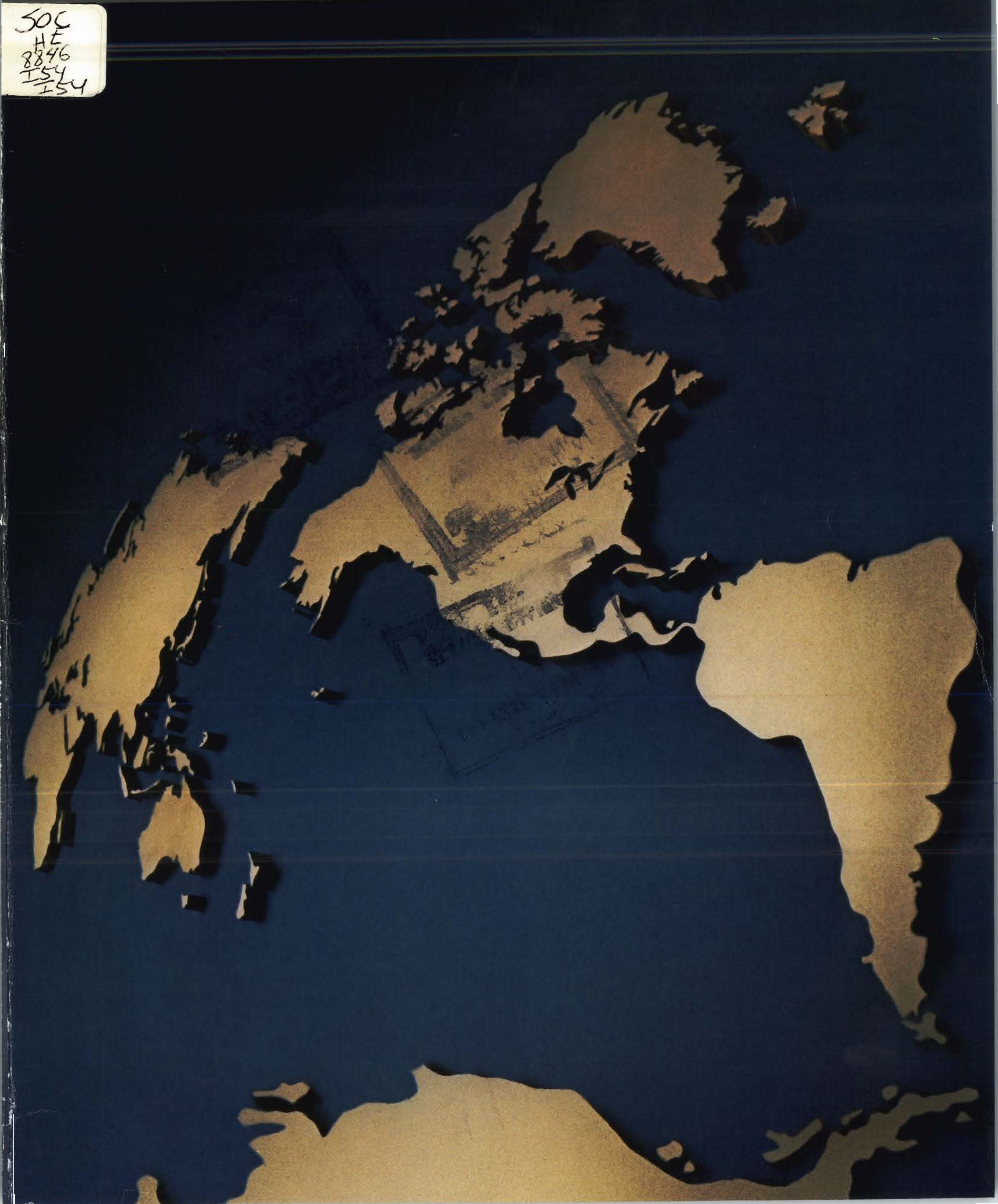
1980 Annual Report

ITT



On the Cover:
International Telephone and Telegraph Corporation is engaged principally in the business of Telecommunications and Electronics, Engineered Products, Consumer Products and Services, Natural Resources, and Insurance and Finance. ITT, a U.S.-based company incorporated in the state of Delaware, maintains manufacturing or sales operations in approximately 100 countries on seven continents.

Annual Meeting
The Annual Meeting of shareholders will be held Wednesday, May 13, 1981 at 10:30 a.m. local time in the Sheraton Palace Hotel, San Francisco, California.

World Headquarters
International Telephone and Telegraph Corporation
320 Park Avenue
New York, N.Y. 10022
Telephone 212-752-6000

Form 10-K Annual Report
The Annual Report to the Securities and Exchange Commission on Form 10-K is available to shareholders upon written request to the Secretary of the Corporation.

1980 Annual Report
The ITT Annual Report is published in English, Arabic, French, German, Japanese and Spanish. Copies and taped highlights in English are available upon request to the Department of Corporate Relations and Advertising.

Contents:

Highlights†

Dollars in thousands except per share	1980	1979*	% Change
Sales and Revenues	$18,529,655	$17,257,563	+ 7.4
Insurance and Finance Revenues	$ 5,289,060	$ 4,798,600	+10.2
Net Income	$ 894,326	$ 383,093	+14.4**
Per Common Equivalent Share	$6.12	$2.65	+11.1**
Fully Diluted Basis	$5.95	$2.59	+11.7**
Average Common Equivalent Shares	145,728,000	139,350,000	+ 4.6
Dividends Declared per Common Share	$2.45	$2.25	+ 8.9
Stockholders' Equity	$ 6,273,515	$ 5,634,883	+11.3
Per Common Share	$39.32	$34.04	+15.5
Gross Plant Additions	$ 1,130,868	$ 1,058,001	+ 6.9
Depreciation	$ 520,195	$ 473,340	+ 9.9
R & D Expenditures	$ 1,116,000	$ 959,000	+16.4
Number of Stockholders of Record	214,000	219,000	− 2.3
Number of Employees	348,000	369,000	− 5.7
Orders on Hand (Manufacturing)	$ 7,363,000	$ 7,740,000	− 4.9

†Including insurance and finance activities.
*As restated.
**Percent change excludes gain of $90 million on sale of Canadian timber facilities ($.6[illegible] per common equivalent share) in 1980 and a $320 million provision for close-down of a Canadian pulp mill ($2.30 per common equivalent share) in 1979.

Sales and Revenues	Billions of Dollars
1980	$23.8
1979	22.1
1978	19.5
1977	16.8
1976	14.9

Operating Income	Millions of Dollars
1980	$1,788
1979	1,611
1978	1,468
1977	1,246
1976	1,080

Income per Share*	Dollars
1980	$6.12
1979	2.65
1978	4.65
1977	3.98
1976	3.67

*Before Extraordinary Items

Letter to Shareholders

Despite worldwide economic instability, 1980 was the best year in ITT's 61-year history.

Sales and revenues were $23.8 billion, an all-time high, and net income was a record $894 million or $6.12 per common equivalent share. This includes a $.62 per share gain on the sale of Rayonier's British Columbia properties.

Record interest rates, soaring inflation and economic downturns meant that our companies worldwide had to be even more competitive, innovative and skillful to enhance or retain market shares.

Our own forecasts and economic studies indicate that ITT's operating performance in 1981 will exceed that of 1980, when presented on a comparable basis, with substantial operating improvement taking place in the latter part of the year, based on the recovery of the economies here and in Europe. However, the company's current forecast of foreign exchange effects indicates an adverse impact on reportable earnings for 1981.

Major earnings improvements in our Telecommunications and Electronics and Consumer Products and Services Groups contributed to ITT's record 1980 performance. Redirection of management efforts and a selective divestiture and restructuring program to reflect technological change has prepared us for currently difficult worldwide market conditions while also contributing to improved margins and overall profitability.

Strong Technology Position

Our intensive worldwide technical and marketing efforts in telecommunications were highlighted during 1980 with the award of an order for over 500,000 equivalent lines of ITT's System 12™ digital switching from Telmex, the Mexican national telephone company. This is the largest single order for digital switching received by any international manufacturer.

At year end 1980, ITT companies had delivered or were working on orders and letters of intent for well over one million lines of System 12 digital switching for both home and export markets. Nearly 200,000 lines of System 12 equipment had been put in service for telephone company customers in the United States, as our European companies readied systems for deliveries scheduled for 1981.

The study of ITT's European-type System 12 digital switching system for possible Bell System use is proceeding on schedule.

Defense and avionics revenues and income continued to grow, reflecting ITT's important contributions to free-world security. This segment continues to anticipate strong performance in 1981.

To better capitalize on our strengths we repositioned our business systems manufacturing and sales into the major national manufacturing units in Europe. These strong national companies and their expertise are incomparable assets.

Similarly, the responsibility for consumer electronics production was consolidated under our major European companies, which have the technological expertise to increase our product cost-competitiveness.

During the year, we sold our French consumer electronics business, thereby eliminating operating losses and potential liabilities that would have resulted from needed restructuring.

The Natural Resources Group income was down slightly in 1980, reflecting the downturn in construction and reduced markets for logs and lumber. The energy segment performed well, and continued growth in revenues and earnings is expected in 1981.

While there were significant increases in some operations of the Engineered Products Group, overall results were adversely affected by the automotive segment, which reflected the downturn of the industry in North America and Europe. We continue to build on our base as an OEM supplier, particularly for downsized models.

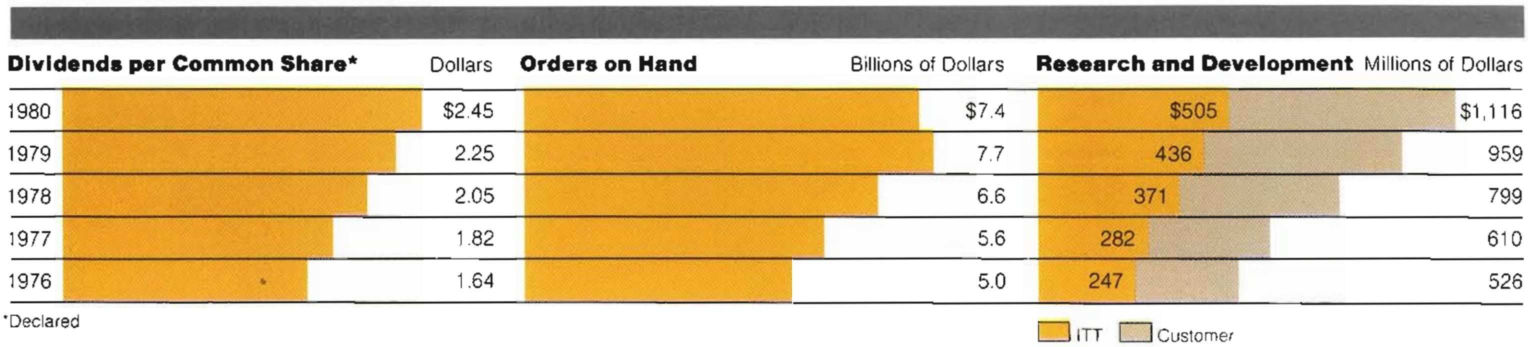
Insurance results were also affected by the economic malaise, and underwriting results and combined ratios worsened. Life insurance results and investment income increased and the total insurance group income for the year was above ambitious budgeted levels.

Finance operations also had to cope with recession conditions and unstable money markets, but aggressive day-to-day marketing and management saw the segment increase net receivables while retaining a good level of profitability.

Preparing for the Future

Our commitment to the future was concretely expressed in 1980 with capital expenditures of over $1 billion for new facilities and equipment. Another $1.1 billion was expended in research, development and engineering for tomorrow's products. Almost half of this RD&E amount was ITT funded.

As part of the continuing process of molding ITT for the future while retaining strong base companies in industries with the best growth potential, 16 companies with sales of over $460 million were sold during the year. In addition, Rayonier's British Columbia operations, with 1980 sales of $215 million, were sold for $355 million and the proceeds used to reduce debt.



*Declared

During 1980, ITT's debt-to-equity ratio was considerably improved from 43/57 to 40/60 at year end, giving your company even greater financial strength for the future.

In this regard, management attention at all levels was directed toward the successful realization of demanding inventory and receivable targets during the year. This asset management program is an integral part of corporate planning for continued growth and profitability.

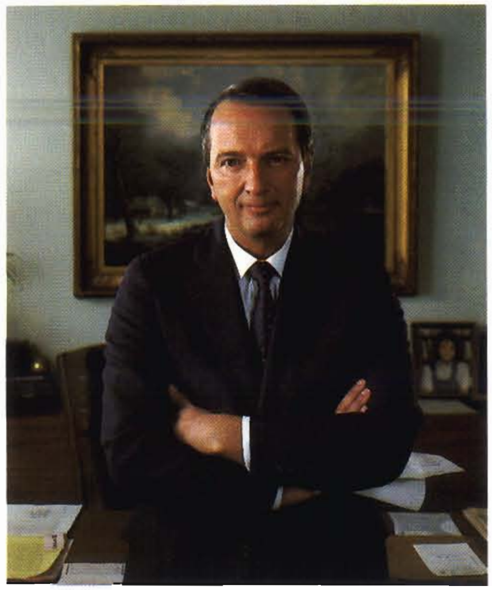
Management Perspectives

We are looking at all our operations on a longer-range basis to be sure that we are not sacrificing our long-term market position and profitability by forgoing necessary expenses or investments to obtain short-term profit objectives. Obviously, day-to-day and quarter-to-quarter operations will continue to be carefully managed, but not at the expense of long-term opportunities.

We are also involving additional levels of management in the corporate decision-making process. Closer communications between senior management and field units will ensure a community of purpose and a clearer understanding of corporate goals and policies.

We continue to recognize our corporate responsibility for employment. We do not take satisfaction in layoffs or restructurings, but the economic health and vitality of the overall Corporation at times demand such actions. We continue to keep these steps at a minimum and to retain and retrain as many people as possible to meet the production requirements of the new technologies.

Finally, we continue to stress a commitment to integrity at all levels of your company. ITT is too professional a corporate



citizen to operate in any other manner than with total integrity throughout the world.

Board Actions

Reflecting the year's strong performance, the Board of Directors authorized the 17th consecutive increase in the dividend on ITT common stock to a new equivalent annual rate of $2.60 per share from the $2.40 per share in 1980.

Since our last annual report, we have gained additional strengths on the Board of Directors with the appointments of Margita E. White in 1980 and Bette B. Anderson in January of this year. Mrs. White is a former Federal Communications Commissioner and Mrs. Anderson was most recently an Under Secretary of the Treasury.

Felix G. Rohatyn has decided not to stand for reelection to the board. His counsel and contributions over the past 13 years have been most valuable and he will still be available to us for consultation. The board is nominating Michel David-Weill, the senior partner of Lazard Frères & Co., as a new director.

Three other directors, Anthony J.A. Bryan, Earl G. Graves and Frederic C. Hamilton, have decided not to stand for reelection because of their personal and expanding business commitments. During their terms of service on the ITT board, they provided helpful guidance and strong support in carrying out complex corporate decisions. We thank them for their service and wish them continued success.

We also wish to pay special tribute to Pomeroy Day, who is retiring after 39 years on the board of The Hartford and 10 years on the ITT board. His experience and advice were of great value to both companies.

Senior executive vice presidents Richard E. Bennett and James V. Lester continued to demonstrate their strong operational abilities, contributing to the overall 1980 record of success.

The progress of the Corporation this past year in the face of changing economic conditions is a tribute to the dedicated efforts of our 348,000 employees worldwide. Their aid and support are valued as are those of our customers, suppliers and shareholders.

The report that follows is illustrative of ITT's performance and success in world markets —1980.

Sincerely,

Rand V. Araskog

Rand V. Araskog
Chairman, President and Chief Executive
March 11, 1981

Gross Plant Additions	Millions of Dollars
1980	$1,131
1979	1,058
1978	948
1977	821
1976	653

Return on Equity	
1980	15.0%
1979	6.9
1978	12.5
1977	11.6
1976	11.1

Book Value per Share	Dollars
1980	$39.32
1979	34.04
1978	33.62
1977	30.48
1976	29.89

Business Overview

Engineers laying cable across Bahrain. A chemist analyzing the molecular structure of an improved cellulose fiber. A chef preparing a banquet for a convention in San Francisco. A designer plotting the intricacies of semiconductor circuitry. An insurance claims adjuster bringing help to victims of a hurricane.

These ITT employees reflect diverse nationalities, races and creeds, but their skills and talents blend to make ITT the company it is today. A company of 348,000 employees—the fourth largest U.S.-based industrial employer. A $23.8-billion multinational enterprise operating in 96 countries on all seven continents. A company whose technological developments have influenced hundreds of industrial sectors and helped improve economic and social conditions for people around the world.

Born 61 years ago as a telecommunications company in the Caribbean, ITT today operates worldwide within five principal business groups.

Telecommunications and Electronics

The $7.2-billion Telecommunications and Electronics Group achieved record sales and revenues and income in 1980, increasing sales and revenues 13% and net income 54% over 1979. Telecommunications equipment net income rose 78% to $244 million for a new record, reflecting increased volume and favorable foreign exchange as well as a reduction in restructuring costs when compared with 1979. Defense and avionics also set a new income record, at $26 million, as did the telecommunications operations segment, which reached $68 million, assisted by the sale of its interest in the P.T. Indonesian Satellite Corporation.

ITT is the largest manufacturer of telephone equipment outside the United States. To date, ITT units worldwide have produced some 54 million lines of local switching equipment and 3 million trunk lines, and manufactured more than half the world's present capacity in undersea communications cable. In 1980, ITT made 8 million telephones.

ITT now has received orders or letters of intent in excess of one million lines for its System 12™ digital switching equipment—the telecommunications technology of the '80s—and ITT's telecommunications operations units link customers in more than 200 overseas administrations via satellite, cable, microwave and other radio networks.

ITT defense and avionics units are important suppliers to the United States and a growing number of other nations. Revenue growth is most impressive in landing systems, surveillance radar, electronic countermeasure devices and applications of fiber optic technology in communications. ITT has produced more than $1.4 billion worth of communications equipment for U.S. defense since 1970.

Over the past two decades, ITT's Federal Electric Corporation has operated and maintained instrumentation and support services at major NASA and military complexes. Since 1970 NASA and other space-related service contracts to FEC have exceeded $320 million. Over the same period, operations and maintenance on the DEW Line and on the BMEWS and the CMEWS networks totaled $595 million.

Business Groups	**Sales and Revenues 1980** Millions of Dollars	**Net Income 1980** Millions of Dollars
Telecommunications and Electronics	$7,152	$338
Engineered Products	6,203	203
Consumer Products and Services	3,798	102
Natural Resources	1,377	94
Insurance and Finance	5,289	354

Engineered Products

The $6.2-billion Engineered Products Group increased sales 5% over 1979 and net income, aided by foreign exchange, came close to the 1979 record. The largest gain came in the industrial products segment, which saw income rise 37% to a record $96 million. The components and semiconductors segment came close to its record 1979 income, partly offsetting lower income in automotive products, which suffered from the recession-led industry downturn, mainly in North America but also in Europe.

The $3.1-billion industrial products segment is growing in several product lines. ITT is one of the world's largest producers of pumps, valves and fluid handling products, and a key supplier of electrical and electronic connectors, controls and other instrumentation. ITT is also a major producer of semiconductor devices, manufacturing three billion last year.

Consumer Products and Services

The $3.8-billion Consumer Products and Services Group achieved record sales and revenues and income. The hotels and other segment achieved a 58% increase in income.

The Sheraton Corporation reported record results for the third consecutive year, helped by the sale of several hotels. With the addition of 31 properties last year, it now operates or franchises 418 hotels with 108,000 rooms in 44 countries on six continents, last year serving nearly 20 million guests.

Food products reported lower income, partly due to a provision for the loss on the sale of the Morton Frozen Foods Division of ITT Continental Baking Company. The consumer appliances segment ended the year in good position to achieve profitability in 1981.

Natural Resources

Despite depressed markets for logs and lumber, the $1.4-billion Natural Resources Group increased sales and achieved income nearly equal to the all-time high recorded in 1979, reflecting the absence of losses related to the Quebec mill which was closed in 1979. Timber and earth segment income dropped 15%, but energy products income rose 10%.

This group's assets in timberlands and in coal, oil, gas, sand and clay reserves offer the potential for substantial future income growth. ITT Rayonier Incorporated's timberland ownership is now 1,130,000 acres—nearly as large as the state of Delaware.

Insurance and Finance

ITT's $5.3-billion Insurance and Finance Group includes the seventh largest property and casualty insurer and the eighth largest independent finance company in the United States. Group revenues rose 10% over 1979 and income rose to a record $354 million. The insurance segment, led by The Hartford Insurance Group, increased income to a record $288 million, due to strong European and life operations and investment income gains offsetting the impact of the downturn in North American property and casualty insurance.

The finance segment also achieved a new income record at $66 million. Total consumer loans outstanding rose to $1.6 billion at ITT Financial Corporation, while gross receivables and leases to commercial customers reached $1.5 billion.

On the following pages, developments in each of these five business groups during 1980 are reviewed within the worldwide geographical regions where they operate.

Business Groups	**Capital Expenditures 1980** Millions of Dollars	**Employees 1980** In Thousands
Telecommunications and Electronics	$408	163
Engineered Products	272	93
Consumer Products and Services	139	53
Natural Resources	252	11
Insurance and Finance	46	28

Business Segments—Sales and Income

Sales and Revenues Dollars in millions	1980		1979		1978		1977		1976	
Telecommunications and Electronics										
Telecommunications Equipment	$ 6,041	26%	$ 5,342	24%	$ 4,721	24%	$ 3,805	23%	$ 3,564	24%
Telecommunications Operations	331	1	292	2	265	2	221	1	187	1
Defense and Avionics Systems	780	3	673	3	654	3	630	4	557	4
	7,152	30	6,307	29	5,640	29	4,656	28	4,308	29
Engineered Products										
Automotive Products	1,749	7	1,771	8	1,594	8	1,345	8	1,137	8
Industrial Products	3,063	13	2,961	13	2,527	13	2,261	13	2,096	14
Components and Semiconductors	1,391	6	1,160	5	910	5	785	5	660	4
	6,203	26	5,892	26	5,031	26	4,391	26	3,893	26
Consumer Products and Services										
Food Products	1,816	8	1,743	8	1,702	9	1,551	9	1,422	9
Consumer Appliances	772	3	878	4	922	5	822	5	712	5
Hotels and Other	1,210	5	1,109	5	976	5	879	5	755	5
	3,798	16	3,730	17	3,600	19	3,252	19	2,889	19
Natural Resources										
Timber and Earth	1,057	5	1,088	5	872	4	772	5	722	5
Energy	320	1	240	1	171	1	156	1	31	—
	1,377	6	1,328	6	1,043	5	928	6	753	5
Insurance and Finance										
Casualty and Life Insurance	4,630	19	4,281	20	3,761	19	3,260	19	2,847	19
Finance	659	3	518	2	377	2	282	2	235	2
	5,289	22	4,799	22	4,138	21	3,542	21	3,082	21
Total Sales and Revenues	$23,819	100%	$22,056	100%	$19,452	100%	$16,769	100%	$14,925	100%

Income Dollars in millions	1980		1979*		1978		1977		1976	
Telecommunications and Electronics										
Telecommunications Equipment	$244	23%	$137	15%	$204	25%	$174	25%	$171	28%
Telecommunications Operations	68	6	59	7	59	7	48	7	40	7
Defense and Avionics Systems	26	2	23	3	14	2	17	2	14	2
	338	31	219	25	277	34	239	34	225	37
Engineered Products										
Automotive Products	39	4	64	7	91	11	76	11	55	9
Industrial Products	96	9	70	8	51	6	59	8	51	8
Components and Semiconductors	68	6	72	8	38	5	32	5	24	4
	203	19	206	23	180	22	167	24	130	21
Consumer Products and Services										
Food Products	16	1	22	2	29	3	28	4	18	3
Consumer Appliances	(15)	(1)	(74)	(8)	(11)	(1)	(14)	(2)	6	1
Hotels and Other	101	9	64	7	27	3	4	—	(6)	(1)
	102	9	12	1	45	5	18	2	18	3
Natural Resources										
Timber and Earth	71	7	84	10	15	2	29	4	46	7
Energy	23	2	21	2	13	1	14	2	4	1
	94	9	105	12	28	3	43	6	50	8
Insurance and Finance										
Casualty and Life Insurance	288	26	287	32	249	30	199	28	168	27
Finance	66	6	62	7	51	6	40	6	24	4
	354	32	349	39	300	36	239	34	192	31
Total Segments	1,091	100%	891	100%	830	100%	706	100%	615	100%
Gain on Sale of Canadian Timber Facilities	90		—		—		—		—	
Provision for Canadian Pulp Mill	—		(320)		—		—		—	
Unallocated††	(287)		(188)		(165)		(140)		(124)	
Total Income	$894		$383		$665		$566†		$491†	

†Excludes extraordinary items.
††Principally residual interest and taxes not distributed to segments.
*Restated for change in allocation of interest.

ITT in North America

In 1980, ITT generated a record $12 billion in sales and revenues in North America and provided employment for 145,000 men and women in the United States, Puerto Rico, the U.S. Virgin Islands and Canada.

Telecommunications and Electronics—In telecommunications equipment, one of the most important developments of recent years is digital communications, made possible by ITT inventions.

By year end, a total of 205 U.S.-manufactured System 12™ digital exchanges representing 497,000 lines had been sold to customers in the United States and overseas. Of this total, 155 exchanges with 346,000 lines had been shipped, including the first system purchased by an AT&T company, New York Telephone Company. Early in 1981, General Telephone Company of Florida purchased a System 12 exchange, marking the first such sale to a GTE operating company.

ITT continues as a technology leader in fiber optics, with installations last year for the Hawaiian Telephone Company, General Telephone Company of Pennsylvania and General Telephone Company of the Southwest. Fiber optic data links were placed in service in Guam, Hawaii and Kwajalein and used for U.S. military and satellite communications.

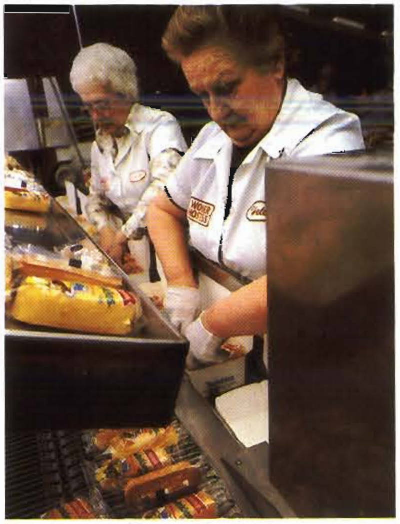
During 1980 Qume Corporation continued as the world's leading manufacturer of daisy wheel printers, with the addition of 15 new models of plastic printwheels.

ITT Courier Terminal Systems, Inc., the world's second largest supplier of 3270-type data terminals and controllers, has achieved 150,000 installations to date throughout the United States and Europe as well as in Australia, Hong Kong and Mexico.

Steps taken over the past decade by the Federal Communications Commission and the courts to open telecommunications to competition in the United States have provided opportunities for ITT as well as challenges from new competitors.

ITT World Communications Inc. in 1980 became the leading international record carrier in terms of total record revenues.

United States Transmission Systems, Inc. expanded its City-Call℠ long-distance service to more than 100 metropolitan areas for 23,000 business and residential users.



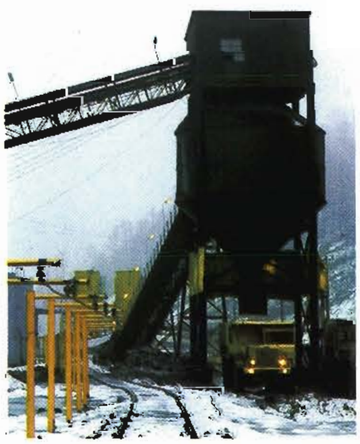
New Jersey—Hostess® Twinkies® creme-filled cakes are celebrating their 50th anniversary but they're still the favorite among millions of the young.

Greenland—ITT's Federal Electric Corporation operates and maintains the DEW Line in the Arctic.

Washington—The owner of this shop chose The Hartford's "Spectrum" insurance, tailored to small-to-medium-size businesses.

California—ITT Cannon® connectors provide versatility in use on spacecraft and aircraft or in data processing applications.

Colorado—In ski-center Vail, condominium construction is financed by ITT Industrial Credit.



West Virginia—Coal in a hopper at a Carbon Industries mine awaits shipment to customers.

In defense and avionics, ITT's Defense Communications Division delivered improved short-range, wideband radios to the U.S. Army and began delivery of navigation subsystems for 24 U.S. Air Force satellites.

Federal Electric Corporation received contracts for support services for the U.S. Antarctic Research Program, for upgrading the Ballistic Missile Early Warning System, and for the operation and maintenance of a U.S. Air Force facility in West Germany. More than 350 million airline passengers last year were guided to their destinations by U.S.-made ITT VHF/UHF radios now used in 40 countries.

Engineered Products—The downturn in the U.S. auto industry depressed ITT results in this area. However, ITT's automotive companies made a significant contribution to North American manufacturers' fuel-efficiency programs through delivery of specially designed components, such as brake and suspension systems for the new generation of compact vehicles, and lightweight body parts.

A plant in Georgia and a development laboratory in Michigan were opened last year by ITT Suspension Systems Division to produce MacPherson strut assemblies for North American automotive manufacturers.

During the past year, Lester Industries joined ITT's automotive family, bringing to the group a major new capability in precision aluminum diecasting.

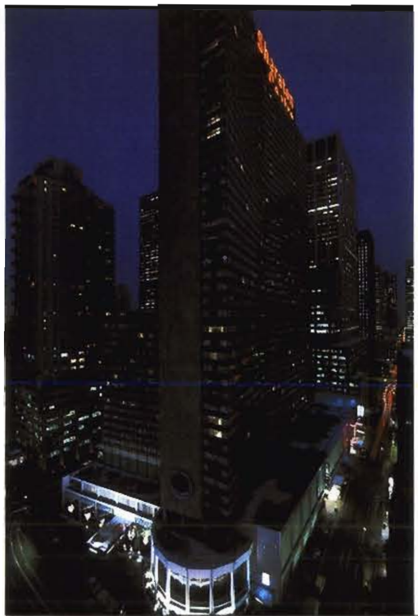
In the industrial products area, ITT Grinnell Corporation received a major award for extruded outlet headers for petroleum piping at a Sohio project on Alaska's North Slope. The Paul N. Howard Company received municipal construction contracts across the United States totaling over $50 million.

In the field of components, ITT Cannon Electric added 336,000 square feet of manufacturing and engineering capacity in California, Great Britain and West Germany. During the year, ITT Cannon, with two other companies, introduced a low-cost fiber optic data link system, using Cannon® connectors, which provides interference-free signals over short distances for medical instrumentation, computers and control equipment.

Consumer Products & Services—Of 10,000 food items available to consumers, bread ranks first in sales in the United States, and

Ohio—Aluminum castings are a specialty of ITT Lester Industries, which joined the Corporation's automotive operations last year.

California—As Voyager I sped past Saturn, 350 technicians from ITT's FEC processed transmissions.



New York—In the heart of the theater district, the Sheraton Centre offers convenience and gracious accommodations.

Washington—Valves from ITT General Controls have flown on aircraft from the "China Clippers" of the 1930s to today's Boeing 747 jumbo jets.

ITT Continental Baking Company supplied American tables with 25 million loaves per week last year.

Early in 1981, the Morton Frozen Foods Division was sold to Del Monte Corporation, reflecting ITT Continental Baking's decision to increase concentration on its bakery and other operations.

Sheraton added 24 properties in North America with 5,470 rooms during 1980, bringing total capacity to 83,200 guest rooms in 354 hotels.

The O.M. Scott & Sons Company, a leader in the lawn care industry, and the W. Atlee Burpee Company, well known in home gardening, both achieved record sales and net income in 1980.

In 1980, ITT Community Development Corporation's Palm Coast[sm] community in Florida began construction of an additional 517 homes and condominiums and opened an 80-slip marina and a second golf course, designed by Arnold Palmer.

ITT is expanding its publishing interests into the rapidly growing area of information services, with the sale of software—in the form of cassettes and disks—for personal computers.

Natural Resources—ITT Rayonier purchased timberland near its operations in Georgia and is completing a purchase in Washington state—bringing total timberland ownership to 1,130,000 acres—and began a $110-million energy-conservation project, the world's largest pulpmill recovery boiler, at its Jesup, Georgia complex.

Pennsylvania Glass Sand Corporation expanded its sales of sand used in petroleum well fracturing, enlarged facilities in Oklahoma for shipment of glass sand, and completed a major expansion of clay production facilities for oil-well drilling fluids.

The ITT energy companies performed well during the year. Eason Oil Company continued its growth in the contract drilling business, increased its holdings to 760,000 acres from 668,000 five years ago, and began building a plant in Oklahoma for cryogenic separation of liquids from natural gas.

During 1980, Carbon Industries, Inc. increased its reserves of coal for the metallurgical and steam coal markets by 20 million tons to 172 million tons.

Insurance and Finance—The Hartford Insurance Group last year paid out $1.6 billion in property and casualty claims and $401 million in life insurance benefits to policyholders in North America.

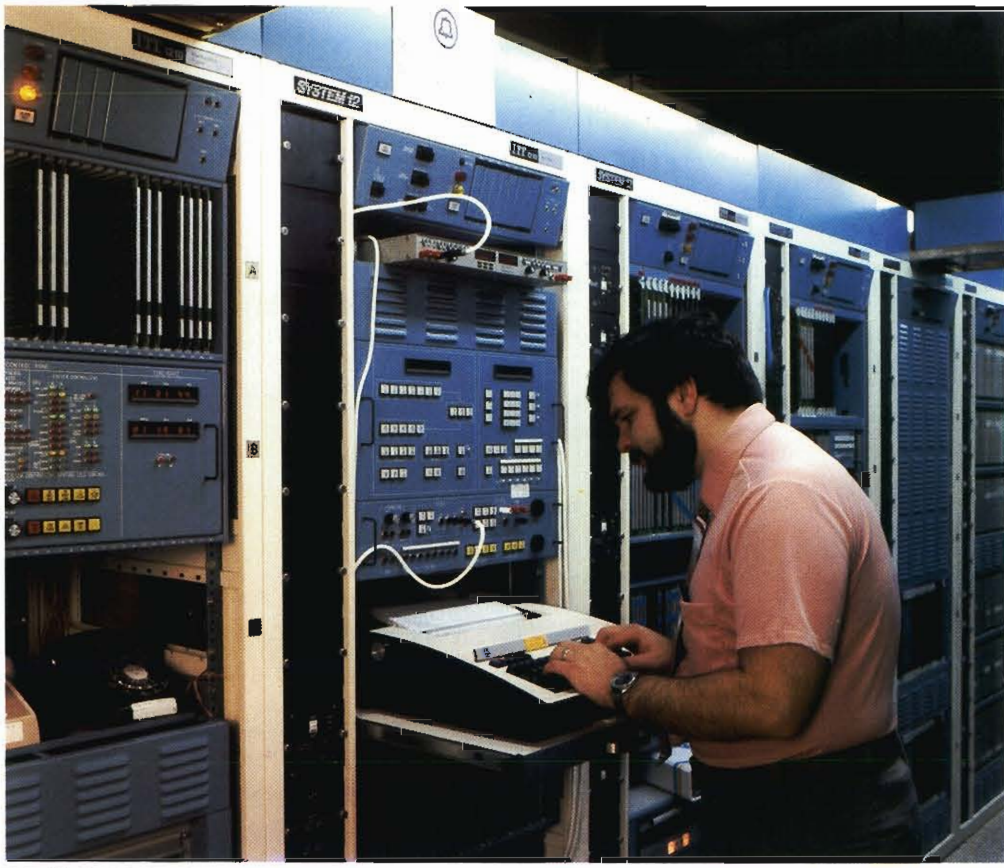
In 1980, The Hartford introduced "Spectrum," a package policy with risk coverage customized to the needs of small-to-medium-size businesses—a market expected to show strong growth during this decade.

The impact on The Hartford of an industry-wide downturn in property and casualty underwriting results was offset by rapid earnings growth in the unit's life operations and continuing gains in investment income.

Group life insurance business has nearly doubled in volume in the last five years and now exceeds $10 billion of coverage.

ITT Financial and its subsidiaries provided consumer and commercial financing of $3.5 billion in 1980, and ITT Consumer Financial Corporation and Puerto Rico-based Island Finance Company lent an average of $5.7 million in personal or second mortgage loans every business day.

ITT Industrial Credit Company, specializing in capital equipment financing and leasing, expanded into real estate financing of income-producing property, while ITT Diversified Credit Corp. opened its first wholesale inventory financing operation in Canada.



New York—The first U.S.-manufactured System 12™ digital switch for the Bell System was recently put in service in Syosset, a suburb of New York City.

ITT in Europe

From telecommunications research centers at ITT laboratories in Belgium, England, France, Italy, Spain and West Germany to production of semiconductor chips, automotive disc brakes and thousands of other products, Europe remains ITT's largest single area of employment.

ITT units in the region provided work for 184,000 people. Sales and revenues from direct operations amounted to $10.7 billion last year.

Telecommunications and Electronics—ITT's significant position in the field of digital telecommunications is evidenced by its development of the System 12™ family of switching systems. Awards or letters of intent for ITT's European-manufactured System 12 exchanges now total 615,000 equivalent lines for customers in Belgium, Denmark, Finland, Italy, Mexico, Spain and West Germany.

ITT's Belgium-based Bell Telephone Manufacturing Company S.A. (BTM) will support the manufacture of System 12 equipment ordered from ITT's Mexican affiliate, Industria de Telecomunicación, S.A., by that country's telephone operating company.

In West Germany, ITT's Standard Elektrik Lorenz AG (SEL) subsidiary received orders from the Deutsche Bundespost for four System 12 trial exchanges to be operational in 1982. SEL and ITT's Finnish subsidiary, Standard Electric Puhelinteollisuus Oy, are supplying a System 12 trunk toll exchange for Finland.

Meanwhile, the first European-built System 12 transit exchange is being readied for service in Bologna, Italy under the direction of ITT's FACE Finanziaria S.p.A., with the support of ITT French and Belgian companies.

Conversations with the French postal, telephone and telegraph administration continue toward the possible introduction of ITT's System 12 in that country in the near future.

ITT's advances in optical fiber technology are equally impressive. SEL installed the world's largest-capacity cable—a 320-fiber subscriber cable in West Berlin—and completed a glass fiber link for the transmission of color video pictures for the Stuttgart "S-Bahn" rapid transit system.

In Scotland, ITT's Standard Telephones and Cables Limited (STC) completed installation for the world's first ocean-water test of an optical fiber submarine telecommunications cable.

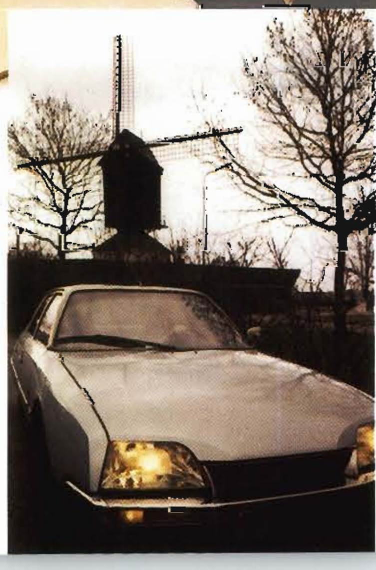
Among other developments, STC handed over its 100th TXE4 electronic telephone exchange to the British government's telecommunications administration. STC is also participating in the development of Britain's nationally funded digital switching system known as System X.

In Spain, ITT's Standard Eléctrica, S.A. put in operation in Madrid the first optical fiber system for the Spanish railways, a 10-kilometer installation that avoids electrical interference in railway communications systems.

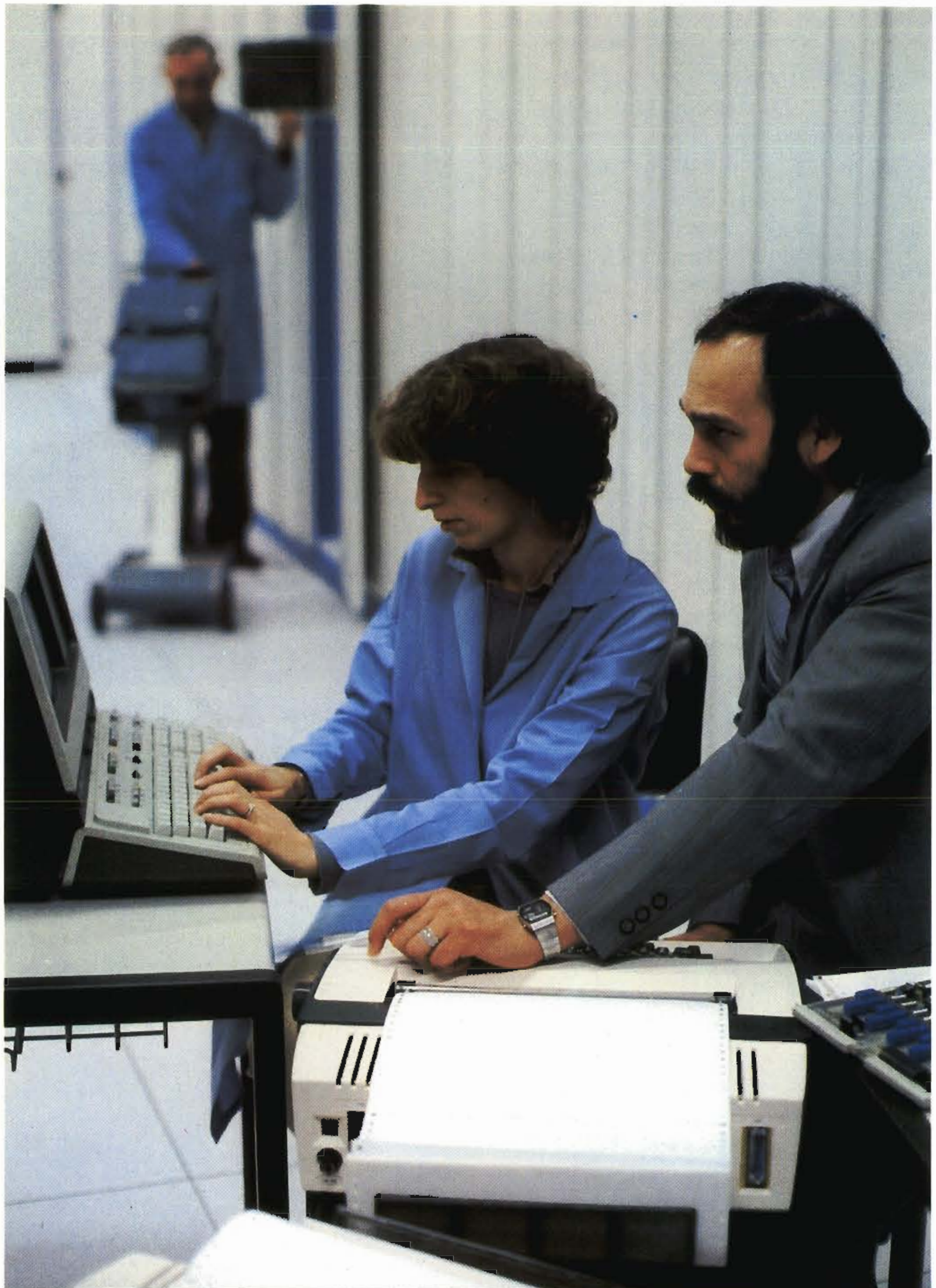
Switzerland's biggest Pentaconta® toll transit exchange—with 2,400 lines—was built by ITT's Standard Telephon und Radio AG and inaugurated in 1980.

England—The elegance of the past and the efficiency of today combine at London's Sheraton Park Tower Hotel.

England—Quartz crystals produced by ITT Components are used to control the frequency of electronic equipment.



Netherlands—ITT's Zwolsche is a major writer of automobile insurance policies for Dutch civil servants.



Belgium—In a major technology transfer, ITT's BTM subsidiary trains Mexicans to build ITT System 12™ equipment in Mexico.

In voice communications, the Unimat™ family of stored-program-controlled PABXs remained the industry leader in Europe, with sales to date of over 7,500 systems representing 400,000 lines in Europe and in more than 20 countries around the globe.

Deliveries of 3270-type visual display systems from ITT Courier reached 50,000 units in Europe, supporting ITT's position as Europe's number two supplier.

As the world leader in submarine telecommunications systems, STC has produced or is now manufacturing 91,500 nautical miles of cables to carry a total of 47.3-million nautical miles of circuits around the world. Orders on hand at year end reached $198 million, an all-time record.

In railway signaling, ITT Austria GmbH received an order for a computerized train dispatching center for the Vienna subway. BTM was awarded a contract from the Belgian National Railways for a UHF voice and data communications system linking trains and dispatching centers.

In telecommunications operations, during 1980 customers of 37 European telecommunications administrations were served by ITT World Communications Inc., which handled a total of 19.6 million telegraph and telex messages.

Several major developments occurred in the defense and avionics business. Laboratoire Central de Télécommunications, the ITT French laboratory, successfully tested ARGUS, a unique new ground surveillance radar system jointly developed by France and West Germany.

SEL delivered equipment for onboard computer operations on the European Spacelab, while SEL and BTM both built

France—Safety and comfort on high-speed rail transport are enhanced by ITT's Koni® yaw dampers which minimize sideways movement.

Norway—ITT's STK subsidiary laid one of the first power cables with integral fiber-optic telecommunications control link last year near the city of Bergen.

ground-based equipment. BTM also received contracts for the development of advanced satellite communications systems. SEL won a three-year contract for the operation and maintenance of aircraft navigation and landing aids in Saudi Arabia.

Engineered Products—Alfred Teves GmbH of West Germany, with plants there and in Belgium, Brazil, France, Italy, South Africa, the United Kingdom and the United States, is the world's largest independent manufacturer of complete braking systems—from disc brakes to high precision hydraulic components and antiskid devices. Teves also is recognized as the industry's technology leader.

West German-based SWF (Spezialfabrik für Autozubehör) is a leading manufacturer of windshield wiper systems as well as of fractional horsepower electric motors, primarily for automotive applications. Under development at SWF, and combining the microprocessor technology of other ITT units in Europe, is a central electronic instrumentation system (CEIS) for cars of the future.

New submersible propeller pumps from Sweden-based Flygt Aktiebolag have already gained wide acceptance throughout Africa, Europe and North America. They are capable of moving 95,000 gallons per minute and are used in land drainage, storm water and flood control, and irrigation applications.

Industrial products companies are emphasizing products for fuel conservation and pollution control markets. Conoflow-VAF's Viscotherm® system, which controls heating of heavy-grade fuel oil to obtain optimum viscosity and combustion efficiency, has been installed on 15,000 vessels.

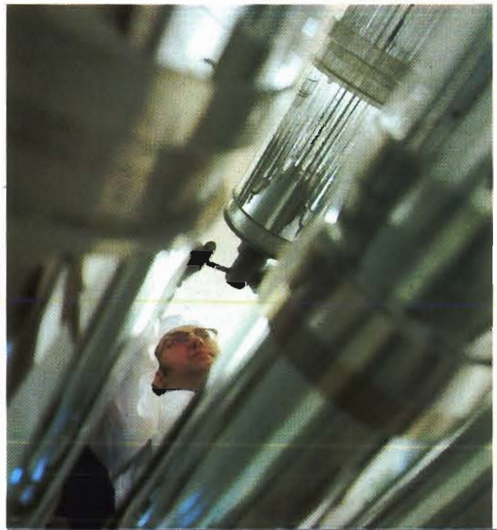
Friedrich Grohe Armaturenfabrik GmbH in West Germany is Europe's market leader for sanitary faucets, ranging from classical two-handle models to sophisticated one-hand mixers, high-technology thermostats and shower systems.

ITT's semiconductor group, with facilities in France, Great Britain, the United States and West Germany, continued as Europe's largest producer of electronic memories, manufacturing eight million last year. ITT is also a major exporter of tuner silicon diodes to consumer electronics manufacturers in the Asia/Pacific area and the United States.

The group's 64,000-bit random access memories provide higher performance at lower cost than less-dense memories.

The European components group has broadened its product base with the introduction of tantalum chip capacitors and high-quality computer-grade electrolytic capacitors.

Consumer Products and Services—In 1980, Sheraton added a resort hotel in Lanzarote in the Spanish Canary Islands and advanced its construction of hotels in Essen, West



West Germany—ITT Components coats office copier drums with selenium alloys to increase light sensitivity and service.

West Germany—Sales of ITT television sets rose as the European consumer electronics units consolidated manufacturing.

Germany and Torgon, Switzerland. By 1985, Sheraton expects to add 22 hotels in Europe.

ITT World Directories Inc., the largest company of its type outside the United States, is now producing telephone directories in nine countries. Following receipt in 1979 of a nine-year contract in the United Kingdom which could result in billings in excess of $1 billion, the unit in 1980 signed a contract with the Netherlands telephone administration that will run through 1994 and has potential for billings of more than $1 billion.

In consumer electronics, ITT units in Europe have made progress toward a return to profitability, reflecting strong management steps taken during the year. Production in England and West Germany was consolidated and manufacturing and distribution operations in France and Switzerland were sold.

Natural Resources—ITT Rayonier's chemical cellulose, papermaking and specialty pulps, fluff pulps and lumber are sold to customers in most Western European countries as well as Rumania and Yugoslavia. Pennsylvania Glass Sand is a major supplier of clay products in Europe, serving the agricultural, fluid absorbents and oil-well drilling markets.

In the energy products area, Eason Oil maintains an interest in a North Sea petroleum operation.

Insurance and Finance—Hartford has life and property and casualty insurance operations in the United Kingdom, the Netherlands and West Germany.

The largest of Hartford's European operations is the Abbey Life Group, Ltd. in the United Kingdom, which last year introduced a new and successful flexible personal investment portfolio for customers in that country.

Excess Insurance Group Limited, ITT's major property and casualty insurance operation outside the United States, is an underwriter on the expansion of the London docks now under way.

Italy—Manufacture of ITT Rayonier's Prima* rayon is licensed here as well as in Finland, France, Spain and the United States.

England—ITT's Excess Insurance Group is a major insurer of the construction of the Thames flood barrier.

France—A voice synthesizer built by LCT broadcasts tide levels to ships to help assure their safe movement in the approach to Bordeaux harbor.

ITT in Africa and the Middle East

ITT's telecommunications, hotel and automotive businesses comprise the Corporation's direct operations in Africa and the Middle East. In addition, units in other business groups are expanding their exports to this region.

Some 4,000 men and women are employed by ITT units in 27 countries in this area. Sales and revenues from direct operations last year totaled $300 million.

Telecommunications and Electronics—In June last year, the governments of 10 nations agreed to construct a submarine telephone cable system—Atlantis—to link Africa, Europe and South America. Under a $96-million contract, Standard Telephones and Cables Limited (STC), ITT's British subsidiary, will manufacture and install the 1,850-nautical-mile link from Senegal to Brazil.

In addition, STC was awarded a $48-million contract to build a 680-nautical-mile submarine telephone cable system linking Greece and Cyprus. STC has 19 such systems already in service around the world.

STC also completed installation of a coaxial cable in Bahrain and continued work on two cable contracts from Egypt. A new coaxial cable for Lebanon is being laid by ITT's Standard Eléctrica, S.A. (SESA) of Madrid.

In Algeria, SESA completed a major telecommunications equipment plant at Tlemcen, training 3,000 nationals to operate the facilities. In Nigeria, ITT has installed 40 Pentaconta® exchanges, with an additional 120 exchanges scheduled to be installed.

Among developments in microwave transmission, Belgium-based Bell Telephone Manufacturing Company will supply equipment for over 100 stations in a nationwide transmission project in Turkey and for more than 150 stations in Nigeria, and last year installed networks in the Ivory Coast and Morocco. Standard Elektrik Lorenz will install a microwave link from Cairo to Aswan, a major dam site some 500 miles up the historic Nile.

Telecommunications operations in 1980 in Africa and the Middle East handled the transmission and reception of nearly five million telegrams and telexes for customers of 73 telecommunications administrations.

ITT Space Communications Inc. supplied Cyprus with a satellite earth station that carries voice, television and data via the international network of Intelsat satellites.

Also last year, ITT sold its minority common equity in Allied Technologies Ltd., a South African company that in 1977 purchased ITT's former principal subsidiary in that country.

Engineered Products—A South African automotive products plant operated by West German-based Alfred Teves produces disc and drum brakes and associated master cylinders, vacuum and hydraulic boosters, brake hoses and proportional valves for auto manufacturers in that country.

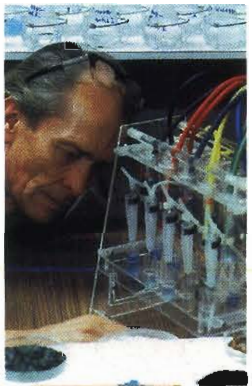
Many other units in this business group export products and technology into the Middle East and Africa.

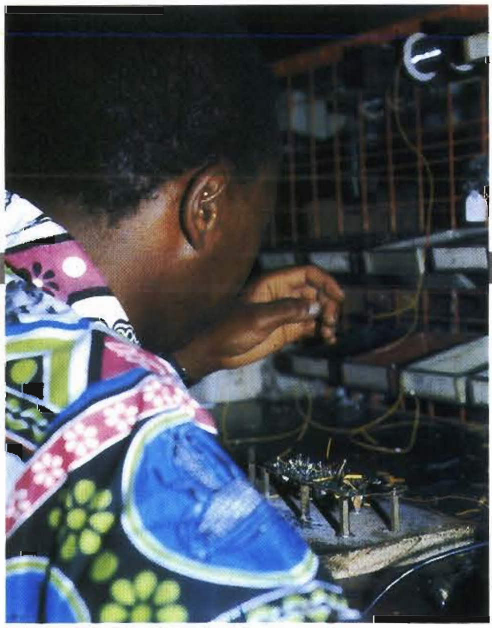
Among exports to the region, ITT Grinnell® pipe and valve products are currently being used by customers in Egypt, Kuwait, Nigeria and Saudi Arabia, while ITT Barton Instruments' fluid and pressure measurement devices are used in oil-producing countries in the region.

Standard Telecommunication Laboratories Limited in the United Kingdom developed a water-soluble, controlled release glass that dissolves at predetermined rates to

Senegal—An undersea cable manufactured by STC in Great Britain will link this West African country with Brazil.

Nigeria—Water-soluble glass beads from STL in England are used in an experiment to eliminate water-borne parasites.





Zimbabwe—Rising demand increased sales for the line of radios and hi-fi equipment from ITT's Supersonic group.

release substances such as corrosion inhibitors, pest control agents and plant nutrients. More than 200 million people in over 70 developing countries are victimized by a waterborne parasite that carries the disease bilharzia (snail fever). In consultation with the World Health Organization, a special form of the glass is being used in Nigeria to halt the spread of this disease.

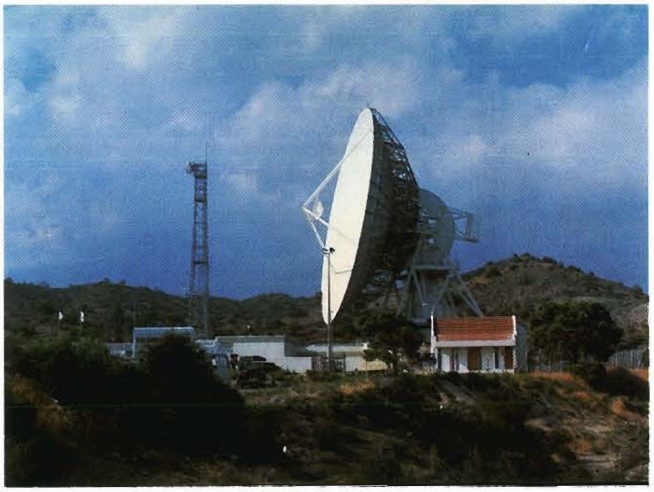
Consumer Products and Services—Sheraton's 18 hotels offer 4,900 rooms to travelers in this region. Newest among these are the $20-million Sanaa Sheraton in the Yemen Arab Republic, completed late in 1980, the $25-million Sheraton King Solomon in Jerusalem, and the Bahrain Sheraton, which will open in mid-1981. Other Sheraton hotels in the area include the Abu Dhabi Sheraton, the Dubai Sheraton and the Kuwait Sheraton.

Tours of 5,000-year-old temples, the Valley of the Kings, and the tomb of King Tutankhamen are available from Sheraton's four Nile River cruising hotel ships.

During 1980, the Supersonic group of companies in three African countries experienced rising market demand for its television, radio and hi-fi product lines.

Natural Resources—Egypt, Iraq, Kuwait, Nigeria and Saudi Arabia are all importers of ITT Rayonier® products. These include vanillin, utility poles and specialty pulps.

Insurance and Finance—Among ITT affiliates that offer their services to virtually all countries in this region, U.K.-based Excess Insurance Group is a major participant in the underwriting group for two harbor construction projects under way in Dubai.



Cyprus—An earth station from ITT Spacecom brought this island nation into the world satellite communications community.

Abu Dhabi—An oasis for travelers, this Sheraton is one of several hotels recently built or under construction in the region.

Bahrain—Voices are linked across miles of desert by cable from ITT's British unit, STC.

ITT in Asia and the Pacific

ITT's presence in the Asia/Pacific area, primarily in telecommunications manufacturing and hotels, continues to grow steadily. Some of ITT's most advanced technologies have been brought to the area through joint ventures and international transfer agreements.

A total of 6,000 jobs are provided by ITT in 17 countries in the region. Sales and revenues from direct operations were $300 million in 1980.

Telecommunications and Electronics—A major development in the Asia/Pacific market last year was the receipt of orders from Taiwan and the Philippines for ITT System 12™ digital equipment manufactured in the United States.

The Taiwan telecommunications administration signed two contracts with ITT totaling $19 million for 14 containerized System 12 digital switching systems for installation in 1981. One of these contracts, for 40,000 lines, represents the largest single international order to date for this type of U.S.-made equipment. Taiwan International Standard Electronics Limited (Taisel), an ITT joint venture, will supervise engineering and installation.

In the Philippines, ITT will install a 6,000-line System 12 digital exchange in the city of Baguio.

ITT's Belgian subsidiary, Bell Telephone Manufacturing Company (BTM), is actively promoting technology transfer and export of its electronic systems to the region. The first two Metaconta™ 10CN exchanges in South Korea, with 20,000 lines, were officially placed in service in January 1980 in Seoul by BTM and its Korean licensee, the Korea Telecommunications Co. Ltd. Another nine exchanges are being installed as part of a more than 800,000-line contract. BTM will also supply components and technology to the Korean company under a long-term agreement.

Meanwhile, the Hong Kong Telephone Company placed orders with BTM for an additional 100,000 lines of Metaconta 10CN. BTM also signed an agreement with Lembage Elektroteknika Nasional in Indonesia for 35 earth stations for domestic satellite communications.

Norway's Standard Telefon og Kabelfabrik A/S received contracts for 70 Metaconta rural telephone exchanges, 39 of which are for India, Indonesia and Papua New Guinea.

ITT Thailand Limited sold 43,000 telephone subsets in that country during 1980, for a cumulative delivery of 280,000 units since the company started in 1972.

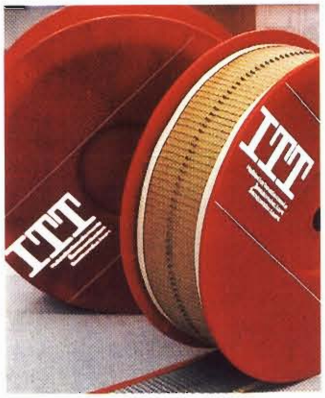
Taiwan—Power company authorities install ground rods from ITT Blackburn to protect people and homes.

At year end, ITT sold its interest in P.T. Indonesian Satellite Corporation to the Indonesian government, at its request.

Throughout this region, ITT World Communications Inc. carried nearly 14 million telex calls and messages for customers of 42 telecommunications administrations.

In defense and avionics, the Australian Department of Defense awarded a $5-million contract to ITT's Standard Telephones and Cables Pty. Limited of Sydney to supply terminal equipment for that country's new fully digital secure communications network known as DISCON. The development of the software for the terminal systems will be carried out entirely in Australia by STC Sydney.

Engineered Products—ITT Grinnell is a partner with the Daewoo Industrial Company, Ltd. in a joint venture in South Korea that last year built a modern pipe fabrication facility to serve the nuclear and fossil-fuel power industry, and drill rig, shipboard and process-



Japan—Manufacturers of consumer appliances and computers here present a strong market for ITT's European-made semiconductors.

South Korea—Engineers check ITT Metaconta™ electronic switch, originally built in Belgium and now manufactured locally.

ing industries throughout the Asia/Pacific region and worldwide. This joint venture constitutes ITT's first equity investment in South Korea. Korean engineers who are managing the manufacturing facility, along with ITT Grinnell technicians, have undergone intensive training at ITT Grinnell Industrial Piping's plant in North Carolina.

ITT Cannon Electric's joint venture with a Japanese electronics firm will increase penetration in the Japanese market and step up distribution of electrical connectors for Asia/Pacific markets.

The Cannon Australian unit recorded a 24% increase in sales for its connector lines sold in that country and exported to North America and Europe. Especially strong were its "Mono-Blok" connectors sold to the Australian telecommunications industry.

Sweden-based Flygt has established a sales and distribution network in Japan for its line of submersible pumps for industrial uses, while West German-based Grohe has introduced its line of bronze one-hand-mixing and thermostatically controlled faucets into the expanding Japanese market.

Japan is now one of the largest export markets for adjustable shock absorbers produced by Netherlands-based Koni for cars, trucks and motorcycles.

Precision measurement and control of chemicals or petroleum products are assured by ITT Barton's monitoring and gauging systems used in Australia, India, Indonesia, Japan and Taiwan.

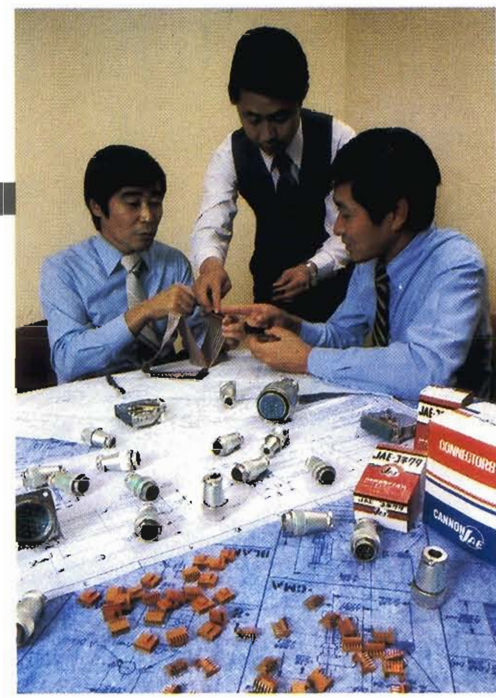
Consumer appliance and computer manufacturers throughout the Asia/Pacific area rely on ITT semiconductors for remote-control integrated circuits, tuner diodes, transistors and double-plug diodes.

Consumer Products and Services—The foothills of the Himalayan Mountains in Katmandu, Nepal, provide the setting for one of Sheraton's newest hotels, the 166-room Everest Sheraton, due to open in mid-1981. Sheraton hotels are in nine countries in this region.

ITT Continental Baking Company's Twinkies® snack cakes and Wonder® bread are now being baked at the Daiichiya Baking Company of Tokyo and distributed throughout Japan.

Intertec Publishing Corporation, a unit of the ITT publishing group, plans to begin publishing Chinese language editions of two of

Japan—In its first joint venture outside the United States, ITT Cannon Electric is marketing its connector line in Japan and other Asian countries.



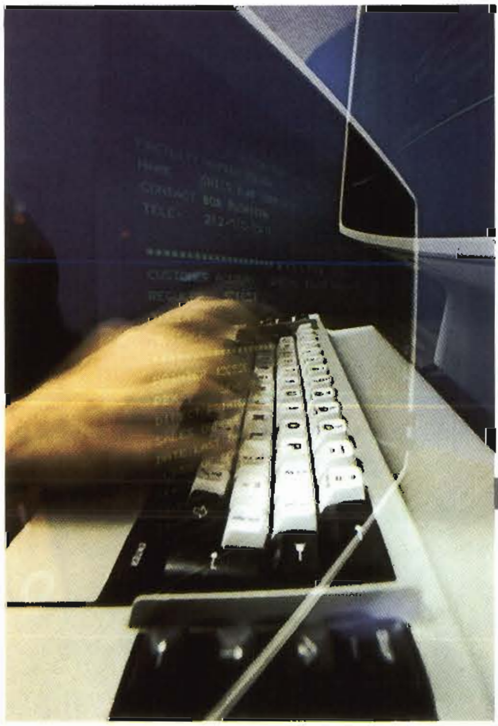
Taiwan—U.S.-made ITT System 12™ containerized digital switching exchanges constitute the largest single international order for this model.

its well-known business magazines, *World Farming* and *Broadcast Engineering*, for circulation in China in 1981.

Natural Resources—Japan is an important customer for ITT Rayonier's logs and lumber finished to meet special requirements for construction and interiors. The company's fluff and specialty pulps are sold throughout the Asia/Pacific region. Important chemical cellulose markets include Australia, India, Japan, the Philippines, South Korea and Taiwan.

Insurance and Finance—The Excess Insurance Group is the lead insurer on the construction of the Hong Kong subway, while Cameron and Colby Ltd. provides coverage for a major new power plant under construction in Japan. Through partnership in AFIA, formerly known as the American Foreign Insurance Association, Hartford policies are written to cover a variety of insurance needs, from those of an industrial complex in Korea to a sheep ranch in the Australian outback.

Japan—This is an important export market for ITT Rayonier's fluff pulps where they are used to make personal sanitary products.



Australia—High-speed data and telex transmission on the ITT Worldcom network links customers of 42 Asia/Pacific telecommunications administrations.

Hong Kong—ITT's Excess Insurance is the lead insurance underwriter on the construction of this city's subway.

ITT in Latin America and the Caribbean

The trans-Andean cable, the first inter-country telephone system via submarine cable, and the first radiotelephone service to Europe and North America are among ITT's many technological developments in Latin America since the early 1920s.

ITT today has manufacturing interests in six countries and, both directly and through non-ITT distributors, maintains sales operations in 16 countries.

Sales and revenues in 1980 from direct operations reached $500 million, with a work force estimated at 9,000 in 23 countries in Latin America, Mexico and the Caribbean.

Telecommunications and Electronics—An important development in worldwide telecommunications came last year when ITT's Mexican affiliate, Industria de Telecomunicación, S.A., with the support of ITT European units, received an award for more than $100 million for System 12™ digital telephone switching equipment. This represents 75 percent of Mexico's digital equipment business during the 1982-1986 period. This agreement is the largest single digital award in international competition to date.

During 1980 Compañía Standard Electric Argentina S.A.I.C. began installation of the first Metaconta™ electronic telephone exchange in that country under a $12-million contract. Early in 1981 the unit received an order for 152,000 Metaconta lines valued at some $42 million.

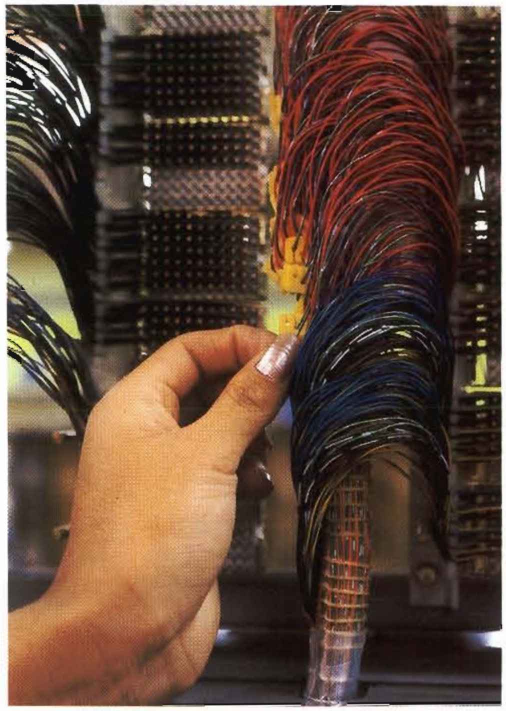
ITT's Belgian subsidiary, Bell Telephone Manufacturing Company, received from the telephone administration of Bogotá, Colombia an award in excess of $12 million for pulse code modulation trunking equipment for that city's telephone network. ITT is already contracted to supply Bogotá with 60,000 lines of computer-controlled electronic switching equipment.

In business systems, ITT stored-program private automatic branch exchange TCS-2 systems were recently installed in Colombia, Mexico and Venezuela.

In telecommunications operations, submarine cables linking Brazil, Venezuela and the U.S. Virgin Islands were inaugurated last year.

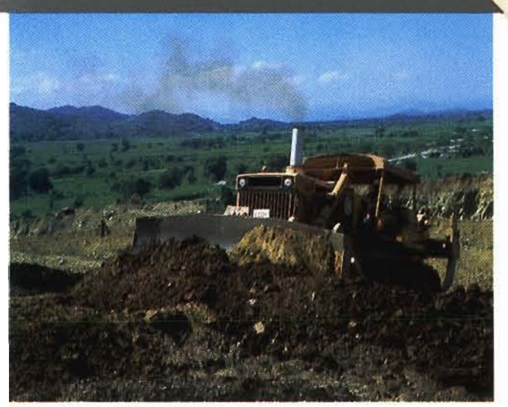
During 1980, ITT World Communications Inc. completed more than 11 million messages and telex calls for customers of 51 telecommunications administrations in this region.

Engineered Products—Alfred Teves operates an automotive products plant in Brazil and



Mexico—ITT's Industria de Telecomunicación, S.A. manufactures switching systems, subsets and other equipment.

Brazil—The beachfront Sheraton in Rio de Janeiro is one of Sheraton's 15 premier hotels in Latin America.



Haiti—ITT construction specialists from Paul N. Howard Company direct projects worldwide such as this highway development.

ITT Grinnell produces pipe hangers and valves in Mexico. Sistemas de Bombeo S.A. near Mexico City assembles a variety of pumps for industrial applications.

Paul N. Howard Company is involved in several major construction projects in the area, including a flood control and drainage project in Jamaica.

ITT Barton supplies high-technology measurement and control devices to oil and gas producers in Brazil, Mexico and Venezuela.

Consumer Products and Services—A total of 15 hotels in 12 countries are under Sheraton's banner in this area. Opened in Mexico in 1980 were the new Cancún Sheraton on the Caribbean and the Puerto Vallarta Sheraton on the Pacific Coast.

Antarctica—A research program, sponsored by the U.S.-based National Science Foundation, is under way at four stations with the support of ITT's FEC.

Now under construction or proposed are new hotels in Argentina, Ecuador, Mexico, Paraguay and Peru.

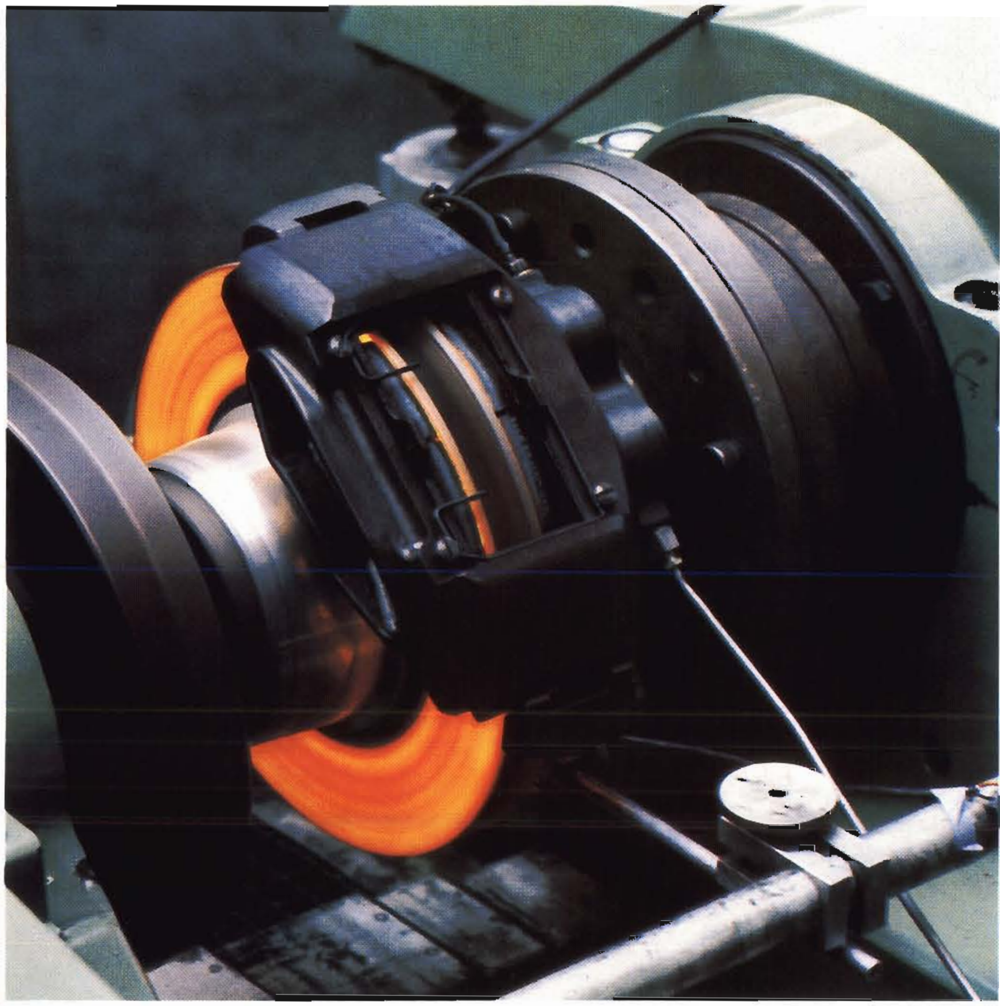
Within the next five years Sheraton expects to add 16 new hotels with 4,800 rooms in Latin America.

Among other consumer products, ITT Continental Baking's Wonder® bread and Hostess® Twinkies® snack cakes are made and sold in Mexico.

Natural Resources—Fluff pulps for diapers and other personal sanitary items are the most widely distributed of ITT Rayonier's products in the area. Pennsylvania Glass Sand ships substantial tonnage of silica to the growing container and flat-glass markets in Mexico.

Insurance and Finance—The Excess Insurance Group in the United Kingdom is among major underwriters covering portions of the Salto Grande hydroelectric project in Uruguay and the construction of the metro system in Caracas, Venezuela.

ITT's Island Finance Company, the largest consumer lending company in the Caribbean, opened its first offices in the Netherlands Antilles last year.



Brazil—Disc brakes, shown under high-temperature testing, helped make Alfred Teves a world technology leader.

ITT and Social Responsibility

In 1980, ITT companies throughout the world once again supported community efforts to meet educational, economic and social needs of the countries in which they operate.

North America—ITT's continuing support of higher education took on a new dimension in 1980 with the establishment of two academic chairs through grants totaling $1 million: the ITT Professorship in Creative Management at New York University, and the ITT Career Development Professorship in Computer Technology at Massachusetts Institute of Technology.

The Corporation also continued its sponsorship of the ITT International Fellowship Program for the eighth year. The program has enabled more than 400 students from 53 countries to pursue graduate studies in the United States and around the world.

Meanwhile, the ITT Key Issues Lecture Series continued to bring leading lecturers on business-related topics to universities around the United States. In 1980, series were held at Simmons College and seven universities: Emory, Georgetown, N.Y.U., Notre Dame, St. John's, U.C.L.A. and Virginia.

The company received its second "Encore Award" from the Arts and Business Council, Inc. for "outstanding service to the city through the arts," this time for its sponsorship of the Big Apple Exhibit at the Museum of the City of New York. Attendance at the exhibit in 1980 totaled more than 800,000.

Along with its Sheraton and Hartford subsidiaries, ITT underwrote a series of concerts held at the John F. Kennedy Center for the Performing Arts in Washington, D.C., honoring Isaac Stern on his 60th birthday. Also in Washington, an ITT gift of $250,000 over five years is assisting the Capital Children's Museum to enlarge its exhibits, all of which are "hands on"—they can be touched and used.

The company again supported the Joffrey Ballet, the Martha Graham Center for Contemporary Dance and El Museo del Barrio in New York.

ITT's long-term commitment to the Retinitis Pigmentosa Foundation has made the ITT night vision aid available at reduced cost to people suffering from this degenerative eye disease.

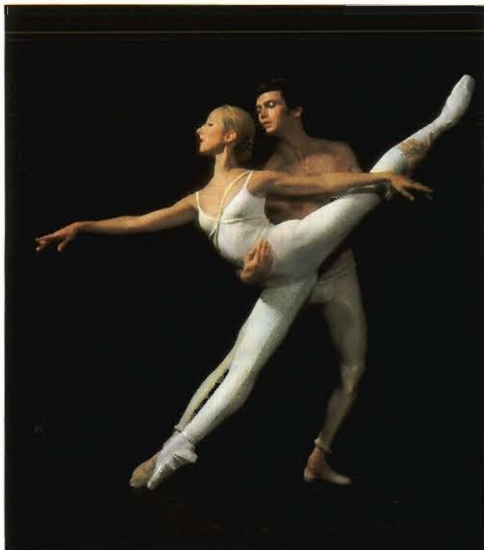
ITT contributions also continued to benefit the American Host Foundation, which enables teachers from abroad to stay with American families during summer visits to the United States.

The ITT Board of Directors recently authorized the creation of a political action committee to be known as the Corporate Citizenship Committee that will complement grass roots programs in the discharge of ITT's corporate citizenship responsibilities in the United States. This change in corporate policy is intended to serve the best interests of the Corporation and its shareholders.

Among the many social and civic programs pursued by North American units, ITT Continental Baking Company launched a $600,000 three-year research and education program designed to improve nutrition for the elderly. The Hartford's Junior Fire Marshal program has brought fire safety education to thousands of school children for more than three decades.

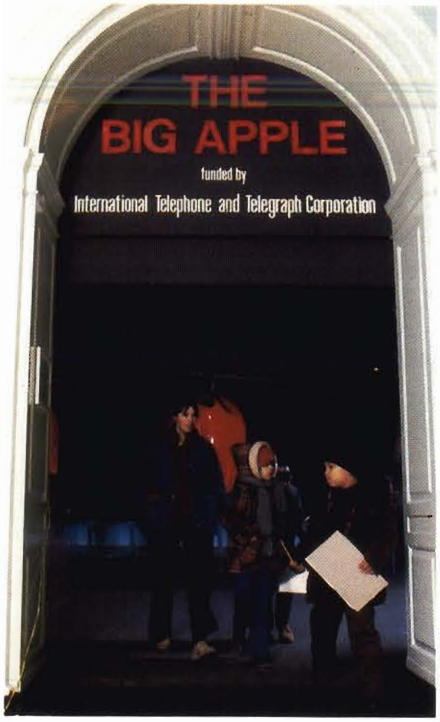
Europe—When one of the most devastating earthquakes of this century struck Italy in November, ITT's largest Italian affiliate, FACE Finanziaria S.p.A., quickly arranged blood collections and emergency food supplies for the stricken areas around its southern plant town of Maddaloni. In the United States, ITT Rayonier and its shipping subsidiary collected and delivered more than $200,000 worth of canned goods, clothes and blankets to earthquake victims.

Other European units also were active in humanitarian projects. In Belgium, ITT's Bell Telephone Manufacturing Company is the principal source of jobs, training and



New York—ITT is a long-time supporter of the Joffrey Ballet and other dance companies.

Washington—Celebrating violinist Isaac Stern's 60th birthday, ITT underwrote concerts given by Stern and fellow artists.



New York—ITT-funded "Big Apple" exhibit at The Museum of the City of New York attracted more than 800,000 visitors last year.

guidance to the physically and mentally handicapped in an Antwerp suburb.

In the Netherlands, ITT's Nederlandsche Standard Electric Maatschappij, B.V. funds annual recreation festivities for De Trappenberg, a rehabilitation center for 150 mentally and physically disabled children.

ITT's Spanish subsidiary, Compañía Internacional de Telecomunicación y Electrónica, S.A., has created the Manuel Márquez Mira technical and business library at the University of Málaga. ITT's Swiss subsidiary, Standard Telephon und Radio AG, sends 70 of its apprentices each year to an Alpine work camp where they assist farmers in building water lines and avalanche protection.

In the United Kingdom, ITT's Excess Insurance Group sponsors a sports program for young athletes.

Africa and the Middle East—ITT Nigeria (Ltd.) provided considerable assistance to victims of devastating floods last year, and is also a permanent contributor to the Nigeria Flood Relief Fund.

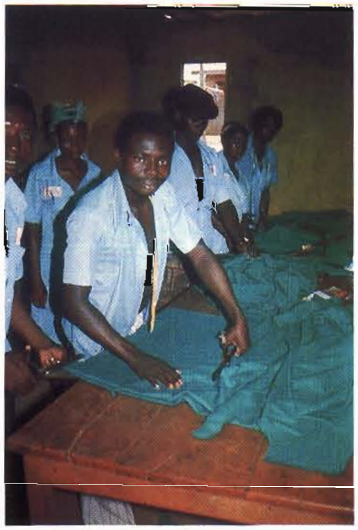
ITT's "adoption" in 1978 of the village of Ijede near Nigeria's capital city of Lagos, funded through a grant to the Chicago-based Institute of Cultural Affairs, has resulted in a comprehensive program of human development and economic reconstruction.

During 1980, ITT continued its long-standing support of St. Anthony's Education and Cultural Centre in Boksburg, South Africa, which trains thousands of workers each year.

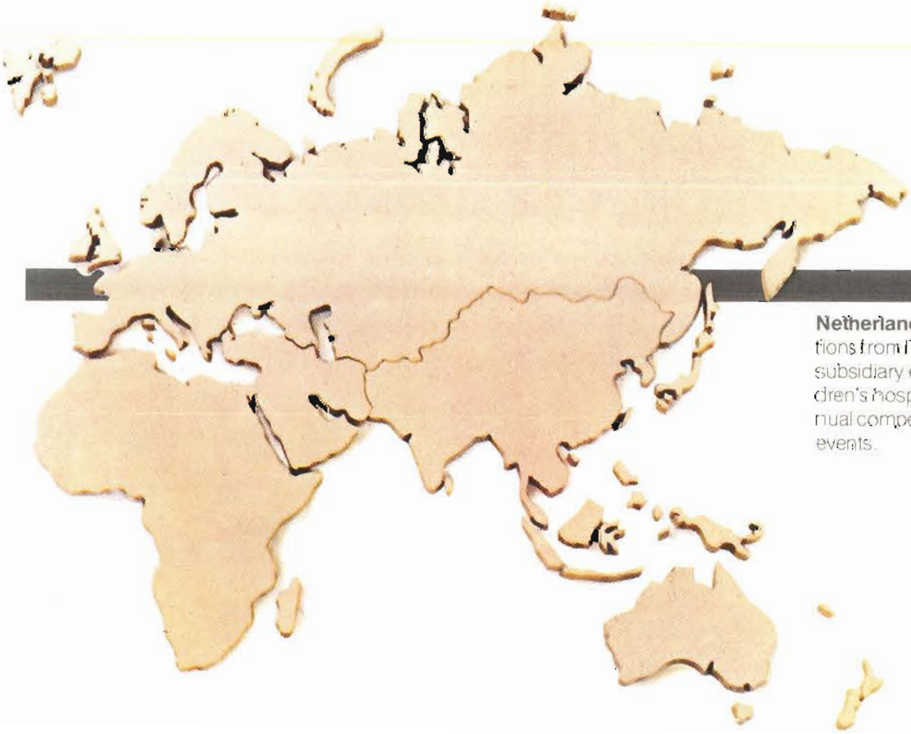
Asia and the Pacific—ITT's $600,000 award to the Institute of Cultural Affairs funded programs not only in Nigeria but also in the South Korean village of Koh Duh E Ri, which last year made considerable progress in agriculture and housing.

The company also continues to assist the Asia Society and the Asia Foundation, whose programs promote the social, economic and artistic development of Asian countries.

Latin America and the Caribbean—In South America, ITT promotes the development of the food industry through marine research and related technologies.



Nigeria—An ITT grant helped the villagers of Ijede establish an active sewing industry.



Netherlands—Contributions from ITT's NSEM subsidiary enable this children's hospital to stage annual competitive sporting events.

Sales, Revenues and Income

Worldwide sales and revenues, including insurance and finance, achieved a record high of $23.8 billion in 1980, an 8% improvement from the $22.1 billion in 1979. Sales and revenues in 1978, including insurance and finance, were $19.5 billion.

Order backlog of the manufacturing companies at December 31, 1980 totaled $7.4 billion and approximates 6 months of sales, compared to $7.7 billion at December 31, 1979. The backlog remains strong, particularly considering recent recessionary pressures.

For 1980, net income amounted to $894 million, or $6.12 per common equivalent share, including a $90 million ($.62 per share) gain on the sale of ITT's timber facilities in British Columbia. Net income for 1979 was $383 million,or $2.65 per share, net of a charge of $320 million ($2.30 per share), to cover the close-down of a pulp mill in Port Cartier, Quebec.

In 1980, income excluding the gain on sale of the timber facilities was $804 million or $5.50 per share. This compares favorably to 1979's earnings of $703 million,or $4.95 per share, excluding the provision for the pulp mill in Quebec. On this comparative basis, 1980's income improved by $.55 per share, or 11% over 1979. Income for 1978 was $665 million or $4.65 per share.

Excluding the gain on sale of timber facilities in British Columbia and the charge for Quebec pulp mill in 1979, the following statistics reflect a comparative summary of performance. Reference is made to Selected Financial Data elsewhere herein for a summary of ratios.

	1980	1979	1978
Return on Sales	3.6%	3.3%	3.6%
Return on Assets	3.1%	3.0%	3.2%
Return on Total Capital	10.1%	9.0%	8.8%
Return on Stockholders' Equity	12.9%	12.3%	12.5%
Assets to Sales	116%	113%	112%
Book Value per Share	$41.20	$36.78	$33.62

Following is a discussion and analysis of important factors affecting sales and revenues and net income of ITT's five principal businesses (dollar amounts in millions). In recent years, ITT has been repositioning its manufacturing base, principally in Europe. Substantial restructuring costs, including severance, plant closedowns and relocations, were incurred in 1979 and to a much less extent in 1980 and 1978. These costs were expended principally in the Telecommunications and Electronics business due to advancing technology in that industry, and for actions taken to reduce losses in the Consumer Appliances segment. In 1979, results were favorably affected by the reversal of taxes recorded in prior years due to revisions in the United Kingdom tax laws ("U.K. stock relief") and related accounting principles. Because ITT is significantly involved worldwide, foreign exchange must be considered when comparing results. Total interest expense, excluding finance activities, in 1980 was $686 million compared to $521 million in 1979, representing an increase of 32% attributable to increased borrowing levels during the year and the prevailing high interest rates. In 1979 interest expense rose by $108 million as a result of high rates in the latter part of the year along with higher average borrowings. Reference is made to Business Segments—Sales and Income located elsewhere herein.

Effect on Net Income Comparison	Increase (Decrease) From Prior Year 1980	1979
Telecommunications and Electronics		
Restructuring	$ 22	$(45)
U.K. Stock Relief	(16)	16
Foreign Exchange	48	23
	54	(6)
Engineered Products		
Restructuring	5	(7)
U.K. Stock Relief	(22)	22
Foreign Exchange	34	5
	17	20
Consumer Products and Services		
Restructuring, including goodwill write-off of $19 in 1979	52	(47)
U.K. Stock Relief	(11)	11
Foreign Exchange	4	4
	45	(32)
Natural Resources		
Foreign Exchange	8	(18)
Insurance and Finance		
Foreign Exchange	(12)	3
Unallocated		
Foreign Exchange	(6)	20
	$106	$(13)

Telecommunications and Electronics	Increase (Decrease) From Prior Year 1980		1979	
Sales and Revenues	$845	13%	$667	12%
Income	119	54	(58)	(21)

Telecommunications Equipment reported the largest gains in 1980 for any segment in sales and income. Strong results were reported by units in Italy and West Germany, aided by improved volume and the on-going Nigerian contracts. Reduced restructuring, favorable foreign exchange, lower losses at ITT North Group, and a $13 million after tax gain on the sale of a minority interest in a South African company, also improved 1980 results. Partially offsetting these positive factors were lower volumes and mix in Spain and in business systems activities in North America, absence of the 1979 U.K. stock relief benefits and continuing losses by a company in Brazil in which we have a minority interest. At the end of 1980, the investment in the Brazilian company was fully reserved, and no further losses are expected. In 1979, approximately half of the increase in sales was due to foreign exchange. Income in 1979 was down from 1978 due to restructuring, labor unrest and lower volume in Spain, losses in the Brazilian operation, increased losses at ITT North Group largely due to long-term international contracts, and unfavorable volume and mix in France. In 1979, ITT reversed tax benefits of $8 million recorded in 1978 relating to activities in France and realized an $8 million after tax gain on the sale of a minority interest in a principal U.K. subsidiary.

Telecommunications Operations revenues have risen in each of the three years, principally due to increased message volumes. Income growth for 1980 and 1979 was reduced by increased costs for new activities in the United States. In 1980, income reflected an after tax gain of $19 million for the sale of an Indonesian company.

Defense and Avionics reflected improvements in volume and foreign exchange offset by lower contract margins. Earnings improvements during 1979 resulted from better contract margins and favorable foreign exchange.

Engineered Products	Increase (Decrease) From Prior Year 1980		1979	
Sales	$311	5%	$861	17%
Income	(3)	(1)	26	14

Sales and income of the Automotive Products segment decreased in 1980 as a result of the industry's further downturn in the United States, and to a lesser extent in Europe. Income deterioration in 1980 was softened by favorable foreign exchange effects. The 1979 income reduction was due principally to the weak United States market and to labor unrest in Italy. In view of ITT's position and history in the production of parts for smaller foreign-made cars, this business is expected to return to traditional profit margins when the market recovers.

Industrial Products sales and income improved in 1980 primarily due to excellent markets for selective products. The increase in sales and income for 1979 was principally due to high activity in nonresidential construction. Both years were aided by favorable foreign exchange.

Components and Semiconductors sales increased in 1980 and 1979 due to volume and price increases, particularly in precious metals, and to favorable foreign exchange. Income in 1979 benefitted from U.K. stock relief.

Consumer Products and Services	Increase (Decrease) From Prior Year 1980		1979	
Sales and Revenues	$68	2%	$130	4%
Income	90	750	(33)	(73)

Increased sales in Food Products for 1980 were attributable to more favorable pricing rather than to greater tonnage which was the major factor in 1979's improvement. Income enhancements in 1980 from bakery operations were offset by higher material costs at other operations. Early in 1981, an agreement was reached to sell the Morton frozen food business and an after tax loss of $6 million was recorded in 1980. Morton accounted for $187 million of sales and a $2 million loss in 1980. Income in 1979 decreased due to higher ingredient, labor and energy costs, a net loss on the sales of unprofitable units and start-up costs of Continental Kitchens.

The Consumer Appliances segment in Europe has experienced heavy price competition and small market share. Actions have been taken to alleviate these problems by selling off several units, most notably in France, restructuring the remaining operations and strengthening management. Sales in 1980 decreased from 1979 predominantly due to the sale of companies in 1980 ($213 million) and lower volume in the United Kingdom. Income improved dramatically in 1980 because of the absence of restructuring costs and losses from those companies sold in mid-year. Offsetting these gains were after tax losses of $11 million recorded on the sale of these companies, lower volume in the United Kingdom and the absence of U.K. stock relief.

Increases in Hotels and Other in 1980 were attributable to Sheraton's higher average room rates and to improved volume and pricing at O.M. Scott and W. Atlee Burpee. In 1979, the improvements over 1978 were due to occupancy and room rate increases. After tax gains from sales of hotels were $17 million, $5 million, $1 million in 1980, 1979, 1978, respectively. The results for 1980 and 1979, include after tax gains of $14 million and $12 million, respectively, from sales of companies, principally engaged in production of cosmetics.

Natural Resources	Increase (Decrease) From Prior Year 1980		1979	
Sales	$ 49	4%	$285	27%
Income	(11)	(10)	77	275

Sales and income of Timber and Earth decreased in 1980 due to lower sales volume and prices on logs and lumber. Income for all of 1980 and part of 1979 benefitted from the absence of losses on the Quebec pulp mill and favorable foreign exchange. In 1979, ITT Rayonier enjoyed a record year in sales and income, reflecting an unusually strong market for logs and pulp. The 1980 results include sales of $215 million and income of $2 million attributable to the Canadian timber facilities sold in the fourth quarter of 1980.

Energy activities benefitted from higher oil and gas prices in 1980 and 1979, and by the absence of labor strikes, which adversely affected coal operations in 1978.

Insurance and Finance	Increase From Prior Year 1980		1979	
Revenues	$490	10%	$661	16%
Income	5	1	49	16

Property and Casualty written premiums increased by 5% in 1980 and 7% in 1979. Higher interest rates on short-term investments improved income in both years. The combined ratio after policyholders' dividends was 105.6% in 1980, 102.3% in 1979 and 100.2% in 1978. The deterioration was caused primarily by inflation and Black Lung and Asbestosis Occupational Disease claims in 1980, and in 1979 by unusual domestic losses and generally higher claim costs reflecting the effects of inflation. Increased earnings from life operations in both years resulted from additional investment income, and in 1979, from substantial premium growth. At the end of 1980, the marketable equity securities portfolio was in an unrealized gain position ($40 million) for the first time in several years.

Finance revenues and income improved in 1980 and 1979, due principally to higher receivables and related credit insurance. The return on invested equity in these operations has approximated 13-14% for each of the last three years.

Liquidity

ITT continues in its ability to obtain funds required to meet its needs, and no impairment is anticipated from a short or long-term perspective. In 1980, internal cash sources, including proceeds from divestments, were adequate to finance operations and to reduce external borrowings, excluding finance activities. This is in contrast to 1979 when total debt increased by $536 million.

Working capital amounted to $2.1 billion and $2.0 billion at December 31, 1980 and 1979, respectively. Working capital provided from operations was $1.23 billion in 1980 and $1.16 billion in 1979. The current ratio was 1.44 at the end of 1980 compared to 1.40 for 1979. Year-end borrowings, excluding finance activities, were $4.2 billion and represent a decrease of $224 million from 1979. The debt-to-total capitalization ratio at December 31, 1980 was 40% and compares favorably to the 43% at year end 1979.

Ninety-eight U.S. banks and thirty-six foreign banks are parties to five-year revolving credit agreements with ITT, providing for commitments which aggregate approximately $1.25 billion. These lines, for which ITT pays commitment fees, are used for short-term borrowing needs and are fully available as backup of ITT's commercial paper. At the end of 1980, outstanding commercial paper totaled $148 million and borrowings under the bank lines amounted to $743 million.

In February 1980, ITT sold publicly $150 million of 25-year sinking fund 12⅝% debentures, and used the proceeds to reduce short-term debt. ITT expects to continue to refinance its debt through issuance of commercial paper, loans from banks and institutional investors and through public offerings and private placements when market conditions are suitable.

ITT Financial Corporation and ITT Credit Corporation, a "captive" finance company, had commercial paper outstanding of $919 million and $139 million, respectively, at the end of 1980, which is backed by bank lines. ITT Financial Corporation sold publicly $100 million of 14¾% senior notes in March 1981, and in 1980 $100 million of 11% senior notes and placed privately a total of $77 million of medium and long-term notes. Both companies expect to be able to continue to issue medium and long-term debt.

Utilization of Capital

The continuing impact of worldwide inflation and the erosion of purchasing power has seriously constrained the economic conclusions that can be drawn from a review of conventional "historic cost" financial statements. To some extent, these traditional presentations can regain usefulness if read in conjunction with the supplementary disclosures required by Statement No. 33 of the Financial Accounting Standards Board located elsewhere herein.

Gross expenditures for plant, property and equipment, including insurance and finance activities, were $1,131 million in 1980 and $1,058 million in 1979. These levels are anticipated to continue in the future. The largest portion of capital expenditures for the past few years has been for Telecommunications and Electronics, due in large part to the high degree of new technology involved. Timber and Earth also requires substantial capital investments, including expenditures for pollution control equipment. While new timberlands become more expensive to purchase, most of the properties owned by ITT Rayonier were purchased some years ago, and are more valuable than their recorded costs.

Depreciation in 1980 was $520 million compared with $473 million in 1979 and $440 million in 1978, approximating 6% of the related average assets. Accumulated depreciation amounted to 36% and 35% of the gross plant, property and equipment at year-end 1980 and 1979, respectively.

Expenditures for research and development totaled $1,116 million in 1980, $959 million in 1979 and $799 million in 1978, of which approximately 55% is funded by customers. Telecommunications Equipment will continue to be a major user of such funds due to advancing technological changes.

During 1980, the Corporation declared $359 million in dividends to its stockholders, an increase of 9% from 1979. In November 1980, the Board of Directors increased to 65 cents the quarterly dividend on the common stock, the seventeenth consecutive year in which common stock dividends were increased. Dividends per share have increased at a compound growth of 10% since 1963.

Productivity and Capacity

Sales and revenues per employee increased 14% over 1979 to $69,500 in 1980. This increase was achieved while estimated manufacturing direct labor hours decreased by 19 million to 169 million hours, reflecting the continued corporate emphasis on improved productivity. Compensation per employee, including fringe benefits, increased 13% over 1979 to $22,100.

Distribution of the Sales Dollar

Of every sales dollar in 1980, 30 cents went to corporate employees as compensation, 58 cents was spent for the work and products of other companies' employees, 8 cents was provided for taxes to various governments, 2½ cents was reinvested in the business and 1½ cents out of each sales dollar was distributed to the stockholders.

Consolidated Income

Dollars in thousands — Years ended December 31,	1980	1979	1978
Results for Year			
Sales and Revenues	$18,529,655	$17,257,563	$15,314,246
Costs and Expenses			
(including depreciation of $498,563, $455,182 and $424,880)—			
Cost of sales and services	14,318,805	13,390,837	11,862,987
Selling and general expenses	2,802,581	2,660,041	2,331,829
	17,121,386	16,050,878	14,194,816
Operating Income	1,408,269	1,206,685	1,119,430
Equity in Earnings (after tax) of Insurance and Finance Subsidiaries	354,124	349,378	300,265
	1,762,393	1,556,063	1,419,695
Gain on sale of Canadian timber facilities	90,100	—	—
Provision for close-down of Canadian pulp mill	—	(320,000)	—
Interest expense	(685,985)	(521,078)	(413,351)
Interest and dividend income	80,193	66,457	59,811
Miscellaneous income (expense)—net	1,180	(202,146)	(52,884)
	1,247,881	579,296	1,013,271
Income Taxes and Minority Equity—			
United States and foreign income taxes	(306,490)	(161,664)	(317,635)
Minority common stockholders' equity in net income	(47,065)	(34,539)	(30,270)
Net Income	$ 894,326	$ 383,093	$ 665,366
Earnings per Share			
Common Equivalent Basis	$6.12	$2.65	$4.65
Fully Diluted Basis	$5.95	$2.59	$4.48
Average Common Equivalent Shares	145,728,000	139,350,000	142,705,000

Consolidated Retained Earnings

Dollars in thousands — Years ended December 31,	1980	1979	1978
Balance—Beginning of Year, as previously reported			$3,655,653
Add—Restatement for a pooling of interests in 1980			7,792
Balance—Beginning of Year, as restated	$4,084,137	$4,030,929	3,663,445
Add (Deduct)—			
Net income	894,326	383,093	665,366
Dividends declared			
Cumulative preferred stock	(66,953)	(71,551)	(74,591)
Common stock—$2.45, $2.25 and $2.05 per share	(291,804)	(256,500)	(218,309)
Transactions of company prior to pooling of interests	—	(1,834)	(4,982)
Balance—End of Year	$4,619,706	$4,084,137	$4,030,929

The accompanying notes to financial statements are an integral part of the above statements.
International Telephone and Telegraph Corporation and Subsidiaries Consolidated

Consolidated Balance Sheets

Dollars in thousands — December 31,	1980	1979
Assets		
Current Assets		
Cash	$ 174,519	$ 171,978
Accounts receivable	2,759,043	2,948,552
Inventories	3,598,951	3,646,690
Other current assets	263,392	273,852
	6,795,905	7,041,072
Investments, Deferred Receivables and Other Assets		
Insurance and finance subsidiaries	2,557,553	2,235,180
Other investments	260,564	217,826
Accounts receivable due subsequent to one year	270,840	236,272
Other assets	317,338	311,464
	3,406,295	3,000,742
Plant, Property and Equipment	8,046,226	7,783,119
Less—Accumulated depreciation	2,831,243	2,698,768
	5,214,983	5,084,351
	$15,417,183	$15,126,165
Liabilities and Stockholders' Equity		
Current Liabilities		
Short-term debt—		
Banks	$ 952,952	$ 755,566
Commercial paper	147,540	444,010
Current maturities of long-term debt	233,959	263,052
Other	64,094	36,287
	1,398,545	1,498,915
Trade payables	1,223,503	1,268,490
Other payables	272,488	450,222
Accrued payroll and benefits	409,099	440,592
Accrued taxes	386,065	293,225
Other current liabilities	1,041,452	1,079,928
	4,731,152	5,031,372
Reserves and Deferred Liabilities	962,501	872,854
Deferred Income Taxes	391,775	428,324
Long-Term Debt	2,846,844	2,970,858
Minority Equity in Subsidiaries Consolidated	211,396	187,874
	9,143,668	9,491,282
Stockholders' Equity		
Cumulative preferred stock (aggregate liquidation value $1,447,000 at December 31, 1980)	696,860	804,638
Common stock—Authorized 200,000,000 shares, $1 par value Outstanding 122,340,142 and 116,997,730 shares	122,340	116,998
Capital surplus	794,651	658,976
Unrealized gain (loss) on marketable equity securities, net of taxes (benefits) of $17,560 and $(13,607)	39,958	(29,866)
Retained earnings	4,619,706	4,084,137
	6,273,515	5,634,883
	$15,417,183	$15,126,165

The accompanying notes to financial statements are an integral part of the above statements.
International Telephone and Telegraph Corporation and Subsidiaries Consolidated

Consolidated Source and Application of Funds

Dollars in thousands — Years ended December 31,	1980	1979	1978
Source of Funds			
Income including minority equity	$ 941,391	$ 417,632	$ 695,636
Items which did not affect working capital—			
Depreciation	498,563	455,182	424,880
Amortization of goodwill and deferred business development costs	12,637	44,657	31,618
(Decrease) increase in reserves, deferred liabilities and deferred income taxes	(38,682)	130,014	150,447
Equity in undistributed earnings of insurance and finance subsidiaries	(186,278)	(164,409)	(147,964)
Provision for close-down of Canadian pulp mill (excluding $46,163 of working capital)	—	273,837	—
Working capital provided from operations	1,227,631	1,156,913	1,154,617
Proceeds from issuance of long-term debt	885,072	548,303	704,040
Net working capital on sale of Canadian timber facilities	200,603	—	—
Sales and retirements of plant, property and equipment	165,336	212,874	99,540
Advance received in litigation settlement	100,000	—	—
Net working capital from divestments	54,567	43,043	21,246
Issuance of capital stock	33,239	37,743	7,186
Sale of capital stock of subsidiaries	—	32,325	—
	$2,666,448	$2,031,201	$1,986,629
Application of Funds			
Plant, property and equipment (including $3,758, $24,804 and $41,177 for companies purchased)	$1,089,325	$1,060,000	$ 973,540
Repayments and conversions of long-term debt	966,768	452,305	268,429
Dividends declared	358,757	328,051	292,900
Other investments, deferred receivables and other assets	106,769	38,412	95,252
Investments in and advances to insurance and finance subsidiaries	66,271	56,377	127,618
Minority equity	23,505	23,811	25,871
Increase in working capital	55,053	72,245	203,019
	$2,666,448	$2,031,201	$1,986,629
Increase (Decrease) in Working Capital			
Cash	$ 2,541	$ (24,053)	$ (57,636)
Accounts receivable	(189,509)	261,898	345,326
Inventories	(47,739)	509,213	411,347
Other current assets	(10,460)	16,084	11,692
Short-term debt	100,370	(440,192)	(62,766)
Trade payables	44,987	(196,047)	(210,458)
Other payables	177,734	157,304	(62,806)
Accrued payroll and benefits	31,493	(101,689)	(78,218)
Accrued taxes	(92,840)	98,903	(12,816)
Other current liabilities	38,476	(209,176)	(80,646)
	$ 55,053	$ 72,245	$ 203,019

The accompanying notes to financial statements are an integral part of the above statements.
International Telephone and Telegraph Corporation and Subsidiaries Consolidated

Consolidated Capital Stock and Capital Surplus

Dollars in thousands

	Cumulative Preferred Stock		Common Stock	Capital Surplus
	Shares	Amount		
Balance—January 1, 1978, as previously reported	21,644,806	$832,221	$109,246	$592,242
Add—Restatement for a pooling of interests	–	–	1,205	224
Balance—January 1, 1978, as restated	21,644,806	832,221	110,451	592,466
Add (Deduct)—				
Companies acquired	1,117	4	115	402
Employees' stock option and incentive plans	14,110	272	112	2,221
Debt and stock conversions	(2,052,076)	(7,643)	2,712	8,991
Transactions of company prior to pooling of interests	–	–	(23)	(202)
Balance—December 31, 1978	19,607,957	824,854	113,367	603,878
Add (Deduct)—				
Companies acquired	–	–	366	3,068
Employees' stock option and incentive plans	2,040	29	194	1,438
Debt and stock conversions	(1,307,835)	(20,245)	3,035	49,858
Transactions of company prior to pooling of interests	–	–	36	734
Balance—December 31, 1979	18,302,162	804,638	116,998	658,976
Add (Deduct)—				
Companies acquired	115	–	15	480
Employees' stock option and incentive plans	9,435	182	235	3,562
Debt and stock conversions	(2,475,377)	(107,960)	5,092	131,633
Balance—December 31, 1980	15,836,335	$696,860	$122,340	$794,651

Cumulative Preferred Stock

Dollars in thousands		December 31,	1980		1979	
	Conversion Rate (January 1, 1981)	Redemption Price Per Share (December 31, 1980)	Shares	Stated Value	Shares	Stated Value
$4.00 Series H	1.8646	$100.00	264,790	$ 26,479	386,881	$ 38,688
$4.50 Series I	1.6807	101.00	2,081,249	41,277	2,154,229	42,724
$4.00 Series J	1.6728	101.25	678,246	67,824	977,333	97,733
$4.00 Series K	1.6075	100.50	9,738,133	454,538	11,070,746	516,664
$2.25 Series N	1.2560	85.00	2,073,917	6,742	2,712,973	8,829
$5.00 Series O	1.4364	102.90	1,000,000	100,000	1,000,000	100,000
			15,836,335	$696,860	18,302,162	$804,638

The Corporation has authorized 50,000,000 shares of cumulative preferred stock, without par value, which are issuable in series. Liquidation preference on shares outstanding is $100 per share, except for the $2.25 Convertible Series N which is $34 per share.

Except for the $2.25 Convertible Series N, redemption prices (which must include accrued dividends) decline annually to $100.00 per share at various dates through 1989.

As of December 31, 1980 and 1979, respectively, minority equity included $10,090,000 and $9,723,000 of preferred stock of certain subsidiaries held by the public, with redemption prices aggregating $6,199,000 and $6,360,000.

Accounting Policies

Consolidation Principles: The consolidated financial statements cover the accounts of all significant majority-owned subsidiaries, after including the insurance and finance subsidiaries on an equity basis. Combined financial statements for the insurance and finance subsidiaries are shown in support of the consolidated financial statements of the Corporation. The financial statements include retroactively the accounts of a company added through a pooling of interests in 1980, the effect of which was insignificant on the prior years' statements.

Investments in 20-50% owned companies ($209,057,000 and $166,600,000 at December 31, 1980 and 1979, respectively) are included on an equity basis. Certain other investments ($51,507,000 and $51,226,000 at December 31, 1980 and 1979, respectively) are carried at cost.

Marketable equity securities in the insurance subsidiaries' portfolios are carried at market, with the after tax difference from cost reflected in stockholder's equity.

Intercompany transactions are eliminated, except for intercompany profits in certain manufacturing inventories which are transferred on an arm's-length basis and have no material effect on consolidated inventories or net income.

In early 1981, the Corporation and the government of Portugal negotiated arrangements relating to the operating control and future viability of the Portuguese subsidiaries. The accounts of all Portuguese operations will be reconsolidated in 1981 with no material gain or loss resulting.

Research and Development: Significant costs are incurred each year in connection with research and development programs that are expected to contribute substantial profits to the operations of future years. Because of economic uncertainties such costs are charged to income as incurred. Total expenditures amounted to $1,116,000,000, $959,000,000 and $799,000,000, including $611,000,000, $523,000,000 and $428,000,000 of costs expended pursuant to specific contracts with customers and certain engineering and other development costs in 1980, 1979 and 1978, respectively.

Foreign Currency Translation: Net assets are translated from foreign currencies into United States dollars at the rates of exchange in effect at year end, except for inventories and certain other investments, deferred business development and policy acquisition costs, fixed assets and certain deferred taxes which are translated at historic rates.

Income accounts are translated at the average rates of exchange prevailing during the year, except for those accounts related to assets and liabilities translated at historic rates of exchange, which are translated at historic rates.

Including insurance and finance subsidiaries, net foreign exchange gains (losses) arising from the conversion of foreign currencies and the translation of balance sheet items are included in income as shown below (in thousands of dollars):

	1980	1979	1978
Before minority interest and income taxes	$190,254	$(94,806)	$(161,495)
After minority interest and income taxes	145,778	(81,850)	(139,286)
Per share	1.00	(.59)	(.98)

In addition, translation of the 1980 and 1979 income statements at average rates of exchange that differed from those used in the respective prior year affected earnings adversely by $151,092,000 and $19,858,000 or $1.04 per share and $.14 per share, respectively. Economic and operating consequences of the changing dollar relative to foreign currencies cannot be effectively quantified. If they could be, they might significantly alter these results.

Inventories: Inventories are valued generally at the lower of cost (first-in, first-out) or market. In manufacturing operations, a full absorption procedure is employed using standard cost techniques. The standards are customarily reviewed and adjusted annually. Long-term contracts are accounted for on the percentage of completion method and expected losses are recognized currently. Physical counts of inventories are made at least annually to support the recorded values.

The Corporation provides currently for potential losses from obsolete or slow-moving inventories. In general, a full reserve is provided for those inventories which have had little or no use in the preceding twelve months and a fifty percent reserve is provided for those inventories which are in excess of expected use in the succeeding twelve months.

Business Development Costs: The Corporation makes expenditures in connection with the establishment of plants, products and businesses. These costs, which represent amounts invested to bring new activities into normal operation, are included in Other assets and are amortized against the related future income, generally over a three-year period. The deferred costs are written off immediately when achievement of a profit is no longer probable.

At December 31, 1980 and 1979, deferred business development costs amounted to $11,216,000 and $14,392,000, respectively. Amounts amortized to income in 1980, 1979 and 1978 aggregated $6,634,000, $47,087,000 and $17,861,000, respectively, including $35,125,000 attributable to the close-down of a Canadian pulp mill in 1979.

Goodwill: The Corporation does not amortize goodwill related to companies acquired prior to November 1, 1970 unless there is a proven diminution of value. At December 31, 1980 and 1979, $89,258,000 and $91,925,000, respectively, of unamortizable goodwill was included in Plant, Property and Equipment.

Amortizable goodwill recorded subsequent to November 1, 1970 is charged to income over periods not longer than forty years. Such goodwill (included in Other assets) amounted to $125,243,000 and $132,099,000 at December 31, 1980 and 1979, respectively. Amortization and write-off of goodwill charged to income in 1980, 1979 and 1978 amounted to $6,003,000, $32,695,000 and $13,757,000, respectively.

Plant, Property and Equipment: Plant, property and equipment is recorded at cost, including freight, taxes, customs duties and construction or installation costs (including labor and related overhead). Interest is capitalized in connection with major project expenditures and amounted to $13,298,000, $8,916,000 and $6,578,000 for 1980, 1979 and 1978, respectively.

Periodic physical counts of plant, property and equipment are made to verify the existence of the assets and the accuracy of the related accounting records.

Depreciation: The Corporation normally claims the maximum depreciation deduction allowable for tax purposes, using those accelerated techniques which are applicable in its various domestic and foreign statutory environments, thus minimizing the use of corporate funds for tax payments. In general, for financial reporting purposes, depreciation is provided on a straight-line basis to distribute costs evenly over the useful economic lives of the assets involved. Gains or losses on sale or retirement of assets are included in income.

Pensions: Pension plans are generally non-contributory. The costs of such plans are provided for in accordance with actuarial determinations. Upon adoption or modification of the plans, the costs applicable to past service are amortized over various periods, the maximum being forty years.

Excluding insurance and finance subsidiaries, total pension expense (other than charges for government-provided retirement benefits) amounted to approximately $286,000,000, $267,000,000 and $210,000,000 for 1980, 1979 and 1978, respectively. Included in the 1980 expense is $52,000,000 for multiemployer pension plans. In the case of funded plans, the companies deposit the amounts provided with trustees. The Corporation funds employees' benefits except in foreign environments where funding is not required to obtain tax benefits.

At January 1, 1980, including insurance and finance subsidiaries but excluding multiemployer pension plans for which no allocation to participating employers is currently available, the actuarial present value of accumulated plan benefits amounted to $1.851 billion of which $1.630 billion was vested. Net assets available for such benefits, including balance sheet reserves, amounted to $1.574 billion. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.9%.

Accounts Receivable

Accounts receivable as of December 31 were as follows (in thousands of dollars):

	1980	1979
Trade	$2,470,527	$2,637,696
Accrued for completed work	394,974	424,540
	2,865,501	3,062,236
Less—reserves	106,458	113,684
	$2,759,043	$2,948,552

Debt

At December 31 consolidated long-term debt reflected the following (in thousands of dollars):

Maturities	Under 9%	9% to 9.9%	10% and Over	Total
1981	$ 173,230	$ 12,220	$ 39,942	$ 225,392
1982	184,864	76,001	254,740	515,605
1983	129,848	87,087	81,345	298,280
1984	82,903	12,328	77,227	172,458
1985	106,601	12,596	534,621	653,818
1986-1995	428,464	167,009	227,520	822,993
1996-2005	126,666	23,929	175,005	325,600
Total - 1980	$1,232,576	$391,170	$1,390,400	$3,014,146
Total - 1979	$1,675,266	$446,923	$1,026,415	$3,148,604

In addition, obligations under capital leases amounted to $66,657,000 and $85,306,000 at December 31, 1980 and 1979, respectively, including $8,567,000 and $10,998,000 payable in 1981 and 1980, respectively.

Assets pledged to secure indebtedness (including mortgage loans carried as long-term debt) amounted to approximately $472,000,000 as of December 31, 1980.

Most of the short-term financing for U.S. operations has been borrowings by the Corporation comprised of commerical paper and bank loans drawn down under established lines of credit which expire within four to five years. These lines are available to back up commercial paper. The terms relative to borrowings and credit lines of foreign operations, while varying from country to country, are generally subject to annual review. Unused credit lines amounted to $2,115,000,000 and $2,547,000,000 at December 31, 1980 and 1979, respectively.

Common Stock

At December 31, 1980, shares of the Corporation's authorized and unissued common stock were reserved, based upon the January 1, 1981 conversion rates, as follows:

Conversion of cumulative preferred stock	24,821,539
Conversion of $166,192,000 principal amount of debt	3,729,069
Stock option incentive plans and other	4,450,662
	33,001,270

Stock Option Incentive Plan

The Corporation's 1977 Stock Option Incentive Plan makes available common shares for options to employees. These options are exercisable over a ten-year period 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.

At December 31, 1980 and 1979, 1,776,150 and 325,750 shares, respectively, were available for future grants of unqualified stock options under the 1977 plan. Substitute stock options have been granted for shares which generally would have been issued with respect to optioned shares of certain companies acquired. At December 31, 1980 and 1979, options for 935,046 and 1,311,313 shares, respectively, were exercisable under various incentive and substitute plans. Common shares subject to options during 1980 are shown below:

January 1, 1980	2,896,941
Add (Deduct)—	
Granted ($25.00 to $31.63 per share)	568,400
Exercised ($16.63 to $30.25 per share)	(254,760)
Canceled or expired	(560,069)
December 31, 1980 ($14.88 to $64.88 per share)	2,650,512

Retained Earnings

Under the Corporation's long-term debt agreements, approximately $1.845 billion of consolidated retained earnings at December 31, 1980 is unrestricted as to the payment of dividends. The undistributed earnings of subsidiaries consolidated, amounting to $3.685 billion at December 31, 1980 (including $1.613 billion of foreign subsidiaries), should not be understood to be immediately available for payment of dividends, since substantially all of such earnings have been reinvested. In addition, the retained earnings of some subsidiaries are subject to certain restrictions on the amount of dividends that may be paid.

Miscellaneous Income (Expense)—Net

Miscellaneous income (expense) consists of the following (in millions of dollars):

	1980	1979	1978
Technological restructuring	$(88.2)	$(209.6)	$(64.4)
Amortization and write-off of goodwill	(6.0)	(32.7)	(13.8)
Equity in income (losses) of 20-50% owned companies	(10.8)	(9.9)	11.6
Gain on retirement of debt	4.4	1.4	5.1
Net gain on sale of facilities	38.9	10.9	1.6
Net gain on sale of companies	48.9	24.0	0.6
Other—net	14.0	13.8	6.4
Total	$ 1.2	$(202.1)	$(52.9)

Income Taxes

Excluding insurance and finance subsidiaries, pretax income and the provision for income taxes were as follows (in thousands of dollars):

	1980	1979	1978
Pretax Income:			
United States	$ 26,387	$149,485	$186,207
Foreign	867,370	80,433	526,799
	$893,757	$229,918	$713,006
Provision for Income Taxes:			
Current			
United States Federal	$ 71,013	$ 38,602	$ 49,717
State and local	14,061	15,411	20,896
Foreign	197,732	254,126	252,883
	282,806	308,139	323,496
Deferred			
United States Federal	(54,883)	(33,013)	(19,693)
Foreign and other	78,567	(113,462)	13,832
	23,684	(146,475)	(5,861)
Income Taxes—Consolidated Income Statement	$306,490	$161,664	$317,635

Deferred income tax provision (benefit), representing the tax effect arising from the reflection of revenues and expenses in different periods for financial statements than for tax purposes, is as follows (in thousands of dollars):

	1980	1979	1978
Accelerated depreciation	$ 16,113	$ 26,125	$40,314
Current operating losses for certain foreign subsidiaries	363	728	(8,282)
Reserves and various expenses not currently allowed for tax purposes	37,721	(92,470)	(30,307)
U.K. stock relief—net	–	(56,559)	12,761
Income not currently subject to tax	(9,040)	(14,852)	1,543
Other—net	(21,473)	(9,447)	(21,890)
	$ 23,684	$(146,475)	$ (5,861)

Investment tax credits allowed by United States and foreign governments amounting to $46,105,000, $36,903,000 and $31,104,000 in 1980, 1979 and 1978, respectively, are included in income on a "flow-through" basis. No added United States provision has been made for taxes payable upon distribution of certain retained earnings of subsidiaries amounting to approximately $1,530,000,000 (primarily foreign subsidiaries), since these earnings have been permanently reinvested or because taxes payable on such earnings will be substantially offset by foreign tax credits.

The Internal Revenue Service during 1980 and 1981 has issued Revenue Agents' Reports proposing deficiencies in income taxes for the years 1970 through 1975 relating principally to items of a timing nature and to foreign tax credits. Certain of the adjustments are being contested and, in the opinion of management, adequate provision has been made for all income tax liabilities.

Certain foreign subsidiaries, principally in Canada and France, have substantial loss carryovers available to offset possible future taxable income. The Corporation will record the tax benefits attributable to such carryovers as they are realized in connection with future profitable operations.

A reconciliation of the effective tax rate to the United States statutory tax rate, after excluding the provision for the close-down of a Canadian pulp mill in 1979, the sale of Canadian timber facilities in 1980 and the equity in earnings of insurance and finance subsidiaries, is as follows:

	1980	1979	1978
Effective income tax rate	38.1%	29.4%	44.5%
Effective foreign tax rate differential	14.2	4.2	2.2
Loss of United States tax benefits on United States expenses incurred to generate foreign source income, and foreign withholding taxes, net of tax credits	(5.0)	(7.9)	(4.4)
Investment tax credits allowed by the United States and foreign governments	5.7	6.7	4.4
Capital gains benefits	5.3	2.5	1.8
State and local income taxes	(1.7)	(1.6)	(1.6)
Reversal of prior years' U.K. stock relief	–	10.3	–
Tax allocations with insurance and finance subsidiaries	(4.4)	–	–
Other—net	(6.2)	2.4	1.1
United States Statutory Rate	46.0%	46.0%	48.0%

Acquisitions and Divestments

In 1980, the Corporation acquired for $35,000,000 of common stock and cash, two companies with total sales of approximately $55,000,000. Also, the Corporation divested sixteen companies which had $462,000,000 in sales and losses of approximately $34,000,000 in their last full year with ITT. These divestments yielded proceeds of $209,000,000, and net after tax gains of $43,000,000.

In 1979, the Corporation acquired for $35,000,000 of common stock and cash, nine companies with total sales of approximately $86,000,000. Also, the Corporation divested seventeen companies which had $221,000,000 in sales and losses of approximately $9,000,000 in their last full year with ITT. These divestments yielded proceeds of $74,000,000, and net after tax gains of $8,500,000.

Leases and Rentals

At December 31, 1980, minimum rental commitments under capital and noncancelable operating leases were as follows (in thousands of dollars):

Year	Capital Leases	Operating Leases
1981	$ 14,582	$143,482
1982	12,262	118,804
1983	10,679	87,979
1984	8,414	71,827
1985	7,376	58,150
Remaining years	102,997	341,554
Total minimum lease payments	156,310	$821,796
Amounts representing interest	89,653	
Present value of net minimum lease payments	$ 66,657	

Rental expenses for all operating leases were as follows:

	1980	1979	1978
Minimum rentals	$282,869	$245,178	$208,614
Contingent rentals	28,513	39,931	18,384
Less–sublease rentals	(4,873)	(5,340)	(3,111)
	$306,509	$279,769	$223,887

Disposition of Canadian Properties

In October 1980, the Corporation sold all of its British Columbia timber facilities for $355,000,000. A gain of $90,100,000 (with no tax provision), or $.62 per share, resulted from this sale.

In September 1979, the Corporation made a provision of $320,000,000 (with no tax benefit), or $2.30 per share, to cover its investment in the chemical cellulose pulp mill at Port Cartier, Quebec, Canada. The mill remains closed and the Corporation continues to explore opportunities for its disposition.

Earnings Per Share

Securities considered common stock equivalents include all convertible preferred stocks (except for Series O) and certain convertible debentures of subsidiaries. In 1979, Series I convertible preferred stock was anti-dilutive. With respect to options and warrants, it has been assumed that the proceeds have been used to acquire common stock of the Corporation.

Earnings per common share, assuming full dilution, gives effect to conversion as of the beginning of each year of all convertible securities which would have a dilutive effect. The dilutive nature of securities is determined quarterly based upon the forecast of annual earnings.

Inventories

Inventories as of December 31 were as follows (in thousands of dollars):

	1980	1979
Finished goods	$1,820,053	$1,739,347
Work in process	1,261,523	1,222,951
Raw materials and supplies	1,429,673	1,394,376
	4,511,249	4,356,674
Less–reserves	362,062	333,878
–progress payments	550,236	376,106
Net	$3,598,951	$3,646,690

Commitments and Contingencies

The Corporation and its subsidiaries consolidated have guaranteed the borrowings of others of approximately $115,000,000 (including $45,000,000 relating to insurance and finance subsidiaries) at December 31, 1980, and are contingently liable for receivables discounted of approximately $1,245,000,000 (including $660,000,000 of receivables reflected in the statements of insurance and finance subsidiaries) arising principally from sales of telecommunications equipment to public administrations.

In February 1980, American Telephone and Telegraph Company (AT&T) and the Corporation signed an agreement in settlement of prior anti-trust litigation. The agreement provides that AT&T will purchase over a ten-year period up to $2 billion in telecommunications products and services from ITT that the Bell System determines to be competitive. AT&T made a deposit of $100 million on March 5, 1980, and will make a further deposit of $100 million on January 1, 1984. The income effect of this settlement will be recorded as products and services are delivered under the contract.

The Internal Revenue Service has challenged the tax-free status of ITT's 1970 acquisition of the Hartford Fire Insurance Company. In this connection, ITT has agreed to reimburse former Hartford shareholders for any net overall additional income tax with interest, under the terms of its reimbursement program. In early 1979, the U.S. Tax Court and the U.S. District Court in Delaware ruled, on taxpayers' motions for summary judgment, that the ITT/Hartford exchange was tax-free. The Government appealed these decisions and in March 1980, the U.S. Courts of Appeals for the First and Third Circuits decided the appeals in favor of the Government and remanded the cases for further proceedings. Decisions in favor of the Government on such appeals are not findings that the exchange was a taxable transaction. ITT continues to be hopeful that the courts will uphold its position that the exchange was a tax-free transaction. Favorable resolution would relieve ITT of any obligation for tax reimbursement.

On the basis of an independent survey in 1974 of former Hartford shareholders, ITT had estimated that it might have a contingent liability of approximately $100 million for the aforementioned reimbursement obligation. In the event of an adjudication that the exchange was taxable, an extraordinary charge to income will be recorded which would have a material effect on net income when the charge is made.

The Corporation and its subsidiaries are also involved in various legal actions, some of which involve claims for substantial sums. However, the ultimate liability with respect to the foregoing contingencies is not considered to be material in relation to the consolidated financial position.

Business Segment Information

	Sales and Revenues			Operating Income			Identifiable Assets		
Dollars in millions	1980	1979	1978	1980	1979	1978	1980	1979	1978
Telecommunications and Electronics									
Telecommunications Equipment	$ 6,041	$ 5,342	$ 4,721	$ 586	$ 393	$ 451	$ 4,454	$ 4,402	$ 3,916
Telecommunications Operations	331	292	265	74	91	90	561	530	474
Defense and Avionics Systems	780	673	654	42	45	30	338	338	327
	7,152	6,307	5,640	702	529	571	5,353	5,270	4,717
Engineered Products									
Automotive Products	1,749	1,771	1,594	93	144	185	1,064	1,058	937
Industrial Products	3,063	2,961	2,527	238	221	170	1,782	1,807	1,652
Components and Semiconductors	1,391	1,160	910	157	106	81	877	804	676
	6,203	5,892	5,031	488	471	436	3,723	3,669	3,265
Consumer Products and Services									
Food Products	1,816	1,743	1,702	46	48	55	499	472	531
Consumer Appliances	772	878	922	(1)	(14)	12	412	574	597
Hotels and Other	1,210	1,109	976	130	98	82	989	932	901
	3,798	3,730	3,600	175	132	149	1,900	1,978	2,029
Natural Resources									
Timber and Earth	1,057	1,088	872	113	147	54	1,254	1,394	1,515
Energy	320	240	171	34	26	16	408	351	333
	1,377	1,328	1,043	147	173	70	1,662	1,745	1,848
Unallocated	—	—	—	(104)	(98)	(107)	2,779	2,464	2,202
	18,530	17,257	15,314	1,408	1,207	1,119	15,417	15,126	14,061
Less investment in insurance and finance subsidiaries included in Unallocated	—	—	—	—	—	—	2,557	2,235	1,990
	18,530	17,257	15,314	1,408	1,207	1,119	12,860	12,891	12,071
Insurance and Finance									
Casualty and Life Insurance	4,630	4,281	3,761	273	297	259	11,680	10,008	8,612
Finance	659	518	377	107	107	90	3,838	3,314	2,685
	5,289	4,799	4,138	380	404	349	15,518	13,322	11,297
Total	$23,819	$22,056	$19,452	$1,788	$1,611	$1,468	$28,378	$26,213	$23,368

Geographical Segment Information

	Sales and Revenues			Operating Income			Identifiable Assets		
ITT and Subsidiaries Consolidated									
United States	$ 7,307	$ 6,761	$ 6,003	$ 468	$ 515	$ 489	$ 5,320	$ 4,937	$ 4,341
Western Europe	9,817	9,099	8,139	893	657	649	6,414	6,632	6,180
Canada	518	543	448	37	35	(19)	284	475	760
Other	888	854	724	114	98	107	620	618	578
Unallocated, net	—	—	—	(104)	(98)	(107)	222	229	212
	18,530	17,257	15,314	1,408	1,207	1,119	12,860	12,891	12,071
Insurance and Finance									
United States	4,168	3,814	3,426	267	315	287	11,138	9,693	8,435
Western Europe	916	778	576	87	73	50	3,845	3,166	2,545
Canada	44	42	48	7	3	3	141	132	126
Other	161	165	88	19	13	9	394	331	191
	5,289	4,799	4,138	380	404	349	15,518	13,322	11,297
Total	$23,819	$22,056	$19,452	$1,788	$1,611	$1,468	$28,378	$26,213	$23,368

Intersegment Sales—Sales for 1980, 1979 and 1978 of the Components and Semiconductors segment exclude intersegment sales of $189, $148 and $165, respectively, which are priced on an arm's-length basis and eliminated in consolidation. Intersegment sales in all other groups are not material.

Sales to Foreign Governments—Sales to various foreign governments, primarily of telecommunications equipment, aggregated $2,865, $2,560 and $2,384 in 1980, 1979 and 1978, respectively.

Net Income and Net Assets—United States operations accounted for approximately 48%, 66% and 62% of 1980, 1979 and 1978 income, respectively, excluding the gain on the sale of the Canadian timber facilities in 1980 and the write-off of a Canadian pulp mill in 1979. The increase in 1980 of the percentage of non-U.S. income to total income is attributed to lower restructuring costs, favorable foreign exchange and improved operating earnings, partially offset by the absence of U.K. stock relief. Net assets employed in the United States amounted to $4,197, $3,767 and $3,450 at December 31, 1980, 1979 and 1978, respectively.

Business Segment Information

Dollars in millions	Gross Plant, Property and Equipment 1980	1979	1978	Gross Plant Additions 1980	1979	1978	Depreciation 1980	1979	1978
Telecommunications and Electronics									
Telecommunications Equipment	$1,893	$1,685	$1,545	$ 268	$ 254	$224	$125	$113	$111
Telecommunications Operations	622	594	510	118	88	71	45	34	31
Defense and Avionics Systems	164	180	169	22	16	15	12	11	10
	2,679	2,459	2,224	408	358	310	182	158	152
Engineered Products									
Automotive Products	783	703	613	91	89	89	45	35	30
Industrial Products	910	865	814	104	85	78	51	46	39
Components and Semiconductors	554	501	445	77	73	75	41	34	31
	2,247	2,069	1,872	272	247	242	137	115	100
Consumer Products and Services									
Food Products	633	598	625	58	61	57	38	37	38
Consumer Appliances	160	212	225	21	37	37	16	22	21
Hotels and Other	579	625	694	60	106	78	26	28	30
	1,372	1,435	1,544	139	204	172	80	87	89
Natural Resources									
Timber and Earth	1,201	1,353	1,465	181	170	170	68	66	59
Energy	447	383	347	71	41	36	27	24	21
	1,648	1,736	1,812	252	211	206	95	90	80
Unallocated	100	84	83	14	13	2	5	5	4
	8,046	7,783	7,535	1,085	1,033	932	499	455	425
Insurance and Finance									
Casualty and Life Insurance	224	190	176	41	22	11	18	16	13
Finance	39	36	34	5	3	5	3	2	2
	263	226	210	46	25	16	21	18	15
Total	$8,309	$8,009	$7,745	$1,131	$1,058	$948	$520	$473	$440

Telecommunications and Electronics. Telecommunications equipment units engineer, manufacture, sell and install a wide variety of communications and electronic equipment, including telephone apparatus, switching systems, commercial microwave systems, private communications systems and teleprinters among other items. ITT's telecommunications operations provide telephone, international telegraph, telex and other record and data communication services. Defense and avionics activities include the manufacture, sale, installation, maintenance and operation of military telecommunications and electronic equipment, chiefly for the United States Government.

Engineered Products. These units are engaged in the manufacture and sale of automotive equipment and accessories and parts for the original equipment market and aftermarket, equipment for the construction, sanitary and process industries (including temperature and process controls and instruments), pumps and compressors, valves and pipe fittings, wire and cable, components, integrated circuits, other semiconductors and electron tubes.

Consumer Products and Services. Food products include the manufacture and wholesale distribution of bread, cakes, soft drinks and related products. Other food activities include the processing of various meat products. Consumer appliance activities include the manufacture and sale of consumer electronic products. Hotels and other products and services include a worldwide network of hotels and inns as well as lawn care and gardening products, publishing and land development.

Natural Resources. Timber and Earth units are engaged in the production of wood pulps (chemical cellulose and bleached papermaking pulps) and other wood products (lumber, plywood, treated wood products, logs and silvichemicals), and in mining, processing and marketing of silica and attapulgite. Energy units are also involved in oil and gas exploration and the operation of such properties, and in the underground mining, preparation and sale of metallurgical and steam coal.

Insurance and Finance. These units write a broad range of life, property and casualty insurance, make consumer and commercial loans and also provide financing to ITT customers.

Quarterly Results for 1980 and 1979 (Unaudited)

Dollars in millions except per share		Three Months Ended Mar. 31	June 30	Sept. 30	Dec. 31	Year
1980	Sales and Revenues	$4,272	$4,559	$4,291	$5,408	$18,530
	Operating Income	$ 500	$ 176	$ 277	$ 455	$ 1,408
	Net Income	$ 347	$ 64	$ 198	$ 285	$ 894
	Earnings per Share					
	Common equivalent basis	$ 2.38	$ .44	$ 1.35	$ 1.95	$ 6.12
	Fully diluted basis	$ 2.30	$ .44	$ 1.32	$ 1.89	$ 5.95
1979	Sales and Revenues	$3,807	$4,185	$4,019	$5,246	$17,257
	Operating Income	$ 340	$ 248	$ 203	$ 416	$ 1,207
	Net Income	$ 210	$ 158	$ (136)	$ 151	$ 383
	Earnings per Share					
	Common equivalent basis	$ 1.46	$ 1.11	$ (.97)	$ 1.05	$ 2.65
	Fully diluted basis	$ 1.41	$ 1.07	$ (.97)	$ 1.02	$ 2.59

Effects of Inflation (Unaudited)

Under inflationary circumstances it is necessary to consider the need for revised pricing policies, a more equitable approach to the taxation of reported earnings, and a concern with the requirements of future financing programs. Certain of the data which would be useful in these considerations are presented in the following paragraphs in accordance with the requirements of FASB Statement No. 33.

CURRENT COST: The current cost of plant, property and equipment has been determined by the application of external price indices specifically or closely related to the class of assets being measured. For foreign units, specific local indices have been applied that are appropriate for each country. The cost of income-producing real estate and natural resources has been adjusted for decreases in the general purchasing power of the dollar, but not for specific price increases.

Using the above approaches, which generally adjust the recorded historic cost of inventory and plant items to the cost of those items as if they were acquired at the date of sale or the balance sheet date, it is noted that gross holding gains of $948 million accumulated during 1980. The strengthening of the U.S. dollar at year end 1980 had an adverse effect on the measurement of the translated value of year-end balances of plant and inventory, and thereby had an adverse effect on the gross unrealized holding gain for 1980. During the year it would be appropriate to increase inventory and plant costs charged against income by $573 million to restate to the current cost of the values being sold, as follows (in millions):

Realized – General price level	$686	
– Specific price changes	(113)	$573
Unrealized (changes in)		
– General price level	867	
– Specific price changes	(492)	375
Total Holding Gains During 1980		$948

CONSTANT DOLLAR: If the historic earnings were reported in terms of constant purchasing power, it would be necessary to recognize that the dollars recorded in the conventional accounting records represent a relatively smaller purchasing power at December 31, 1980 than they would have represented when originally expended. The amounts charged against income for inventory and plant on a historic basis would be increased by $686 million. Moreover, since the U.S. Consumer Price Index for all Urban Consumers rose from 229.9 at year end 1979 to 258.4 at year end 1980, a reduction of $327 million in the purchasing power needed to satisfy net monetary obligations occurred during the year as follows (in millions):

Net monetary obligations – beginning of year, as reported	$2,821
Adjustment to 1980 dollars	209
Activity – 1980	(465)
Net monetary obligations – end of year 1980 dollars	(2,238)
Reduction of purchasing power needed to satisfy monetary obligations	$ 327

Neither the estimates of specific prices used in arriving at current costs nor the CPI used in the constant dollar approach are necessarily applicable on a continuing basis to the Corporation's broad geographic and product diversity. The CPI tends to overstate the rate of general inflation due to its particular components and is generally higher than the specific indices, so that the calculation of holding gain net of general inflation produces a negative value of $(492). It is significant that no tax effect has been ascribed to the hypothetical restatements. Despite these limitations, the revised indications of financial trends may be of use to analysts and investors.

Summary of Effects of Inflation (Unaudited)

Dollars in millions	Historic Cost (As reported)	Constant Dollar	Current Cost
Results for 1980			
Sales and Revenues	$23,819	$23,819	$23,819
Cost of sales and services	13,820	14,171	13,901
Depreciation	520	706	914
Other costs and expenses	8,297	8,446	8,395
Minority equity in income	47	23	16
U.S. and foreign income taxes	331	331	331
Income*	$ 804	$ 142	$ 262
Reconciliation of Stockholders' Equity			
December 31, 1979			
Inventories	$ 3,647	$ 3,873	$ 3,709
Plant, property and equipment, net	5,084	8,082	8,635
Other assets (liabilities) less minority	(3,096)	(3,348)	(3,168)
Stockholders' equity	5,635	8,607	9,176
Changes During 1980			
Income*	804	142	262
Gain on sale of Canadian timber facilities	90	90	90
Dividends declared	(359)	(359)	(359)
Other—including minority effects	104	110	66
Holding gains	—	1,553	948
Constant dollar adjustment	—	(1,553)	—
Purchasing power gain	—	327	—
Total changes	639	310	1,007
December 31, 1980			
Inventories	3,599	3,474	3,697
Plant, property and equipment, net	5,215	7,905	9,105
Other assets (liabilities) less minority	(2,540)	(2,462)	(2,619)
Stockholders' equity	$ 6,274	$ 8,917	$10,183

Comparative Data Adjusted for Inflation (Average 1980 dollars)	1980	1979	1978	1977	1976
Consumer Price Index—Average for Year	246.8	217.5	195.4	181.5	170.5
Sales and Revenues—					
As reported	$23,819	$22,056	$19,452	$16,769	$14,925
Constant dollars	23,819	25,027	24,569	22,802	21,604
Income*—					
As reported	804	703	—	—	—
Constant dollars	142	357	—	—	—
Current cost	262	443	—	—	—
Purchasing Power Gain on Net Monetary items	327	374	—	—	—
Unrealized Holding Gain Net of Inflation	(492)	(762)	—	—	—
Earnings per Common Equivalent Share*—					
As reported	5.50	4.95	—	—	—
Constant dollars	.96	2.46	—	—	—
Current cost	1.78	3.08	—	—	—
Stockholders' Equity—Current Cost in Constant Dollars	9,675	9,860	—	—	—
Dividends Declared per Common Share—					
As reported	2.45	2.25	2.05	1.82	1.64
Constant dollars	2.45	2.55	2.59	2.47	2.37
Market Price per Common Share at Year-End—					
As quoted	30.00	25.50	27.00	31.75	33.88
Constant dollars	28.65	27.37	32.84	42.11	47.97

*Exclusive of gain on sale of Canadian timber facilities in 1980 and the provision for close-down of Canadian pulp mill in 1979.

Dollars in thousands — Years ended December 31,	1980	1979	1978
Results for Year			
Revenues			
Property and casualty insurance premiums (net of increase in unearned premiums of $84,497, $61,812 and $91,351)	$3,026,983	$2,916,104	$2,683,116
Life and health insurance premiums	1,010,055	893,388	718,708
Finance	659,405	518,066	377,477
Investment income (less expenses of $35,908, $31,864 and $21,895)	592,617	471,042	358,223
	5,289,060	4,798,600	4,137,524
Expenses			
Current and future claims—			
Property and casualty	2,243,731	2,126,578	1,914,886
Life and health	864,967	772,453	623,697
Amortization of deferred policy acquisition costs	798,152	722,105	666,289
Other insurance expenses	450,014	359,437	295,292
Finance—			
Operating	232,826	186,833	142,297
Interest	319,625	227,196	146,124
	4,909,315	4,394,602	3,788,585
Operating Income	379,745	403,998	348,939
United States and foreign income taxes	(24,311)	(52,904)	(56,225)
Operating Income after Income Taxes	355,434	351,094	292,714
Net realized investment (losses) gains, after applicable income taxes (benefits) of $843, $(175) and $395	(1,310)	(1,716)	7,551
Net Income	$ 354,124	$ 349,378	$ 300,265

In accordance with accepted practice, the change in unrealized gain (loss) on marketable equity securities of $69,824, $23,964 and $1,324 (net of related taxes of $31,167 and $11,744 and tax benefits of $2,139) in 1980, 1979 and 1978, respectively, have not been included in reported income.

The accompanying notes to financial statements are an integral part of the above statements.
International Telephone and Telegraph Corporation and Subsidiaries Consolidated

Dollars in thousands	December 31, 1980	1979
Assets		
Investments–		
Bonds, notes and other fixed maturity investments, at amortized cost (market value $4,945,954 and $4,824,981)	$ 6,189,328	$ 5,489,225
Equity securities, at market	676,542	594,789
Real estate, at cost (net of accumulated depreciation of $27,585 and $22,896)	197,767	160,758
Other	598,414	494,128
	7,662,051	6,738,900
Cash	58,578	64,502
Finance receivables	3,531,071	3,081,590
Premiums receivable and agents' balances	830,470	624,466
Deferred policy acquisition costs	689,727	621,383
Other assets	1,027,103	857,937
Policyholders' funds	1,719,386	1,333,283
	$15,518,386	$13,322,061
Liabilities		
Insurance reserves and claims–		
Property and casualty	$ 3,855,417	$ 3,396,903
Life and health	1,844,009	1,525,007
Unearned premiums	1,229,855	1,169,802
Long-term debt	1,413,973	1,397,387
Bank loans and other short-term debt	601,397	637,025
Commercial paper	1,057,902	659,141
Deferred income taxes	363,992	293,245
Other liabilities	874,902	675,088
Liability for policyholders' funds	1,719,386	1,333,283
	12,960,833	11,086,881
Stockholder's Equity		
Capital stock	113,218	110,591
Capital surplus and subordinated debt	834,894	771,250
Unrealized gain (loss) on marketable equity securities, net of taxes (benefits) of $17,560 and $(13,607)	39,958	(29,866)
Retained earnings	1,569,483	1,383,205
	2,557,553	2,235,180
	$15,518,386	$13,322,061

Insurance and Finance Subsidiaries of ITT

Stockholder's Equity

Dollars in thousands	Capital Stock	Capital Surplus and Subordinated Debt	Retained Earnings
Balance, January 1, 1978	$110,591	$588,138	$1,070,832
Net income	–	–	300,265
Dividends declared	–	–	(152,301)
Capital contributions, advances and repayments	–	126,735	–
Balance, December 31, 1978	110,591	714,873	1,218,796
Net income	–	–	349,378
Dividends declared	–	–	(184,969)
Capital contributions, advances and repayments	–	56,377	–
Balance, December 31, 1979	110,591	771,250	1,383,205
Net income	–	–	354,124
Dividends declared	–	–	(167,846)
Capital contributions, advances and repayments	2,627	63,644	–
Balance, December 31, 1980	$113,218	$834,894	$1,569,483

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

Dollars in thousands — Years ended December 31,	1980	1979	1978
Source of Funds			
Net income	$ 354,124	$ 349,378	$ 300,265
Items which did not affect funds—			
Amortization of deferred policy acquisition costs	798,152	722,105	666,289
Insurance reserves and claims	777,516	773,864	741,673
Deferred income taxes	70,747	60,678	28,699
Increase in unearned premiums	60,053	83,102	80,360
Depreciation	21,632	18,158	15,348
Funds provided from operations	2,082,224	2,007,285	1,832,634
Sale of bonds, notes and other fixed maturity investments	1,190,109	856,889	773,760
Increase in commercial paper	398,761	233,622	131,987
Proceeds from issuance of long-term debt	241,735	369,268	358,759
Temporary bond investments, net	202,384	34,872	(130,152)
Increase in other liabilities	199,814	126,182	50,272
Sale of equity securities	151,731	195,098	76,166
Capital contributions, advances and repayments	66,271	56,377	126,735
Sale of real estate investments	7,452	20,168	13,159
	$4,540,481	$3,899,761	$3,233,320
Application of Funds			
Purchase of bonds, notes and other fixed maturity investments	$2,092,596	$1,560,636	$1,565,139
Deferred policy acquisition costs	866,496	787,782	707,165
Increase in finance receivables	449,481	560,936	611,470
Repayments of long-term debt	225,149	131,714	132,760
Premiums receivable and agents' balances	206,004	32,863	73,510
Dividends declared	167,846	184,969	152,301
Purchase of equity securities	132,493	206,745	11,913
Other investments	104,286	131,466	96,302
Purchase of real estate investments	48,869	45,044	27,145
Decrease (increase) in bank loans and other short-term debt	35,628	17,263	(244,846)
Other, net	211,633	240,343	100,461
	$4,540,481	$3,899,761	$3,233,320

The accompanying notes to financial statements are an integral part of the above statements.
International Telephone and Telegraph Corporation and Subsidiaries Consolidated

Accounting Policies

Combination Principles: The combined financial statements cover the accounts of all subsidiaries engaged in property and casualty insurance, life insurance and finance activities. These statements are prepared on the basis of generally accepted accounting principles which differ in certain material respects from the accounting prescribed by various regulatory authorities.

Property and Casualty Insurance Companies: Policy acquisition costs, representing commissions, premium taxes and certain other underwriting expenses, have been deferred and are being amortized over appropriate policy terms. Deferred policy acquisition costs and the related amortization were as follows (in thousands of dollars):

	1980	1979	1978
Deferred			
Commissions – net	$481,517	$446,164	$420,334
General expenses	240,198	215,347	199,564
	$721,715	$661,511	$619,898
Amortization	$691,027	$641,151	$604,723

Unearned premium reserves are calculated principally by the application of monthly pro rata fractions for the unexpired terms of policies in force. The liability for unpaid claims includes amounts determined by claim adjusters on individual cases and estimates of unreported claims based on past experience. While the reserves for unpaid claims are believed to be adequate, no representation is made that the ultimate liability may not exceed such estimate.

Property and casualty reserves and claims as of December 31 were as follows (in thousands of dollars):

	1980	1979
Unpaid claims	$3,331,192	$2,938,955
Unpaid claim expenses	524,225	457,948
	$3,855,417	$3,396,903

Estimates of future revenues including investment income are compared to estimates of future costs, including amortization of policy acquisition costs, to determine if business currently in force is expected to result in a net loss. No revenue deficiencies have been determined in the periods presented.

Property and casualty losses and loss expenses were as follows (in thousands of dollars):

	1980	1979	1978
Losses incurred	$1,980,843	$1,884,923	$1,679,733
Loss expenses incurred	262,888	241,655	235,153
	$2,243,731	$2,126,578	$1,914,886

Life Insurance Companies: Life insurance premiums (which include accident and health premiums of $308,659,000, $285,702,000 and $266,275,000 for 1980, 1979 and 1978, respectively) are recognized when due from policyholders, with reserves for future benefit payments being established in respect to such premiums. Such reserves have been computed by the net level premium method based upon estimated future investment yields, withdrawals, mortality and other assumptions appropriate at the time the policies were issued. Life insurance expenses include accident and health expenses of $249,898,000, $206,767,000 and $208,430,000 for 1980, 1979 and 1978, respectively. Reserves and claims as of December 31 were as follows (in thousands of dollars):

	1980	1979
Life reserves	$1,068,973	$ 893,867
Health reserves	144,587	134,037
Policy and contract claims	79,911	74,195
Other policy and benefit funds	550,538	422,908
	$1,844,009	$1,525,007

Total life insurance in force at December 31, 1980 and 1979 was $31.4 billion and $24.9 billion, respectively.

Costs of acquiring new business have been deferred and are being amortized in proportion to premium revenue recognized.

Finance Companies: Revenues from installment notes receivable are recognized using the combination method whereby finance charges equivalent to the provision for doubtful receivables and the marketing and processing expenses to make a loan are recognized when the receivable originates. Finance charges equivalent to expenses to service the loan are recognized ratably over the contract period and the remainder is recognized using the sum-of-digits method.

Foreign Currency Translation: Net foreign exchange gains (losses) arising from the conversion of foreign currencies and the translation of balance sheet items are included in income and amounted to $(13,930,000), $7,709,000 and $10,853,000 for 1980, 1979 and 1978, respectively.

Marketable Equity Securities: Investments are made in equity securities by the casualty and life insurance subsidiaries to produce earnings from a combination of dividends and appreciation. Gains and losses are recognized on a specific cost identification basis.

Equity securities are carried at market (cost of $619,024,000 and $638,262,000 at December 31, 1980 and 1979, respectively) with the after tax difference from cost reflected in stockholder's equity.

Unrealized gains (losses) in the equity portfolios as of December 31 are shown below (in thousands of dollars):

	1980	1979
Gross unrealized gains	$153,643	$ 90,478
Gross unrealized losses	(96,125)	(133,951)
Applicable tax effect	(17,560)	13,607
	$ 39,958	$(29,866)

Pensions: The combined companies have pension plans which are generally non-contributory. The costs of such plans are provided for in accordance with actuarial determinations. Upon adoption or modification of the plans, past service costs are amortized over periods not longer than forty years. Total pension expense amounted to $33,137,000, $27,854,000 and $24,338,000 for 1980, 1979 and 1978, respectively.

Generally, pension costs are funded through the purchase of group annuity contracts with affiliated companies. At January 1, 1980, excluding the finance subsidiaries that are part of the ITT salaried retirement plan, the actuarial present value of accumulated plan benefits amounted to $227,666,000, of which $211,045,000 was vested. Net assets available for such benefits amounted to $161,576,000. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.9%.

Finance Receivables

Finance receivables outstanding as of December 31 were as follows (in thousands of dollars):

	1980	1979
Consumer	$1,641,204	$1,421,764
Commercial	2,496,298	2,162,045
	4,137,502	3,583,809
Less—unearned income and allowance for doubtful accounts	606,431	502,219
	$3,531,071	$3,081,590

Contractual maturities as of December 31, 1980 were as follows (in thousands of dollars):

	Consumer	Commercial	Total
1980	$ 34,151	$ 46,095	$ 80,246
1981	619,801	1,211,916	1,831,717
1982	427,649	327,886	755,535
1983	205,399	215,963	421,362
1984	75,332	140,839	216,171
1985 and after	278,872	553,599	832,471
	$1,641,204	$2,496,298	$4,137,502

Historically, a substantial portion of the receivables has been renewed prior to maturity. Accordingly, the schedule of maturities may not be indicative of future cash collections.

The maximum terms, not considering any further refinancings or extensions, over which the finance receivables are written are 120 months for consumer and 360 months for commercial.

Net charge-offs as a percent of average net finance receivables were 1.26%, 1.17% and .86% in 1980, 1979 and 1978, respectively.

Income Taxes

With the exception of life insurance subsidiaries, all United States companies in the combination are included in ITT's consolidated United States Federal income tax return and remit to (or receive from) ITT an income tax provision (or benefit) computed using appropriate statutory rates.

Pretax income and the provision (benefit) for income taxes were as follows (in thousands of dollars):

	1980	1979	1978
Pretax Income:			
United States	$273,833	$320,928	$292,815
Foreign	105,912	83,070	56,124
	$379,745	$403,998	$348,939
Tax on Income from Operations:			
Current			
United States Federal	$ (50,890)	$ (13,491)	$ (4,070)
Foreign and other	32,116	29,337	18,956
	(18,774)	15,846	14,886
Deferred			
United States Federal	22,814	24,211	35,147
Foreign and other	20,271	12,847	6,192
	43,085	37,058	41,339
Income Taxes—Operations: Combined Income Statement	$ 24,311	$ 52,904	$ 56,225
Tax on Realized Investment (Losses) Gains—			
Current	$ 2,411	$ 1,125	$ 2,043
Deferred	(1,568)	(1,300)	(1,648)
Income Taxes—Realized Investment (Losses) Gains	$ 843	$ (175)	$ 395

Deferred income tax provision (benefit), representing the tax effect arising from the reflection of revenues and expenses in different periods for financial statements than for tax purposes, is as follows (in thousands of dollars):

	1980	1979	1978
Deferred policy acquisition costs	$16,759	$22,575	$20,469
Lease receivables	10,488	9,750	5,858
Policy benefit reserves	4,519	(590)	(9,101)
Premium revenues	(361)	3,848	15,254
Other, net	10,112	175	7,211
	$41,517	$35,758	$39,691

A reconciliation of the effective tax rate to the United States statutory tax rate is as follows:

	1980	1979	1978
Effective income tax rate	6.6%	13.1%	15.9%
Tax exempt interest income	24.0	19.1	19.4
Utilization of foreign tax credits	10.6	7.9	4.6
Dividends received deduction	4.0	3.5	4.0
Effective foreign tax rate differential	2.7	2.5	2.0
Other, net	(1.9)	(.1)	2.1
United States Statutory Rate	46.0%	46.0%	48.0%

No added United States provision has been made for taxes payable upon distribution of retained earnings of foreign subsidiaries amounting to approximately $224,441,000, since these earnings have been permanently reinvested, or because taxes payable on such earnings will be substantially offset by foreign tax credits.

Debt

At December 31 long-term debt reflected the following (in thousands of dollars):

Maturities	Under 9%	9% to 9.9%	10% and Over	Total
1981	$ 25,292	$ 10,736	$ 12,106	$ 48,134
1982	34,811	12,721	101,956	149,488
1983	32,980	63,865	55,819	152,664
1984	15,590	38,470	27,538	81,598
1985	55,067	18,513	136,122	209,702
1986-1995	102,231	149,261	311,938	563,430
1996-2005	189,662	8,856	58,573	257,091
Total—1980	$455,633	$302,422	$704,052	$1,462,107
Total—1979	$570,010	$472,892	$427,299	$1,470,201

Short-term bank borrowings comprise drawdowns on notes with maturities of up to ninety days while commercial paper is issued with maximum maturities of nine months. Generally, credit lines, which are maintained for short-term borrowing needs and are also available as backup for commercial paper obligations, are subject to annual review and may be terminated or withdrawn at any time. These unused lines amounted to $988,690,000 and $731,793,000 at December 31, 1980 and 1979, respectively.

The combined retained earnings should not be understood to be immediately available for payment of dividends since substantially all of such earnings have been permanently reinvested or are restricted under long-term debt or other agreements.

Reinsurance—Property and Casualty

The combined companies cede insurance to other insurers in order to limit their maximum loss through risk diversification. Insurance ceded by the companies does not relieve their primary liability as the originating insurers. The approximate amounts deducted from liabilities and income and expenses for insurance ceded were as follows (in thousands of dollars):

	1980	1979	1978
Deducted from Liabilities:			
Insurance reserves and claims	$731,462	$671,597	$524,627
Unearned premiums	141,396	114,743	104,460
Deducted from Income and Expenses:			
Insurance premiums	852,032	767,575	695,409
Current and future claims	647,759	476,066	435,416

Premiums and recoveries on catastrophe-type reinsurance contracts deducted from premiums earned and losses incurred were not material to the combined financial position. The property and casualty companies also assume insurance from other insurers. Reinsurance premiums assumed that are included in earned premiums were $607,332,000, $535,217,000 and $447,440,000 for 1980, 1979 and 1978, respectively.

Segment Information

(in millions of dollars)	1980	1979	1978
Revenues:			
Property and Casualty			
Commercial	$ 2,520	$ 2,398	$ 2,121
Personal	795	754	741
Unallocable investment income	128	102	85
Life and Health			
Group	484	404	374
Other	703	623	440
Finance	659	518	377
	$ 5,289	$ 4,799	$ 4,138
Operating Income:			
Property and Casualty			
Commercial	$ 178	$ 151	$ 119
Personal	(54)	22	46
Other (principally unallocable investment income)	84	72	65
Life and Health			
Group	11	9	12
Other	54	43	17
Finance	107	107	90
	$ 380	$ 404	$ 349
Identifiable Assets:			
Property and Casualty	$ 7,317	$ 6,438	$ 5,784
Life and Health	4,363	3,570	2,828
Finance	3,838	3,314	2,685
	$15,518	$13,322	$11,297

Net income attributable to United States operations accounted for approximately 82%, 84% and 84% of income for 1980, 1979 and 1978, respectively.

Net assets in the United States amounted to $2.03, $1.75 and $1.59 billion at December 31, 1980, 1979 and 1978, respectively.

Leases and Rentals

At December 31, 1980, minimum rental commitments under operating leases were $46,385,000, $40,317,000, $30,456,000, $22,666,000 and $16,192,000 for 1981, 1982, 1983, 1984 and 1985, respectively. For remaining years, such commitments amounted to $42,293,000, aggregating total minimum lease payments of $198,309,000.

Rental expenses for all operating leases were $56,615,000, $49,591,000 and $42,013,000 in 1980, 1979 and 1978, respectively. Contingent and sublease rentals were not material in any year.

Commitments and Contingencies

The insurance and finance subsidiaries are involved in various legal actions, some of which involve claims for substantial amounts. The ultimate liability with respect to such lawsuits as well as other contingencies is not considered to be material in relation to the combined financial position.

Auditors' Report

Arthur Andersen & Co.

To the Stockholders of
International Telephone and Telegraph Corporation:

We have examined the consolidated financial statements of International Telephone and Telegraph Corporation (a Delaware corporation) and subsidiaries consolidated as of December 31, 1980 and 1979 and for each of the three years in the period ended December 31, 1980, as set forth on pages 27 through 44 of this report. 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 did not examine the financial statements of certain subsidiaries included in the accompanying statements of International Telephone and Telegraph Corporation and subsidiaries consolidated which represent approximately 10% of consolidated assets and sales and revenues. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these companies, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the aforementioned consolidated financial statements present fairly the financial position of International Telephone and Telegraph Corporation and subsidiaries consolidated as of December 31, 1980 and 1979, and the results of their operations and the source and application of funds for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, N.Y.,
March 11, 1981.

Arthur Andersen & Co.

Market Prices and Dividends on ITT Stock

In dollars	Three Months Ended							
	March 31		June 30		Sept. 30		Dec. 31	
1980	High	Low	High	Low	High	Low	High	Low
Common Stock	29.38	22.88	28.50	23.88	33.88	27.63	34.63	27.63
Cumulative Preferred Stock								
$4.00 Convertible Series H (1.8646)	52.00	43.50	51.00	44.75	62.50	50.88	60.00	51.00
$4.50 Convertible Series I (1.6807)	48.75	38.75	49.00	38.63	56.00	47.75	54.75	46.00
$4.00 Convertible Series J (1.6728)	48.00	38.50	46.50	39.00	55.50	45.75	54.50	45.75
$4.00 Convertible Series K (1.6075)	46.50	36.25	45.50	37.63	53.38	44.25	52.50	43.50
$2.25 Convertible Series N (1.2560)	36.25	29.00	35.25	29.75	41.63	34.50	41.00	34.63
$5.00 Convertible Series O (1.4364)	49.75	40.00	51.75	40.13	52.88	48.50	51.50	42.75
1979								
Common Stock	30.88	27.00	29.63	27.38	30.88	27.50	28.38	24.25
Cumulative Preferred Stock								
$4.00 Convertible Series H (1.8433)	55.50	48.13	53.25	49.50	54.50	50.00	50.63	45.00
$4.50 Convertible Series I (1.6622)	53.25	47.88	51.50	48.50	53.25	49.75	50.00	43.00
$4.00 Convertible Series J (1.6518)	51.00	45.25	48.75	45.75	51.00	46.25	46.75	40.50
$4.00 Convertible Series K (1.5876)	50.00	44.13	48.00	44.13	50.00	45.25	45.63	39.50
$2.25 Convertible Series N (1.2560)	38.25	33.75	36.50	34.38	38.25	34.25	35.25	30.63
$5.00 Convertible Series O (1.4233)	54.50	50.13	54.50	51.63	56.50	52.50	53.50	45.75

The above table reflects the range of market prices of ITT Common and Cumulative Preferred Stock as reported in the consolidated transaction reporting system of The New York Stock Exchange, the principal market in which these securities are traded.

During the two month period ended February 28, 1981, the high and low reported sales prices of the ITT Common Stock were $31.63 and $28.00, respectively. Dividends paid per common share were $.60 and $.55 in each quarter of 1980 and 1979, respectively. The quarterly dividend paid on the common stock on January 1, 1981 was $.65 per share.

Quarterly dividends paid per share on each of the Cumulative Preferred Stock issues are equivalent to one fourth of the annual dividend indicated in the title of the issue. Each preferred share is convertible into the number of shares of common stock of the Corporation indicated in parenthesis above. Each of the above tabulations reflects the adjusted rates as of January 1 of the subsequent year.

Cash dividends have been paid on ITT Common Stock in each year since 1950. The dividends paid on ITT Common Stock have been increased in each year since 1963. It is expected that such dividends will continue to be paid in the future. Such dividends will of course be dependent upon the earnings, financial position and cash requirements of ITT and other relevant factors. See Notes to Consolidated Financial Statements—"Retained Earnings" elsewhere herein for a description of restrictions on dividend payments.

There were approximately 159,000 record holders of ITT Common Stock on February 28, 1981.

ITT Common Stock is listed on the following exchanges: Antwerp, Basle, Berne, Brussels, Frankfurt, Geneva, Lausanne, London, New York, Pacific, Paris, Tokyo, Vienna and Zurich. All series of ITT Cumulative Preferred Stock are traded on a listed basis on The New York Stock Exchange. The Series N is also traded on a listed basis on the Pacific Stock Exchange.

Selected Financial Data*

Dollars in millions except per share	1980	1979	1978	1977	1976
Results and Position					
Sales and Revenues	$23,819	$22,056	$19,452	$16,769	$14,925
Income Before Extraordinary Items	$ 894	$ 383	$ 665	$ 566	$ 491
Extraordinary Items	$ —	$ —	$ —	$ (12)	$ 6
Net Income	$ 894	$ 383	$ 665	$ 554	$ 497
Total Assets	$28,378	$26,213	$23,368	$20,199	$17,733
Long-Term Debt—					
Excluding insurance and finance subsidiaries	$ 2,847	$ 2,971	$ 2,875	$ 2,443	$ 2,379
Insurance and finance subsidiaries	$ 1,414	$ 1,397	$ 1,160	$ 934	$ 787
Stockholders' Equity	$ 6,274	$ 5,635	$ 5,519	$ 5,143	$ 4,599
Per Share Data					
Common Equivalent Basis—					
Income before extraordinary items	$6.12	$2.65	$4.65	$3.98	$3.67
Extraordinary items	—	—	—	(.08)	.04
Net income	$6.12	$2.65	$4.65	$3.90	$3.71
Fully Diluted Basis—					
Income before extraordinary items	$5.95	$2.59	$4.48	$3.86	$3.55
Extraordinary items	—	—	—	(.08)	.04
Net income	$5.95	$2.59	$4.48	$3.78	$3.59
Dividends Declared per Common Share	$2.45	$2.25	$2.05	$1.82	$1.64
Significant Ratios†					
Return on Sales	4.0%	1.9%	3.6%	3.5%	3.4%
Return on Assets	3.4%	1.7%	3.2%	3.1%	3.0%
Return on Total Capital	11.1%	6.7%	8.8%	8.3%	7.8%
Return on Stockholders' Equity	15.0%	6.9%	12.5%	11.6%	11.1%
Assets to Sales	115%	112%	112%	113%	114%
Book Value per Share	$39.32	$34.04	$33.62	$30.48	$29.89

*As restated. Includes gain of $90 million on sale of Canadian timber facilities ($.62 per common equivalent share) in 1980 and a $320 million provision for close-down of a Canadian pulp mill ($2.30 per common equivalent share) in 1979. Also includes insurance and finance activities. Reference is made to the Financial Summary for a comparison of 1980 and 1979 ratios excluding the gain on the sale of the Canadian timber facilities in 1980 and the provision for close-down of a Canadian pulp mill in 1979.

†Excludes extraordinary items in year incurred.

Dollars in millions except per share	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Results for Year										
Sales and Revenues	$18,530	17,197	15,261	13,146	11,764	11,368	11,154	10,183	8,557	7,346
Insurance and Finance Revenues	$ 5,289	4,799	4,138	3,542	3,082	2,830	2,843	2,795	2,408	1,968
Taxes—total	$ 1,979	1,776	1,733	1,540	1,337	1,297	1,271	1,093	851	721
Income Before Extraordinary Items*	$ 894	381	662	562	489	398	451	521	477	407
Per common equivalent share	$ 6.12	2.65	4.66	4.14	3.95	3.20	3.63	4.17	3.80	3.45
Return on Stockholders' Equity	15.0%	6.8%	12.4%	11.5%	11.1%	9.5%	11.2%	13.9%	13.7%	13.3%
Dividends Declared per Common Share	$ 2.45	2.25	2.05	1.82	1.64	1.54	1.46	1.32	1.20¼	1.16
Gross Plant Additions	$ 1,131	1,049	941	815	637	540	831	869	729	666
Depreciation	$ 520	472	439	369	319	298	302	300	273	238
R & D Expenditures	$ 1,116	959	799	608	525	483	452	400	328	288
Year-End Position										
Net Current Assets	$ 2,065	2,008	1,935	1,741	1,718	1,496	1,195	1,223	1,324	1,247
Plant, Property and Equipment (net)	$ 5,387	5,210	5,130	4,629	3,979	3,768	3,708	3,873	3,464	3,025
Total Assets	$28,378	26,178	23,342	19,896	17,531	16,248	16,186	15,460	12,988	11,210
Long-Term Debt:										
Excluding insurance and finance subsidiaries	$ 2,847	2,964	2,872	2,350	2,295	2,172	2,000	2,107	1,910	1,741
Insurance and finance subsidiaries	$ 1,414	1,397	1,160	934	787	639	439	422	334	255
Stockholders' Equity	$ 6,274	5,621	5,507	5,141	4,574	4,252	4,134	3,897	3,620	3,221
Per Common Share	$ 39.32	34.28	33.87	32.21	33.03	29.94	28.64	26.70	23.89	20.89
Year-End Statistics										
Common Shares Outstanding (000,000)	122	116	112	104	94	94	94	95	96	75
Stockholders (000)	214	219	223	226	228	238	237	223	218	236
Employees (000)	348	368	379	375	375	376	409	438	428	398
Orders on Hand (Manufacturing)	$ 7,363	7,733	6,557	5,581	5,038	4,987	4,855	4,136	3,224	2,797

*Extraordinary gains (losses) in 1977, 1976, 1973, 1972 and 1971 amounted to $(12) million, $6 million, $7 million, $7 million and $(70) million, respectively.

Directors

A Rand V. Araskog
B Harold S. Geneen
C Margita E. White
D Richard S. Perkins
E Richard E. Bennett
F James V. Lester
G J. Patrick Lannan
H Bette B. Anderson
J Pomeroy Day
K Herbert C. Knortz
L M. Cabell Woodward, Jr
M Terry Sanford
N Felix G. Rohatyn
P William Elfers
Q Thomas W. Keesee, Jr.
R Frederic C. Hamilton
S Earl G. Graves
T Anthony J. A. Bryan
U Alvin E. Friedman

Bette B. Anderson[1,2,7]
Financial consultant

Rand V. Araskog[1,5,7]
Chairman, President and Chief Executive, ITT

Richard E. Bennett
Senior Executive Vice President, ITT

Anthony J. A. Bryan[1,2,6]
Chairman and President, Copperweld Corporation

Pomeroy Day[1,2,4]
Business consultant

William Elfers[1,3,5,6]
Corporate director and trustee

Alvin E. Friedman[1,2,5,7]
Managing Director, Lehman Brothers Kuhn Loeb Incorporated, investment bankers

Harold S. Geneen[1,5,7]
Chairman Emeritus, ITT
Management consultant, private investor

Earl G. Graves[1,2,5,7]
President and Chief Executive Officer of publishing and broadcasting companies

Frederic C. Hamilton[1,4]
Chairman and Chief Executive Officer, Hamilton Brothers Oil Company, international petroleum operations

Thomas W. Keesee, Jr.[1,3,4,5]
Corporate director and financial consultant

Herbert C. Knortz
Executive Vice President and Comptroller, ITT

J. Patrick Lannan[1,5,7]
Financial consultant

James V. Lester
Senior Executive Vice President, ITT

Richard S. Perkins[1,3,5,6]
Trustee and corporate director

Felix G. Rohatyn[1,3,6]
General partner, Lazard Frères & Co., investment bankers

Terry Sanford[1,3,4,6]
President, Duke University

Margita E. White[1,4,5]
Communications consultant and corporate director

M. Cabell Woodward, Jr.
Executive Vice President and Chief Financial Officer, ITT

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[1]Executive and Policy Committee
[2]Audit Committee
[3]Compensation and Personnel Committee
[4]Legal Affairs Committee
[5]Capital Committee
[6]Nominating Committee
[7]Public Affairs Committee

Officers

Rand V. Araskog[8,9]
Chairman, President and Chief Executive

Richard E. Bennett[9]
Senior Executive Vice President

James V. Lester[9]
Senior Executive Vice President

Herbert C. Knortz[8,9]
Executive Vice President and Comptroller

M. Cabell Woodward, Jr.[8,9]
Executive Vice President and Chief Financial Officer

Frederick W. Gibbs
Executive Vice President and Senior Group Executive–Telecommunications

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Executive Vice President and President, ITT Europe, Inc.

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Senior Vice President and General Counsel

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Senior Vice President and Treasurer

Albert E. Cookson[9]
Senior Vice President and General Technical Director

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Senior Vice President–Corporate Relations and Advertising

John Hanway, II[8,9]
Senior Vice President–Administration

Robert H. Smith
Senior Vice President–Corporate Development and Economics

Charles E. Anderson
Senior Vice President–Group Executive–Natural Resources

John J. Chluski
Senior Vice President–Group Executive–Automotive and Components

Robert E. Laws
Senior Vice President–Group Executive–Financial Services

Robert L. Olson
Senior Vice President–Group Executive–Telecommunications and Electronics–North America

Gerard L. Seelig
Senior Vice President–Group Executive–Industrial and Energy

John J. Navin
Vice President and Secretary

[8]Public Affairs Committee
[9]Management Policy Committee

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Robert H. Allen
Merlin L. Alper
George A. Banino
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Robert J. Braverman
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William W. Crossman
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Daniel P. Weadock
Humberto Zavaleta

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New York, N.Y. 10015

Harris Trust and Savings Bank
Chicago, Ill. 60690

Citibank, N.A.
Frankfurt-am-Main, Germany

Registrar for Cumulative Preferred Stock
Citibank, N.A.
New York, N.Y. 10015

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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
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Trustee and Registrar for 4.90% Sinking Fund Debentures
Morgan Guaranty Trust Company of New York
New York, N.Y. 10015

Trustee and Registrar for 8.90% Sinking Fund Debentures
Bankers Trust Company
New York, N.Y. 10015

Trustee and Registrar for 4¾% Convertible Subordinated Debentures and 8⅝% Convertible Subordinated Debentures
The Chase Manhattan Bank, N.A.
New York, N.Y. 10081

Trustee and Registrar for 11% Notes
Manufacturers Hanover Trust Company
New York, N.Y. 10015

Trustee and Registrar for 9⅛% Notes and 10% Sinking Fund Debentures
Chemical Bank
New York, N.Y. 10041

Trustee and Registrar for 12⅝% Debentures
Harris Trust and Savings Bank
Chicago, Ill. 60690

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