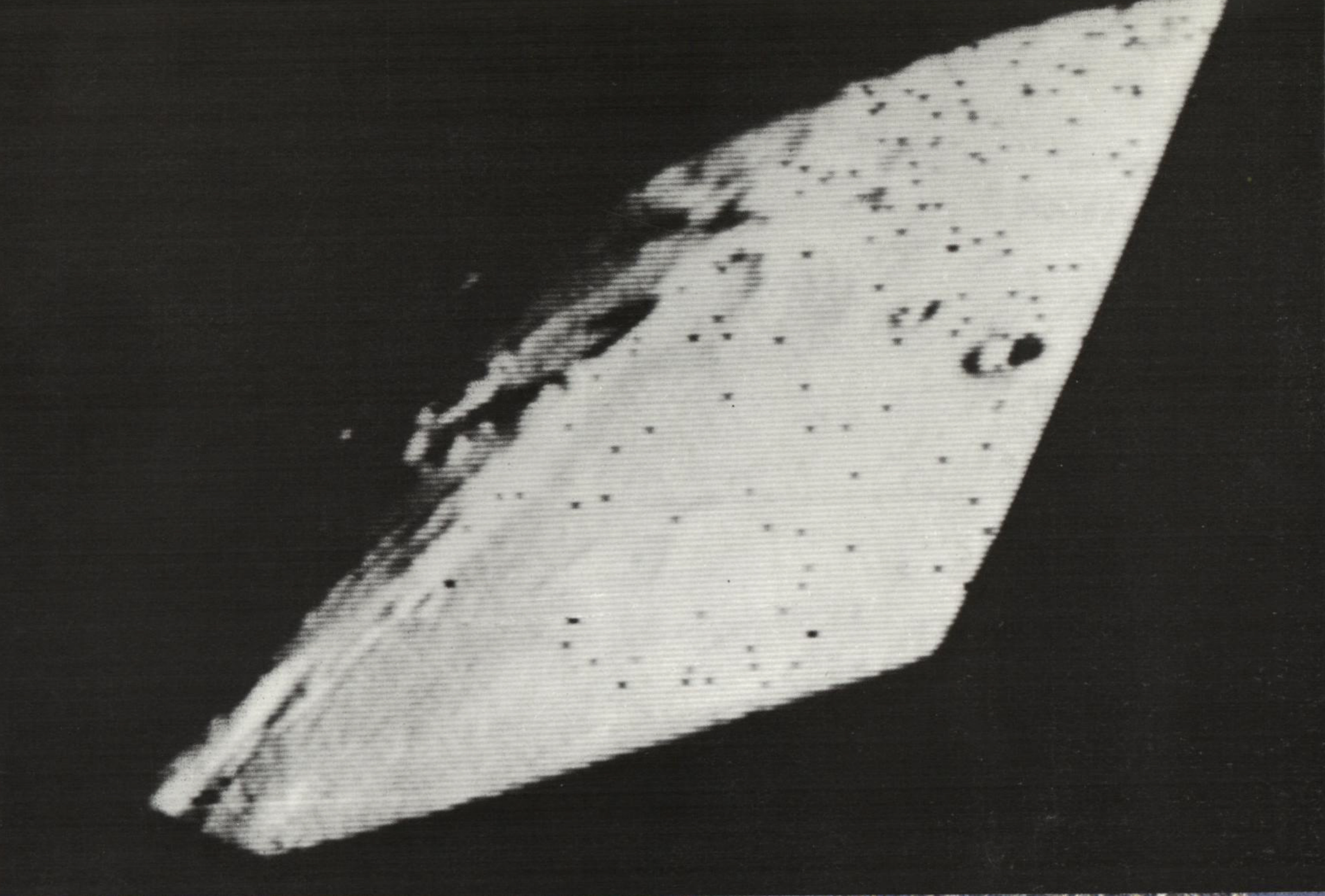


ITT System companies were responsible for several phases of 1968's most spectacular telecommunication triumph—the successful orbiting of the moon by astronauts Anders, Borman and Lovell in the Apollo 8 capsule on Christmas Eve and Christmas Day. The earth station, above, at Buitrago, Spain, designed and built by ITT for the Spanish Telecommunication Administration, relayed live pictures of the moon's surface, upper right, and news that the space trio were safely on the way home. Taken by the orbiting capsule's camera, the moon pictures were ultimately seen on television screens throughout the Western Hemisphere via Intelsat III, which carried ITT electronic gear. Lower right, one of the five Apollo tracking ships manned by ITT engineers and technicians. (Moon picture courtesy Wide World Photos Inc.)

Telecommunication Equipment

During the year, our worldwide System companies achieved new production and sales levels as major suppliers of equipment and systems for their countries' telecommunication administrations as well as for export.

Our principal British company's transistorized coaxial submarine cable between Florida, the Virgin Islands, and Puerto Rico, the world's first 720-channel system, was inaugurated in August. The company's 6,000-mile South Atlantic submarine cable—the longest system in the world to

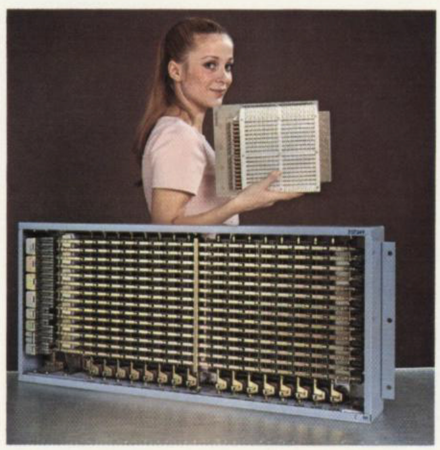



TELEMETRY ANTENNA

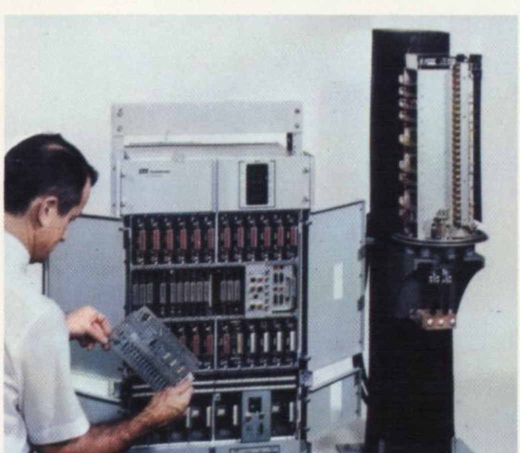
Technicians, right, at work on a repeater of the type made by ITT's largest British company for major submarine cable systems completed or under way during 1968 in the Atlantic Ocean and the Caribbean and Mediterranean Seas.

Finnish city dwellers, below, switch the electrical equipment in country homes and saunas off and on by remote control through ITT-made switching device usable on ordinary telephones.

Space-saving "Mini-switch" developed by an ITT company in France is key element in new French "Minimat" PABX, below, right; and semi-electronic central office exchange 11-B, below, far right, under development at an ITT plant in Scotland.



In 1968 ITT engineers completed new switching system using pulse-code-modulation technique developed by ITT British scientist.



Lineman lays new underground cable in expansion program of ITT telephone company in Chile. Operation of national telephone networks was ITT's earliest activity and is still a flourishing one.

carry as many as 360 simultaneous two-way telephone calls —was inaugurated in February, 1969.

Highlights of our switching activity in Europe included the joint venture of the same British company with our major Italian company in the design, manufacture, and installation of the international Pentaconta® exchanges of Bahrein and Dubai on the Persian Gulf; and completion of the first stage of our largest German company's $7 million program to expand the telecommunications of Indonesia.

Our same German company's extensive manufacture of private automatic branch exchange equipment was featured by delivery of the first "Herkomat" exchanges, involving several advanced features including optional pushbutton or dial selection. Also, one of our French companies went into production of the "Minimat" exchange, marking the first commercial application of the "Mini-switch," which is only one-seventh the size of previous switches of its kind and operates with equal efficiency.

In North America, our Pentaconta® A-1 telephone switching system, introduced in Las Vegas in 1967, was placed in regular commercial service in four more cities.

Major microwave radio link installations—a technique pioneered by our System companies—were completed by our leading Italian company for Belgium, Yugoslavia, Surinam, and Venezuela.

New telephone instruments produced by ITT companies around the world exhibit latest design. This luxury handset was manufactured at one of our Spanish factories.

Telecommunication Operations

Our telephone operating companies in Latin America and the Caribbean made substantial progress during the year on their long-range expansion programs in Puerto Rico, Chile, Peru, and the Virgin Islands.

ITT World Communications Inc. (Worldcom), pivotal company of our International Communications Operations Group, continued as a leader in its field.

With other U.S. and European carriers, Worldcom obtained FCC approval to lay and operate a fifth transatlantic cable, TAT-5, scheduled for completion in March, 1970. In the Caribbean, an area urgently requiring expansion of communication services, ITT operating companies in cooperation with other U.S. carriers acquired additional circuits through the installation of our British-made 720-channel submarine cable mentioned above, plus enlargement of the existing microwave system. Combined with its 40% ownership of the recently completed earth satellite station at Cayey, Puerto Rico, the ITT companies have available two of the most modern communication systems in existence.

In serving the requirements of the world's news media in 1968, Worldcom helped to move a record volume of copy and photos, including the extensive worldwide press coverage of Apollo 8, over its global network of cable, radio, and satellite circuits. The company's high-speed overseas data communications network, Datel, added a substantial number of new industrial customers.

Industrial and Consumer Products

1968 marked the fifth consecutive year since ITT's entry into industrial products that this field of the Company's activities has reached record highs in sales and earnings.

The Group's Aerospace Controls unit in California ranks among the leading manufacturers of electromechanically-actuated valves used on aircraft throughout the world. Its new line of pneumatic valves is used in pressurizing airliner cabins in the upcoming generation of aircraft now under construction—such as the Boeing 747, Lockheed's C-5, L-10, and L-11, the Douglas D-C 10, and the VTOL (vertical takeoff and landing).

Long a leader in the production of radio and air navigational aids, the Company made new strides in this sector. Our leading Italian affiliate's FS2 distance-measuring ground beacon met with continued success during the year. Contracts for FS2 were signed with 12 countries, including new customers on both sides of the Atlantic—Finland, British Antilles, and the Netherlands.

Our French measuring-instrument company Compagnie Générale de Métrologie (Metrix) launched its most successful sales campaign when its new integrated circuit tester was demonstrated during the year at international electronic exhibits in England, Germany, and the United States. Our California-based Barton unit, one of the foremost producers of instruments for measurement and control of liquids and gases in the oil and gas industry, moved into such new areas as chemical processing and ocean technology.

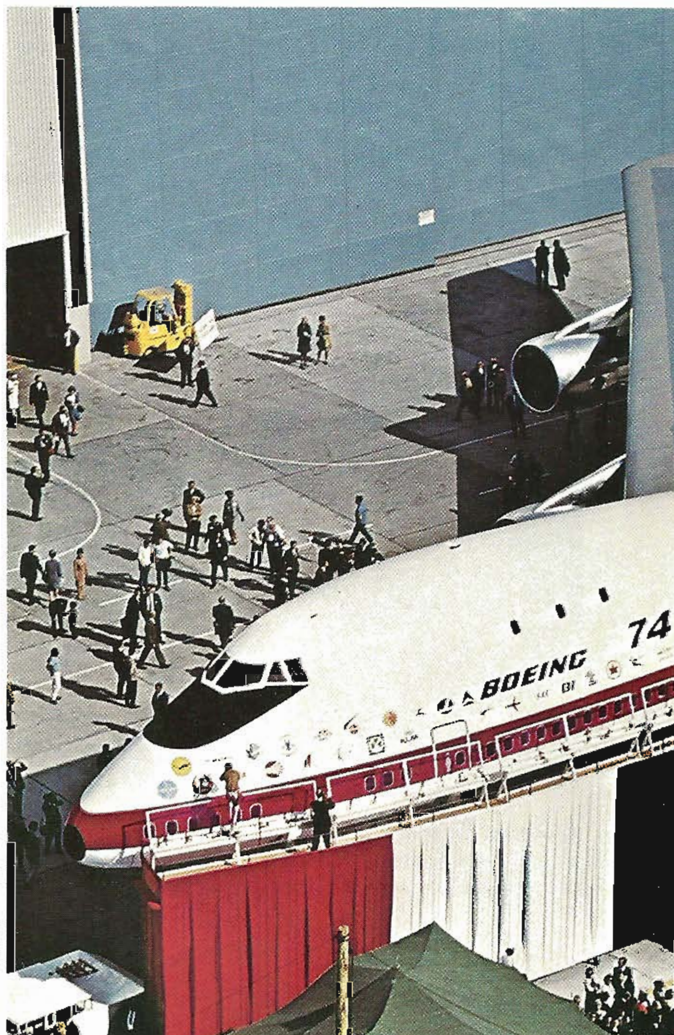
A first for our Jabsco unit was development of the prototype centrifugal bilge pump shown at the 1968 Marine Trades Exhibit and Conference in Chicago. Designed for pleasure craft, the pump removes 1,080 gallons per hour—outstanding in the industry. Jabsco also continued as the leading supplier of sanitary pumps for milk tanker fleets in the United States.

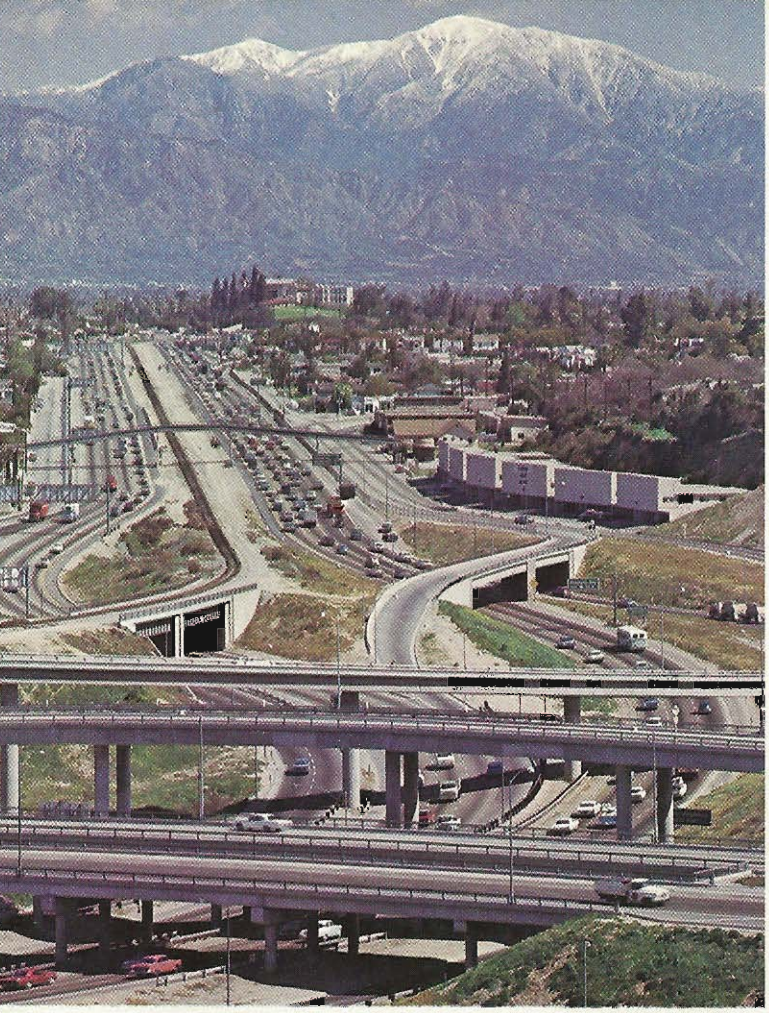
In the area of pumps for heating systems, our oldest French company, Le Matériel Téléphonique (LMT), has begun mass production of a new type of compact booster, with integrated electric accessories, providing easy installation and more effective heating. Booster pumps are also a major product of our largest North American pump manufacturer, Bell & Gossett, together with heat exchangers.

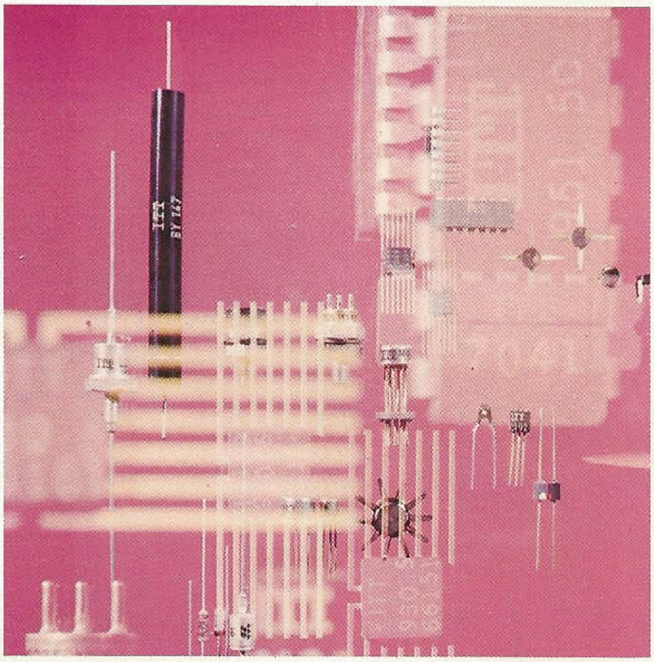
Our Thompson Industries, Inc. in the United States and Alfred Teves GmbH in Germany improved their position in serving the automotive industry by increased sales of disc brakes, hydraulic equipment, and a wide range of automotive parts, accessories, and ignition equipment.

After 80 years, the powerful influence of the automobile upon all aspects of 20th Century life continues undiminished. As ribbons of new expressways, right, unroll on every continent, an ITT company on each side of the Atlantic manufactures automotive parts from disc brakes to tail-light switches for export as well as its own market.

ITT companies were pioneers in development of radio and radar aids to air navigation. Today they also produce indispensable equipment used in construction of aircraft themselves; several types of ITT-made valves are vital components of the new Boeing 747, below, as well as of virtually all other planes now flying the world's airlanes.







A few of ITT's myriad components, used in scores of industries ranging from spacecraft to washing machines. In addition to the millions of sophisticated electrical and electronic components required by ITT System companies in the manufacture of their own products, millions more find wide acceptance by other manufacturers throughout the world.

This ITT Hammel-Dahl valve and actuator for customers in the oil and other processing industries, above, are among the wide variety of pump-related products manufactured by ITT Fluid Handling units in U.S. and Europe.

ITT Nesbitt Architectural Sill-line Radiators® noiselessly divert drafts and supply uniform comfortable warmth to such glass-enclosed spaces as this large studio-residence in West Virginia shown in the photograph, left.

Krypton products have been called the greatest advance in lighting since discovery of the tungsten filament early in the century. ITT's Claude, below, has served the French market with krypton bulbs for 32 years and is also one of the market leaders in neon products.

ITT Environmental Products Division was reorganized to include our Process Instruments and Controls operation in addition to our Comfort Conditioning section. Sales of the Nesbitt second-generation rooftop multizone air conditioner, first marketed in 1967, increased sevenfold in 1968.

Activities in the lighting area of our North American operations featured the introduction of a full line of photoflash products under the ITT brand name. The U.S. photoflash market has more than quadrupled since 1954—from $31 million to $128 million in 1968. Other North American activity in lighting included regrouping of some U.S. and Canadian units of ITT Lamp Division.

Our Claude company, a leading French lighting firm renowned for versatility ranging from home light bulbs to industrial and entertainment display lighting, featured krypton (gas filled) light bulbs, in which we played a developmental role, in a 1968 sales drive which sold two million bulbs in a few weeks.

ITT's components manufacturers in Europe, formerly trading under as many as 20 different brand names, consolidated their components activity into a single organization selling under one brand name—ITT. This unified approach was symbolized by the theme of our exhibits at the 1968 Paris Components Salon: "Single Source Supply for All Components."

Our U.S. semiconductor facilities made significant progress in the manufacture of integrated circuits that guide planes to safe landings at airports throughout the world; power transistors that are the voice of satellite relay systems for airline pilots; transistors that chop seconds into millionths for today's computers; and diodes for all ten of the largest computer manufacturers.

Notable among our semiconductor activities overseas were the opening in June, 1968, of a new semiconductor plant in our chief Portuguese company's industrial complex in Cascais, and the increase in our Australian company's output.

Our electron tube activity included the introduction by our major German company of a new "Permacolor" TV picture tube which is 20% brighter; and the award of a contract to our principal British company for supply of all the transmission tube requirements of the Malaysian Department of Telecommunications for the next three years.

One of our U.S. West Coast divisions, ITT Cannon Electric, continued its role as a leading manufacturer of multicontact electrical connectors for the TV and motion picture industries, computers, office machines, weapons systems, radar, early warning devices, ground support equipment, and the space program.

The young ladies shown at poolside in Germany, top, take time out from swimming to relax with one of our portable radios; and a Chinese family in their floating wharf-side home in Hong Kong, above, listen for the latest news bulletins. ITT color television sets, below, are an important product line of our European companies.

Consumer and Business Services

Our Company's current and future growth is firmly linked with the steady increase in the world's requirements for services. Analyzing these trends, ITT management as early as 1959 made the decision that, while increasing the Company's involvement in its traditional fields of telecommunications and electronics, it would simultaneously enter the service field as an area offering excellent growth potential for ITT and its stockholders.

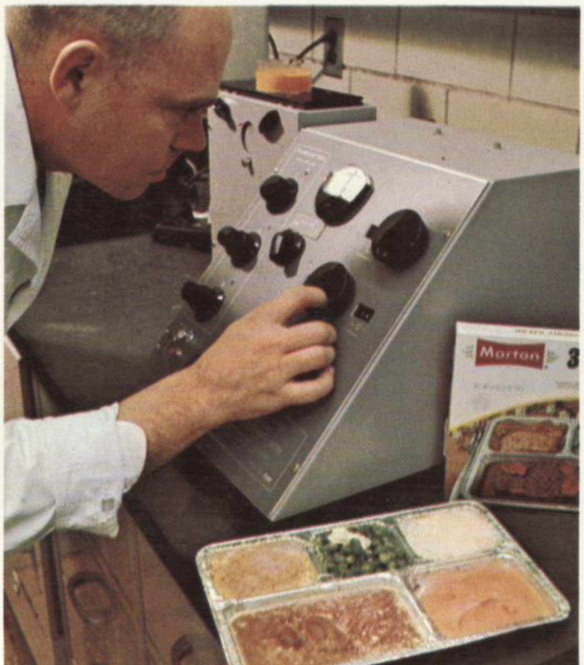
The addition of the 43-year-old Continental Baking Company to the ITT System in September marked ITT's entry into one of the world's vital industries: food processing and distribution.

A leading commercial baker of bread, bread-type rolls, and snack cake in the United States, our new company's product lines also include the widely-known Morton Frozen Foods products. Continental operates in Canada, Mexico, and the Bahamas in addition to the United States.

ITT Continental's products are marketed principally under two well-known trademarks: WONDER® and HOSTESS®. In addition to these trademarks, PROFILE®, DAFFODIL FARM® and CABOT'S® are also Continental's, as well as certain trade names, some of them regional—Braun's, Di Carlo, and Love's. The company's Morton Frozen Foods Division manufactures and sells at wholesale meat pies, fruit and cream pies, dinners, casseroles, and baked goods—available at supermarkets everywhere.

The company's Wonder Snack Foods Division processes and markets potato chips, corn chips, and other snack foods; its Albemarle Peanut Division cleans, grades, and shells peanuts for sale to processors and packers. Also, Continental's subsidiary, the Paniplus Company, manufactures specialty products such as enzymes, dough conditioners, yeast foods, protein supplements and emulsifiers used in the food and other industries.

Continental's extensive program of research and development of new products and applications of existing products is carried forward at laboratories in Rye, New York and Kansas City, Missouri. This continuing activity includes studies designed to help solve the problem of malnutrition in poverty areas; and efforts aimed at development of better strains of wheat, new school lunch programs, new methods of quality control packaging, and new ways of processing food by microwave and other techniques.



Shopping today is a far cry from what it was only a few years back. It's now a family affair, thanks to the greatly improved quality and variety of packaged food, above, made possible by such enterprises as ITT Continental Baking Company, which carries out continuing programs of quality control and new product development in its laboratories, left.

The old swimming hole was never like the Sheraton Jacksonville's modern pool for guests, right. But the sumptuous splendor of dining out at Sheraton Palace's Garden Restaurant in San Francisco, below, remains undiminished since the turn of the century. Hotel is now a national landmark.

Our Consumer Services Group also includes Sheraton Corporation of America, operator of an international system of hotels and motor inns; and Levitt and Sons, Incorporated, a major designer and builder of residential communities.

The sharp rise in travel already experienced in the Sixties, and the even faster growth anticipated with the imminent introduction of air buses, jumbo jets, and supersonic transports, has created a record demand for service to travelers: international communications, hotels, public parking, and car rentals.

During the year, our Sheraton Corporation of America and its subsidiaries completed 30 new hotels and motor inns, of which 23 are franchise properties. Sheraton is developing a new "Royal Biscayne" resort complex at Key Biscayne, Florida; and it has embarked on a multimillion-dollar accelerated program of refurbishing existing properties and renovating well-known luxury hotels.

In 1968, Sheraton launched plans for its first operation in Germany—a 20-story 600-room hotel overlooking Munich—and started construction on new hotels in Stockholm, Oslo and Lisbon. In addition, it increased its South American representation by initiating new hotel projects in Buenos Aires, Rio de Janeiro and Santiago, and continued its expansion in Hawaii with a commitment to build a new 1780-room convention hotel on Honolulu's Waikiki Beach. The company entered a new but related field when ground was broken in Burlington, Vermont, for the first Sheraton Continuing Care Center for hospital patients.

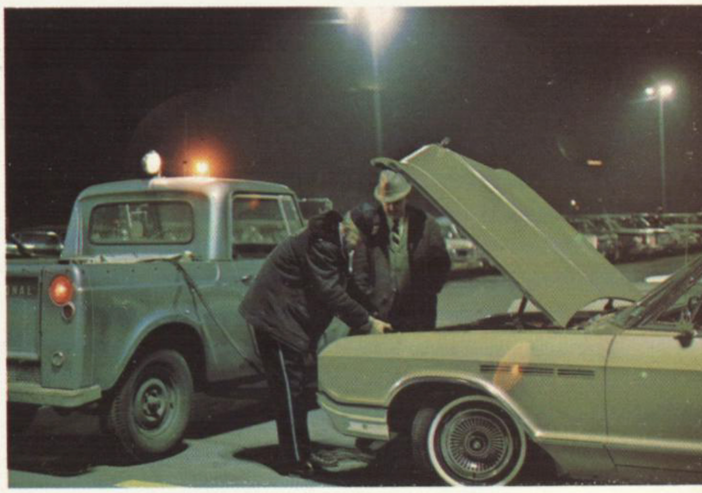
The business of ITT Avis continued to set new records. Reservations around the globe reached a total of more than two million by the end of 1968, an increase of one-third over 1967. During the year, the Avis system added 128 locations in the United States, including new corporate operations in 10 countries overseas.

Levitt's activities during the year included the opening of two additional communities and the first Levitt townhouse community in the Washington, D.C. area. Typical of new Levitt projects is Belair Village, opened in September 1968

This scene at an Avis rental station is typical of the increasing number of businessmen and tourists who have been making Avis a travel habit not only in the United States but worldwide.

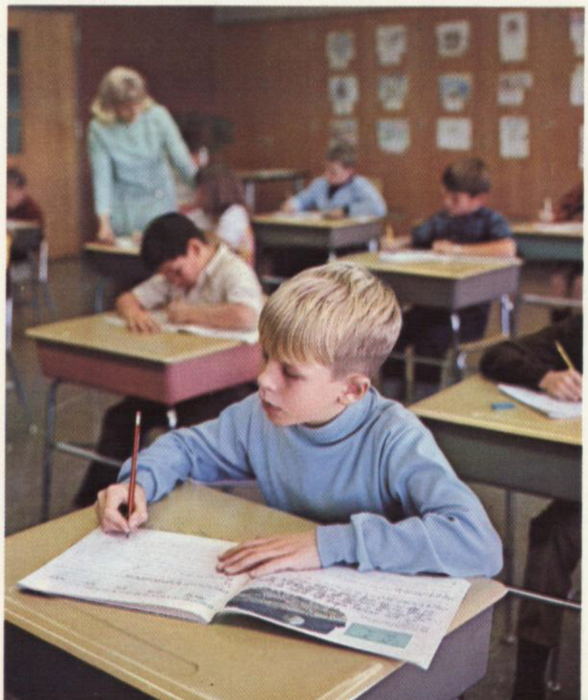
A sales representative of ITT's Hamilton Management Corporation discusses mutual funds and insurance at the home of a Denver couple.

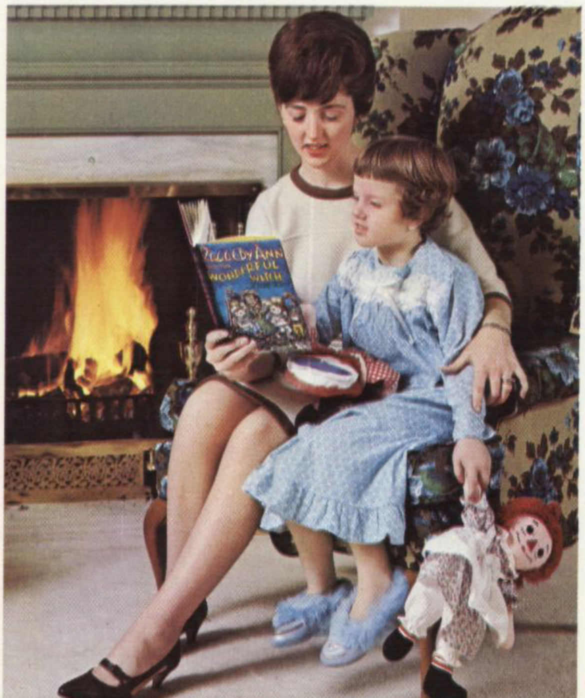
Service is rendered on the spot for the patron of one of our APCOA airport parking lots whose business trip lasted longer than he expected.



Belair Village, one of the latest developments in modern housing, was opened in September 1968 in Prince Georges, Maryland by ITT's Levitt & Sons, Inc. This planned-for-living community for 30,000 residents has 200 acres for recreational use, including a children's zoo and a lake at the town's center for boating, fishing, and swimming.

Textbooks, tests, and workbooks widely used in classrooms including elementary schools, left, and popular children's stories traditionally read aloud at home, right, are among leading products of ITT publishing services (Raggedy Ann copyright 1969 by The Bobbs-Merrill Company, Inc.). Others are a broad range of technical and law books.





in Prince Georges, Maryland. The company is also working with other segments of the housing industry to modify present construction methods to incorporate increased emphasis on factory manufacture as the most promising answer to the world's need for low-cost housing.

ITT's growing involvement in technical training, publishing, and other educational services has been demonstrated by our recent entrance into the field of secretarial schools. In July, 1968, the Speedwriting Company, Inc., with its Nancy Taylor and other affiliates, entered the ITT System and will operate within the framework of our ITT Educational Services, Inc. Total enrollment in the last-named unit's vocational training programs is expected to increase eightfold during the next six years.

We continued to move toward the forefront of the computer technology industry during 1968. In the United States, ITT Data Services became a recognized leader in "time-sharing," fastest-growing element of the data processing service industry. It added eight cities to its time-sharing network during the year, and plans to add twelve more in 1969. The ITT time-sharing system was also introduced into Europe, beginning with London early in 1969.

Our French firm CFRO, a leading high-quality data processing service organization, doubled its computer capabilities, and our British data services organization opened three new locations with five new computers. New centers were opened in Stockholm and Stuttgart, and are planned for Frankfurt, Copenhagen and Rio de Janeiro.

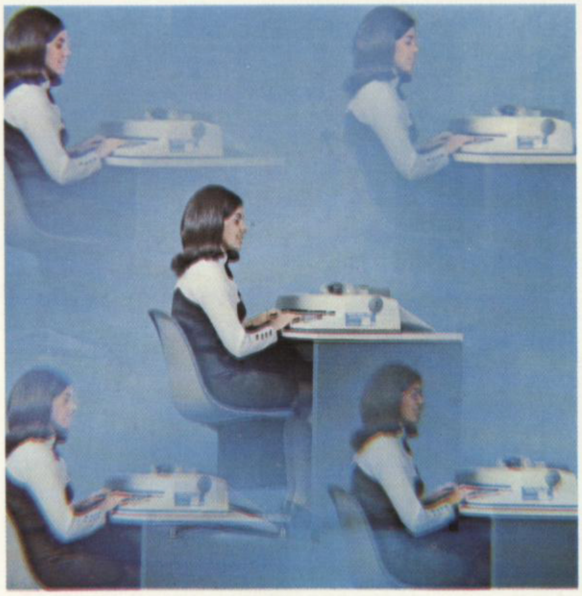
A notable achievement of our U.S. group was the signing of a licensing agreement authorizing ITT to provide computerized customer credit information service to the 2,200 members of Associated Credit Bureaus, Inc.

In a characteristic instance of intra-ITT collaboration, our Data Services Division assumed the operation late in 1968 of a "service-in-seconds" computerized accounting and management information system for the personal loan operations of ITT Aetna Corporation. Called ACTION, the system enables Aetna's offices to "converse" with two large-scale computers at Aetna's St. Louis headquarters.

Aetna, and our nationwide operator of airport and downtown parking facilities, and taxi franchises—APCOA—comprise ITT Consumer Services Corporation.

Under aggressive new management, activities of our Hamilton Management Corporation in 1968 were highlighted by a recruiting program that added 1,000 new representatives around the world to the field force of 3,000. Hamilton is investment adviser and distributor for Hamilton Funds, Inc., an open-end common stock mutual fund with total net assets of more than $700 million and investments in more than 75 American corporations.

The Reactive Terminal Service computer time-sharing system introduced by ITT Data Services in 1968 permits many users to solve different data processing problems simultaneously by "conversing" with a distantly located computer via keyboard-type terminals, such as shown here, from their offices in widely separated locations.



Natural Resources

Our newly formed Natural Resources Group consists of two major companies, both leaders in their respective fields, which joined the ITT System during the year.

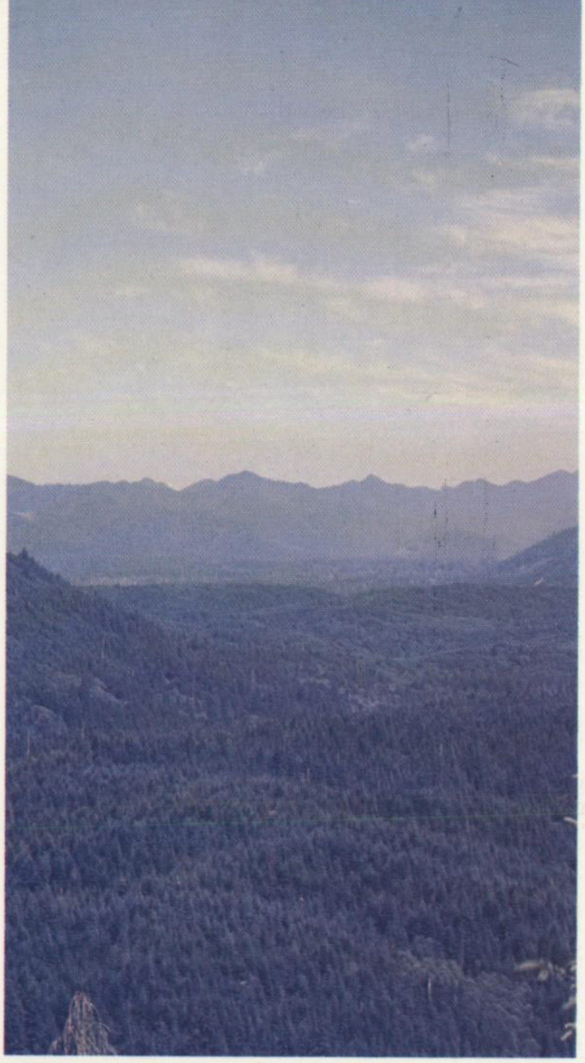
The addition of Rayonier brought us a major forest-products manufacturer. ITT Rayonier Incorporated, as the company is now known, is the world's leading producer of chemical cellulose, a highly purified form of wood pulp used as a basic material in many high-volume products such as rayon, acetate, tire cord, cellophane, films, sponges and plastics. It also provides other types of wood pulps, lumber, and a new generation of wood-derived materials known as silvichemicals.

The company markets its products worldwide, with over 40% of its sales in exports to customers in 35 countries. Cellulose and its derivatives have maintained a solid growth pattern over the years. But more important is the resurgence of demand for cellulose acetate, used in the manufacture of such products as your neckties, the wardrobes of your wife and daughter–from everyday attire to evening best–the draperies in your home, the films for your camera, and a host of other articles essential to your everyday life, including your toothpaste, hair shampoo, unbreakable dinnerware, the cord in your tires, and the handles of the screwdrivers in your tool chest. And, something else you should know, cellulose acetate fabrics are the *first* choice of Parisian couturiers.

Scientists at Rayonier were among the first to discover the value of silvichemicals and pioneered their use as commercial chemical products. These include "grouting" agents, which solidify soil and prevent water seepage where excavations are made, as in the current building of subways in San Francisco for the new Bay Area Rapid Transit system; and growth agents for improving the yield and quality of fruit and vegetables. The company also conducts continuous research in methods of controlling pollution of air and water.

Our second addition in the natural resources field is a leading producer of high-purity silica and special clay products, Pennsylvania Glass Sand Corporation. The 42-year-old company's principal markets are the glass, chemical, metallurgical, ceramic, and building industries.

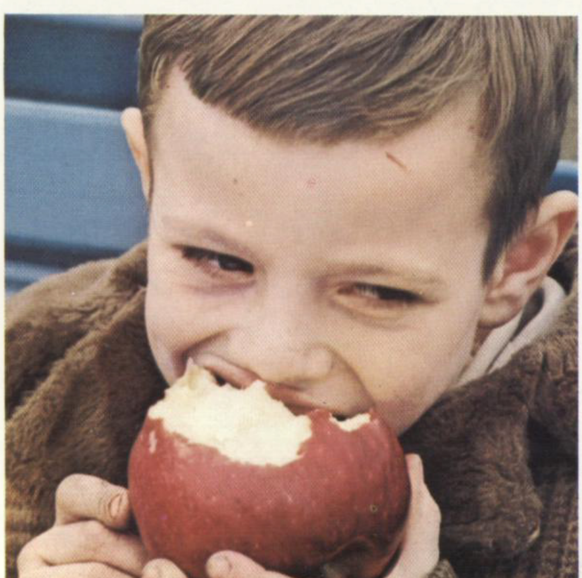
Operating from 15 plants in 10 states, the company mines and processes the basic raw materials used in a wide spectrum of products ranging from such common household articles as fine crystal, fiberglass textiles, glass containers, tableware, ceramic cookware and abrasive cleansers to the two glass windows in the Apollo 8 spacecraft that did not fog up during the astronauts' worldwide filmed television broadcast during moon orbit. The company's materials were also the basis of the fiberglass yarn used in the astronauts' suits and as an insulating wrapping around various electrical lines.

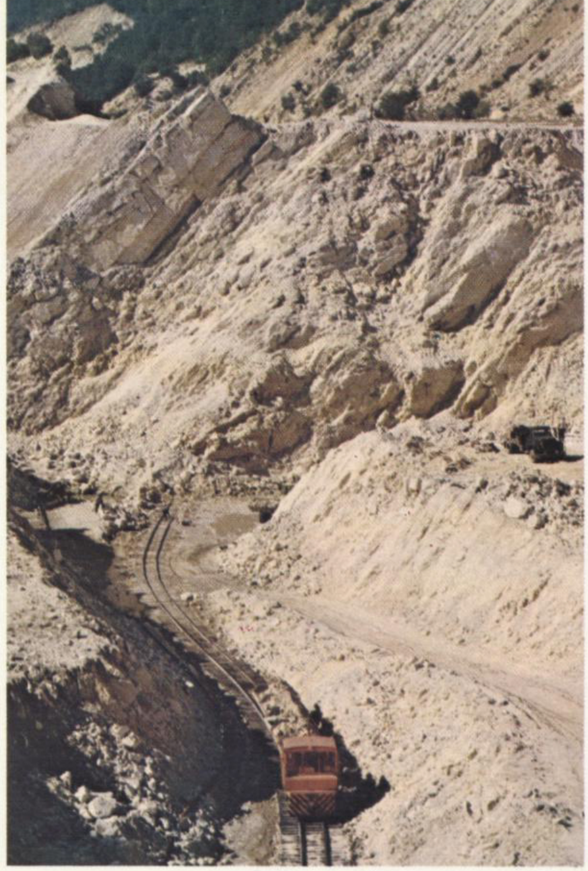


Forest lands, top, in three states and a Canadian province supply raw material for ITT Rayonier while seedling plantations, above, provide for reforestation. Below, the company also conducts research studies in methods of improving the quality of water.

The entire range of women's wear seen at fashion shows, top, is one of many textile markets for customers of Rayonier's high-quality cellulose. Producers of photographic film, above, are also important users of the company's cellulose for acetate.

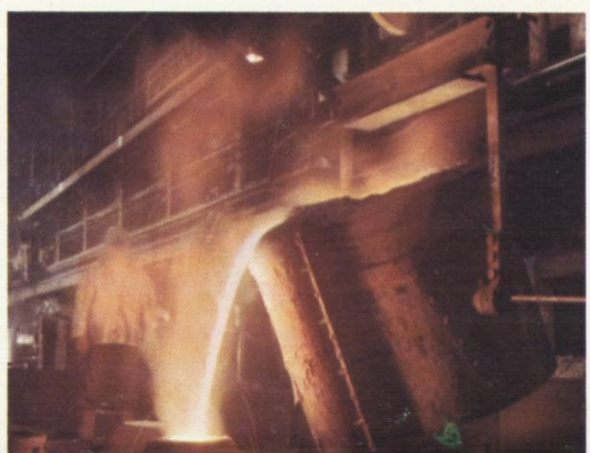
Silvichemicals, developed by Rayonier scientists, are a fast growing part of the company's business, and include RAYPLEX® agricultural chemicals for improving yields of corn, apples, and other basic crops.





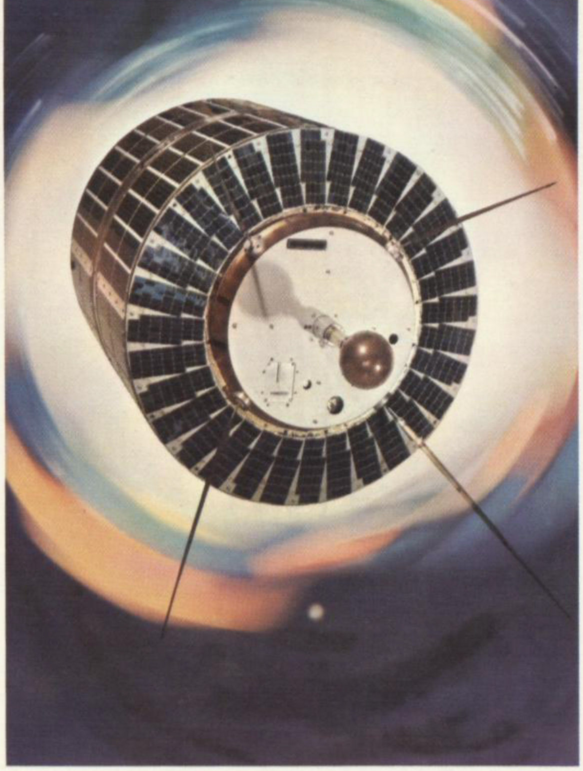
The Berkeley Springs, West Virginia quartzite mine of ITT's Pennsylvania Glass Sand Corporation is one of many from which glass sand is derived for the company's various industrial customers. This mine is estimated to have sufficient reserves to last for many years.

Pennsylvania Glass Sand is a leading supplier of silica sand to manufacturers of glass containers, above, one of the company's principal markets; and to the metallurgical and foundry industries, below, where it is used in the production of molding, core, and furnace sands.



Control console of automated terminal station, for continual monitoring of U.S. State Department transmission circuits, is part of store-and-forward message switching system for which ITT Defense Communications is the prime contractor.

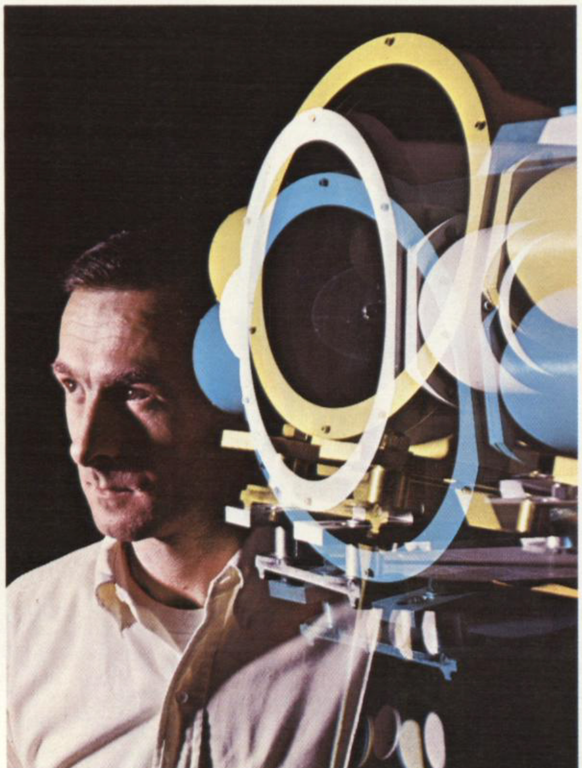
ITT Aerospace/Optical space camera aboard NASA weather satellite took this high-resolution photo in October. Arrow shows Caribbean Hurricane Gladys.



European Space Research Organization's satellite ESRO I, above, has transmitted large quantities of scientific data to participating universities since its launching on October 3, 1968. ITT's principal French research company, LCT, was prime contractor for ESRO I.

Under way in the Atlantic with two ITT Gilfillan radar systems aboard the newest carrier of the U.S. Navy, the *John F. Kennedy,* left. Gilfillan is a leading producer of four kinds of radar: air traffic control, air defense, combat surveillance, and electronic warfare.

The transmission of communication signals from a laser light source by means of very pure glass fibers barely three times thicker than human hair is under intense research at ITT's British laboratory, below. A single fiber might carry 20,000 telephone conversations.



Defense-Space

Following the historic ITT pattern, our research and manufacture for national defense are applied in the long run to the pursuits of peace.

Our Federal Support Services, Inc. continued to supply the many services required at the Hanford complex in Washington state, one of the oldest atomic energy plants in the world and currently devoted to developing peaceful uses of the atom.

Achievements of our ITT Avionics division, developer of the TACAN (Tactical Air Navigation) system, included rapid progress on Omega, a radio global navigational system that is expected to be used eventually on ships of all nations. Also, two radar systems produced by ITT Gilfillan Inc. were aboard the nation's newest aircraft carrier, *USS John F. Kennedy,* when the ship was commissioned in September, 1968.

ITT System companies outside the United States also supplied their own countries with vital defense-space products and services during the year, while participating in joint international efforts that are helping to write new pages of space history.

Our company in Stuttgart is on schedule with development and production of the command and telemetry systems for the German research satellite AZUR, due to be launched in 1969. Prime contractor for the ionospheric weather satellite ESRO I, launched October 3, 1968, was our French research company Laboratoire Central de Télécommunications — first electronics firm in Europe to be prime contractor for a satellite project. The power supply was designed and developed by our principal Belgian firm, Bell Telephone Manufacturing Company.

Our chief Italian company began production of airborne TACAN for Italy's F104S aircraft program during the year, and our company in Zurich delivered the flight simulator for a *Mirage* jet fighter to the Swiss Air Force. The simulator was built by our French company LMT, which has been active in flight simulators since 1958 and was awarded the contract for design and manufacture of a research and crew-load study simulator for the Anglo-French *Concorde* supersonic civil aircraft. During 1968, LMT completed design and began construction on the simulator for the French-German military transport aircraft *Transall C-160*.

Sales and Revenues

In 1968, consolidated sales and revenues of International Telephone and Telegraph Corporation exceeded $4 billion, an increase of 14% over the $3.6 billion in 1967, after restatement for companies acquired in poolings of interests transactions. Through the continued expansion of operations in the United States and Canada, these sales and revenues represent approximately 60% of the world-wide total in each of the respective years.

Net Income

Consolidated net income before extraordinary items amounted to $180 million in 1968, an increase of 17% over the $154 million in 1967, after restatement to include the operations of companies added through poolings of interests.

After adjustment for residual securities, ITT earned (before extraordinary items) $2.58 per average common share as compared with $2.29 on a restated basis in 1967. The reduction from the recognition of residual securities amounted to $.04 per common share in each year. Before extraordinary items, ITT achieved an increase of 13% in its earnings per common share.

Extraordinary Items

During the year, ITT sold 716,250 shares of its holdings in Communications Satellite Corporation. In connection with these sales, ITT recorded after tax profits of $16.8 million. In the prior year, ITT realized an after tax profit of $6.9 million on a sale of 235,000 Comsat shares. The Corporation continues to hold 100,000 shares.

The continued expansion of satellite communications has accelerated the obsolescence of certain high frequency radio facilities in South America. Accordingly, the Corporation provided a reserve of $5 million in 1967 against its investments in these facilities and increased this reserve by $6.2 million in 1968.

Including the above extraordinary items, ITT reported net income (after recognition of residual securities) of $2.77 per share compared with $2.35 per share in 1967, an improvement of 18% in net income over 1967.

Residual Securities

Under current accounting practice, a security is called a residual security when it does not have the form of a common stock but derives a significant part of its value from its common stock characteristics, particularly its conversion features. In calculating earnings per common share, the Corporation has treated as residual all options and warrants and those securities which derived more than one-third of their value, at the date of issue, from the common stock characteristics.

The application of the indicated approach reduced earnings by $.04 per share from the $2.62 and $2.33 that would have been reported for 1968 and 1967 under the practices used in prior years.

Receivables

As at December 31, 1968, receivables amounted to $698 million as compared with $664 million in 1967. As at December 31,

Principal Product Groups	Sales & Revenues		Income*	
	1968	1967	1968	1967
Manufacturing—				
Telecommunications Equipment	21%	21%	24%	22%
Industrial and Consumer Products	24	24	18	19
Defense and Space Programs	7	8	1	3
Natural Resources	6	5	12	11
	58	58	55	55
Consumer and Business Services—				
Food Processing and Services	17	17	8	9
Consumer Services	16	16	11	9
Business and Financial Services	4	4	10	9
	37	37	29	27
Utility Operations	5	5	16	18
Total	100%	100%	100%	100%

*Before extraordinary items

1968 the receivables amounted to 17% of sales and revenues compared with 19% at the close of the prior year. The improvement in the ratio of receivables to sales and revenues reflects management's continuing program for maximum utilization of assets.

Inventories

Total inventories amounted to $706 million at December 31, 1968, of which $559 million were applicable to manufacturing subsidiaries as compared with $501 million in the prior year. These inventories represented 24% of manufacturing sales in each of the respective years.

Capital Expenditures

In 1968, the Corporation expended $362 million for the improvement and expansion of plant and facilities. Of this total, the manufacturing facilities amounted to $140 million, while the consumer and business services required $113 million, and the utility operations $109 million. During 1968, depreciation including depletion amounted to $158 million as compared with $143 million in the prior year.

Stockholders' Equity

The return on stockholders' average equity was 12.2% in 1968 as compared with 11.7% in 1967, thus continuing the corporate improvement pattern. In 1968, stockholders' equity amounted to $1.7 billion as compared with $1.5 billion on a restated basis at the end of the prior year. As shown in the accompanying tabulation, the net assets employed in the United States and Canada amounted to $1.1 billion at the close of 1968 as compared with $975 million at the end of 1967.

New Financing

In 1968, International Standard Electric Corporation, an ITT subsidiary, sold $71 million of debentures in the European market. These debentures which are convertible into ITT Common Stock, 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.

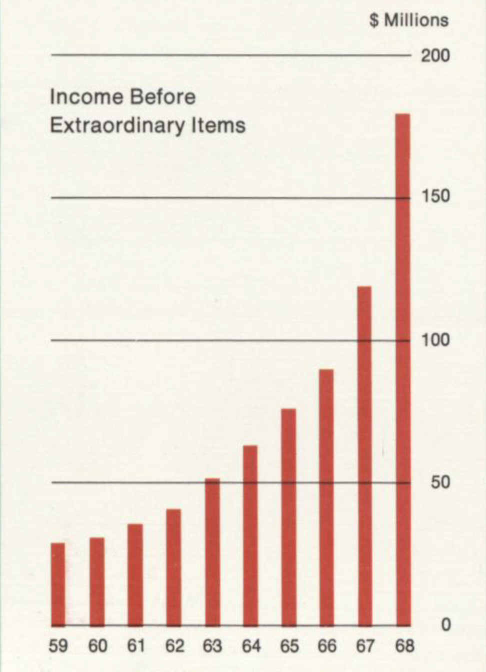
In November 1968, Puerto Rico Telephone Company, an ITT subsidiary, sold to the public $25 million of 7.40% debentures. The net proceeds of this issue were applied to repayment of indebtedness to ITT incurred in connection with that subsidiary's construction and improvement program.

Dividends on Common Stock

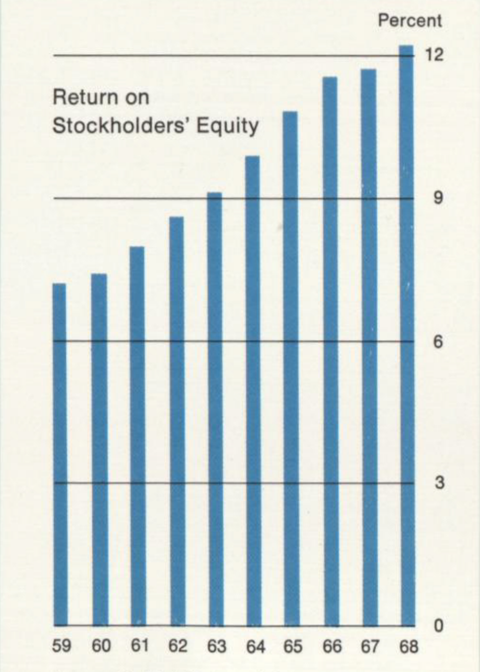
In the fourth quarter of 1968, the Board of Directors voted to increase the dividend on the Common Stock from 85 cents per share to 95 cents per share on an annual basis. This was the fifth increase in the past five years in the dividend rate on the Common Stock.

Financial Statements

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



As reported in ITT Annual Reports.



As reported in ITT Annual Reports.

Consolidated Balance Sheets *as of December 31, 1968 and 1967*

Thousands of Dollars

Assets	1968	1967
CURRENT ASSETS		
Cash	$ 296,839	$ 168,176
Accounts and notes receivable	638,172	607,344
Inventories	705,851	637,352
Other current assets	120,269	99,815
	1,761,131	1,512,687
INVESTMENTS, DEFERRED RECEIVABLES AND OTHER ASSETS		
Finance subsidiaries (Page 35)	125,270	107,437
Other investments, at cost	166,817	121,675
Accounts receivable due subsequent to one year	59,564	56,232
Other assets	73,825	72,258
	425,476	357,602
PLANT, PROPERTY AND EQUIPMENT, at cost	2,882,438	2,599,558
Less—Reserves for depreciation	1,046,645	963,475
	1,835,793	1,636,083
	$4,022,400	$3,506,372

Liabilities and Stockholders' Equity

	1968	1967
CURRENT LIABILITIES		
Loans and current maturities of long-term debt	$ 376,169	$ 355,690
Accounts payable and accrued charges	563,215	418,238
Accrued taxes	149,180	108,053
	1,088,564	881,981
RESERVES AND DEFERRED LIABILITIES	202,641	164,240
DEFERRED INCOME TAXES	69,340	54,905
LONG-TERM DEBT (Page 31)	931,772	848,991
MINORITY EQUITY IN SUBSIDIARIES CONSOLIDATED	77,991	61,973
	2,370,308	2,012,090
STOCKHOLDERS' EQUITY		
Cumulative Preferred Stock (Page 31)	372,637	375,483
Common Stock		
Authorized 100,000,000 shares, $1 par value		
Outstanding 59,059,251 and 57,579,387 shares	59,059	57,579
Capital Surplus	388,613	343,478
Retained Earnings	831,783	717,742
	1,652,092	1,494,282
	$4,022,400	$3,506,372

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

Consolidated Income *for the years ended December 31, 1968 and 1967*

Thousands of Dollars

	1968	1967
SALES AND REVENUES		
Manufacturing	$2,351,456	$2,066,555
Consumer and business services	1,513,566	1,336,953
Telecommunication utilities	201,480	174,293
	4,066,502	3,577,801
COSTS AND EXPENSES (including depreciation of $158,333 and $142,982)		
Cost of sales and operating expenses—		
Manufacturing	1,825,844	1,633,846
Consumer and business services	1,103,289	973,222
Telecommunication utilities	117,579	94,401
Selling and general expenses	663,235	572,904
	3,709,947	3,274,373
	356,555	303,428
Equity in net earnings of finance subsidiaries	10,773	11,288
INCOME FROM OPERATIONS	367,328	314,716
Dividends, interest and other income	32,172	28,003
Interest and other financial charges	(86,775)	(85,851)
	312,725	256,868
INCOME TAXES AND MINORITY EQUITY		
U. S. and foreign income taxes	(125,548)	(98,161)
Minority common stockholders' equity in net income	(7,015)	(4,940)
INCOME BEFORE EXTRAORDINARY ITEMS	180,162	153,767
Gain on sale of Comsat shares—$16,842 and $6,939 for the respective years (net of applicable income taxes of $10,104 and $4,036), less provision for obsolescence of radio communications facilities—$4,600 and $3,400 for the respective years (net of applicable income taxes of $1,600 in each year)	12,242	3,539
Recovery in 1967 on war damage award of $17,400 applied to reserve for foreign operations	–	–
NET INCOME	$ 192,404	$ 157,306
PER SHARE OF COMMON STOCK, after recognition of residual securities		
Income before extraordinary items	$2.58	$2.29
Extraordinary items	.19	.06
Net income	$2.77	$2.35
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 dilutive convertible securities although such full conversion is unlikely for some time	$2.66	$2.26

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

Consolidated Retained Earnings *for the years ended December 31, 1968 and 1967*

Thousands of Dollars

	1968	1967
BALANCE—Beginning of year, as previously reported		$402,588
Add—Restatement for companies added through poolings of interests in 1968		225,592
BALANCE—Beginning of year, as restated	$717,742	628,180
Add (Deduct)—		
Net income	192,404	157,306
Dividends of the Corporation—		
Preferred stock	(18,763)	(5,868)
Common stock—$.87½ and $.77½ per share	(47,513)	(33,901)
Dividends of companies prior to poolings of interests	(12,087)	(26,739)
Adjustment due to inclusion of pooled companies on their previous different fiscal periods	—	(1,236)
BALANCE—End of year	$831,783	$717,742

Consolidated Capital Stock and Capital Surplus *for the year ended December 31, 1968*

Thousands of Dollars

	Capital Stock				
	Cumulative Preferred		Common		Capital Surplus
	Shares	Amount	Shares	Amount	
BALANCE—Beginning of year, as previously reported	2,730,635	$273,064	49,940,354	$49,940	$340,605
Add—Restatement for companies added through poolings of interests in 1968	3,842,563	102,419	7,639,033	7,639	2,873
BALANCE—Beginning of year, as restated	6,573,198	375,483	57,579,387	57,579	343,478
Add (Deduct)—					
Issue through private placement	—	—	350,000	350	19,687
Issues under employees' stock option and purchase plans	13,584	1,341	422,592	423	13,835
Conversions of debt and preferred stock	(96,194)	(9,550)	561,730	561	15,402
Redemptions through retirement fund	(1,711)	(171)	—	—	—
Expenses in connection with the issuance of capital stock	—	—	—	—	(3,789)
Transactions of companies prior to poolings of interests	48,723	5,534	145,542	146	—
BALANCE—End of year	6,537,600	$372,637	59,059,251	$59,059	$388,613

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

Long-Term Debt *as of December 31, 1968*

Thousands of Dollars

International Telephone and Telegraph Corporation—		
4⅞% Promissory Notes, due 1969-84		$ 50,000
4.90% Sinking Fund Debentures, due 1969-87		43,544
5¼% Promissory Notes, due 1969-76		12,750
5⅞% Senior Notes, due semi-annually 1969-80		5,000
4% Convertible Subordinated Notes, due 1985		5,000
6½% Installment Notes, due 1970-72		5,000
5¼% Convertible Subordinated Notes, due semi-annually 1971-75		4,000
Other		3,612
		128,906
Subsidiaries Consolidated—		
Payable in—U.S. Dollars—5.7%*	$ 674,273	
Swiss Francs—4.2%*	45,400	
German Deutschemarks—6.0%*	44,151	
English Pounds—8.1%*	40,200	
Other currencies	48,114	852,138
		981,044
Less—Amounts due within one year (included in current liabilities on balance sheet)		49,272
Total long-term debt		$931,772

**Average interest rates.* (*)

Cumulative Preferred Stock *as of December 31, 1968*

Thousands of Dollars

Authorized 14,000,000 shares, without par value. Outstanding in series (liquidation preference aggregates $653,760).

Issue	Shares	Stated Value	Issue	Shares	Stated Value
$5.25 Series	37,000	$ 3,700	$4.00 Convertible Series F	187,121	$ 18,712
$5.25 Series B	27,713	2,771	$4.00 Convertible Series H	567,679	56,768
$4.00 Convertible Series	14,040	1,404	$4.50 Convertible Series I	2,147,915	41,906
$4.00 Convertible Series B	43,549	4,355	$4.00 Convertible Series J	1,000,000	100,000
$4.00 Convertible Series C	71,483	7,148	$4.00 Convertible Series K	1,883,424	80,106
$4.00 Convertible Series D	184,891	18,489	$5.50 Series L	128,000	12,800
$4.00 Convertible Series E	205,651	20,565	$6.00 Series M	39,134	3,913
			Total	6,537,600	$372,637

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 35.

The consolidated financial statements include retroactively the accounts of, or the equity in, and shares issued in exchange for, companies added through poolings of interests during 1968, including Rayonier Incorporated, Pennsylvania Glass Sand Corporation, Continental Baking Company and Thorp Finance Corporation.

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 60% of consolidated income for 1968 represents earnings of United States and Canadian operations. A general grouping of net assets as of December 31, 1968 by principal operations and location is shown on page 34.

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 $85,582,000 and $81,755,000 at December 31, 1968 and 1967, respectively, of land and houses under development.

Capital Stock

At December 31, 1968, a total of 64,843 shares of the authorized and unissued Cumulative Preferred Stock and 2,023,175 shares of Common Stock were reserved for conversion or exchange of debt of the Corporation and its subsidiaries. In addition, 11,342,612 shares of Common Stock were reserved for conversion of outstanding shares of Preferred Stock and 247,008 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 883,432 shares of Common Stock were reserved for conversion of shares of preferred stock of subsidiaries.

Under terms of the agreements covering the acquisition of certain subsidiaries, a maximum of 181,136 shares of Common Stock were reserved for possible future issuance.

A maximum of 184,090 shares of Common Stock and 5,847 shares of Cumulative Preferred Stock were reserved for issuance in connection with outstanding warrants of subsidiaries acquired.

The Corporation has entered into agreements for the acquisition of Canteen Corporation and Grinnell Corporation, subject to the fulfillment of certain conditions. Under the agreement with Canteen Corporation, a maximum of 1,465,277 of Cumulative Preferred Stock, $4 Convertible Series K and a maximum of 4,328,735 shares of Common Stock (including 2,289,494 shares of Common Stock reserved for conversion of such Preferred Stock), are subject to future issuance. Under the agreement with Grinnell Corporation, a maximum of 1,709,468 shares of Cumulative Preferred Stock, $4 Convertible Series K, and a maximum of 4,238,056 shares of Common Stock (including 2,671,044 shares of Common Stock to be reserved for conversion of such Preferred Stock) are subject to future issuance. The Corporation and Hartford Fire Insurance Company have agreed on terms of a merger, subject to the negotiation of an agreement which will require the approval of the Stockholders of both companies, and the fulfillment of other customary conditions. The transaction involves the issuance by the Corporation of a maximum of approximately 22,400,000 shares of Cumulative Preferred Stock, $2.25 Convertible Series N, each such share being convertible into 1.25 shares of the Corporation's Common Stock for three years and into 1.20 shares thereafter; a maximum of 28,000,000 shares of Common Stock to be reserved for conversion of such preferred stock.

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, 1968, 1,621,743 shares have been issued on exercise of options since the inception of the Plans. A summary of shares subject to options during the year 1968 is shown below:

Balance, January 1, 1968		829,394
Add—Options granted at $48.07 to $62.07 per share		414,900
		1,244,294
Deduct—		
Options exercised at $21.94 to $38.19 per share	140,125	
Options cancelled	52,838	192,963
Balance, December 31, 1968		1,051,331

At December 31, 1968, 734,456 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, 1968, 39,330 shares of Preferred Stock and 187,151 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 1968 is shown below:

	Cumulative Preferred Stock	Common Stock
Balance, January 1, 1968	10,389	99,524
Add (Deduct)—		
Options granted	63,378	163,439
Options exercised	(13,611)	(64,547)
Options cancelled	(590)	(3,512)
Balance, December 31, 1968	59,566	194,904

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 market value on the date such shares are offered 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 1968, 217,882 shares were sold to employees at $23.63, $26.94 and $30.00 per share. The shares sold to employees are recorded at fair market value and the excess of the fair market value over the sales proceeds is being charged to expense over the employees' remaining periods of employment. At December 31, 1968, 1,502,818 shares were available for sale to employees.

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 amounted to $22,153,000 for 1968 and $21,609,000 for 1967. In the case of funded plans, the companies deposit the amounts provided with trustees. For substantially all plans at December 31, 1968, the total of pension funds and the accrued liabilities for pension obligations was in excess of the vested benefits.

Retained Earnings

Under the most restrictive provisions of the Corporation's long-term debt agreements, $30,742,000 of the Corporation's retained earnings of $88,590,000 are unrestricted as to the payment of dividends.

The undistributed earnings of subsidiaries consolidated should not be understood to be immediately available for payment of dividends since the retained earnings of some subsidiaries are subject to certain restrictions on the amount of dividends that may be paid and to foreign taxes payable on declaration of dividends.

Income Taxes

The effective income tax rates for 1968 and 1967 differ from statutory rates principally as a result of (1) inclusion of equity in finance subsidiaries on an after-tax basis, (2) lower tax rates applicable to certain foreign income and capital gains, and (3) investment credits allowed by U. S. and foreign governments.

Deferred income taxes (arising principally from using accelerated depreciation for income tax purposes and straight line depreciation for financial reporting purposes), represents the cumulative difference between provisions for income taxes charged against consolidated income and amounts paid or estimated to be payable. The net deferred tax so provided for 1968 and 1967 amounted to $13,285,000 and $6,314,000 respectively.

Earnings Per Share

The Corporation has given effect in the computation of earnings per share to those outstanding securities, stock options and warrants which are deemed to be residual securities with a dilutive effect. The related adjustment reduced earnings per share before extraordinary items by $.04 in each of the years 1968 and 1967.

Those residual securities which have been treated on a converted basis to the extent that the conversion had a dilutive effect, are $4 Convertible Series H, J and K in 1968 and Series H in 1967 and the convertible preference stock of a subsidiary. With respect to options and warrants, it has been assumed that the proceeds have been used to acquire capital stock of the Corporation.

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 in 1967 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, 1968, 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 $49,000,000.

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, 1968, the Corporation and its subsidiaries consolidated, in accordance with continuing operating arrangements, have guaranteed borrowings of wholly-owned finance subsidiaries of approximately $23,000,000, and are contingently liable for receivables discounted of approximately $123,000,000.

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 *as of December 31, 1968*

Thousands of Dollars

	Consolidated	Manufacturing	Consumer and Business Services	Telecom- munication Utilities
Assets				
Current Assets	$ 1,761,131	$ 1,332,999	$ 369,842	$ 58,290
Investments, Deferred Receivables and Other Assets	425,476	125,149	266,138	34,189
Plant, Property and Equipment	2,882,438	1,497,085	740,455	644,898
Reserves for Depreciation	(1,046,645)	(640,080)	(277,952)	(128,613)
	4,022,400	2,315,153	1,098,483	608,764
Liabilities				
Current Liabilities	1,088,564	695,763	254,823	137,978
Reserves and Deferred Liabilities	271,981	210,434	28,524	33,023
Long-Term Debt	931,772	442,797	277,999	210,976
Minority Equity in Subsidiaries Consolidated	77,991	44,035	9,336	24,620
	2,370,308	1,393,029	570,682	406,597
Net Assets	$ 1,652,092	$ 922,124	$ 527,801	$ 202,167
Net Assets Employed				
United States and Canada	$ 1,082,661	$ 527,029	$ 483,112	$ 72,520
Foreign	569,431	395,095	44,689	129,647
	$ 1,652,092	$ 922,124	$ 527,801	$ 202,167

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, 1968 and 1967, 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 consolidatd capital stock and capital surplus for the year ended December 31, 1968. 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, 1968 and 1967, 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 3, 1969.

Arthur Andersen & Co.

ITT Finance Subsidiaries

Combined Balance Sheets *as of December 31, 1968 and 1967*

Thousands of Dollars

	1968	1967*
Assets		
Cash	$ 43,003	$ 42,059
Notes and installment obligations receivable, ($58,738 and $63,936 pledged to secure short-term obligations) net of unearned income and reserves—		
Affiliated companies	59,227	62,952
Other customers	449,613	406,445
Investments in life insurance companies, at underlying equity	24,448	19,283
Investments in property, leased to affiliated companies	13,462	13,990
Other assets	16,991	15,209
	$606,744	$559,938
Liabilities		
Bank loans and other short-term obligations	$284,943	$243,742
Accounts payable and accrued charges	21,309	19,878
Long-term debt, due 1969-87—average interest rate 5.5%	175,222	188,881
	481,474	452,501
ITT Equity		
Subordinated debt and advances	32,153	22,708
Capital stock and capital surplus—increased in 1968 by capital contribution	55,897	53,613
Retained earnings—$18,271 restricted as to payment of dividends	37,220	31,116
	125,270	107,437
	$606,744	$559,938

Combined Income and Retained Earnings *for the years ended December 31, 1968 and 1967*

Thousands of Dollars

	1968	1967*
Income (including $7,744 and $7,994 from affiliated companies)		
Interest	$ 63,700	$ 61,862
Commissions	4,785	4,530
Rentals and other income	5,563	3,355
	74,048	69,747
Expenses		
Interest	25,891	24,038
Administrative expenses, etc.	37,048	33,874
U. S. and foreign income taxes	5,102	4,770
	68,041	62,682
	6,007	7,065
Equity in net earnings of life insurance companies	4,766	4,223
Net Income	10,773	11,288
Add—Retained earnings at beginning of year	31,116	23,516
(Deduct)—Dividends	(4,669)	(3,688)
Retained Earnings at end of year	$ 37,220	$ 31,116

**1967 restated to include the accounts of Thorp Finance Corporation added through a pooling of interests.*

Ten-Year Summary*

(Dollar amounts in thousands except per share figures)

	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Results for Year										
Sales and revenues	$4,066,502	2,760,572	2,121,272	1,782,939	1,542,079	1,414,146	1,090,198	930,500	811,449	765,640
U. S. and foreign taxes	$ 290,436	204,069	162,179	135,615	120,034	87,345	65,812	54,133	50,266	45,343
Income before extraordinary items	$ 180,162†	119,221†	89,910	76,110	63,164	52,375	40,694	36,059†	30,570†	29,036
Per common share	$ 2.58	2.27	2.04	1.79	1.55	1.35	1.21	1.09	.98	.95
Return on stockholders' equity	12.2%	11.7%	11.5%	10.8%	9.9%	9.1%	8.6%	8.0%	7.4%	7.2%
Dividends per common share	$ .87½	.77½	.69⅜	.61⅞	.55	.50	.50	.50	.50	.50
Gross plant additions	$ 362,069	238,141	168,049	145,629	119,336	123,241	114,584	105,311	66,809	84,219
Provision for depreciation	$ 158,333	116,120	73,875	63,737	50,713	39,378	30,763	31,341	25,066	27,433
R & D expenditures	$ 210,000	210,000	220,000	182,000	174,000	170,000	150,000	131,000	126,000	117,000
Year-End Position										
Net current assets	$ 672,567	528,713	318,957	367,012	308,055	333,849	296,155	268,422	269,324	222,269
Plant, property and equipment (net)	$1,835,793	1,305,829	895,438	789,849	668,240	572,469	462,323	391,347	288,461	355,115
Total assets	$4,022,400	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
Long-term debt	$ 931,772	744,675	433,834	428,134	309,795	293,408	266,815	182,509	148,478	165,512
Stockholders' equity	$1,652,092	1,143,568	820,007	739,620	659,925	592,429	483,531	465,061	415,814	415,088
Stockholders' equity per common share	$ 16.83	17.39	16.78	15.69	15.06	14.29	14.11	13.76	13.26	13.36
Year-End Statistics										
Orders on hand (Manufacturing)	$1,529,000	1,257,000	1,233,000	1,140,000	1,004,000	917,000	778,000	731,000	623,000	551,000
Shares of common stock outstanding (thousands)	59,059	49,940	42,168	40,530	38,720	36,924	33,258	32,750	31,362	31,060
Stockholders	185,184	130,671	109,203	106,298	104,413	100,269	92,362	94,719	87,818	88,230
Employees	293,000	236,000	204,000	199,000	185,000	173,000	157,000	149,000	132,000	136,000

** 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 1968, 1967, 1961 and 1960 amounted to $12,242, $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

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