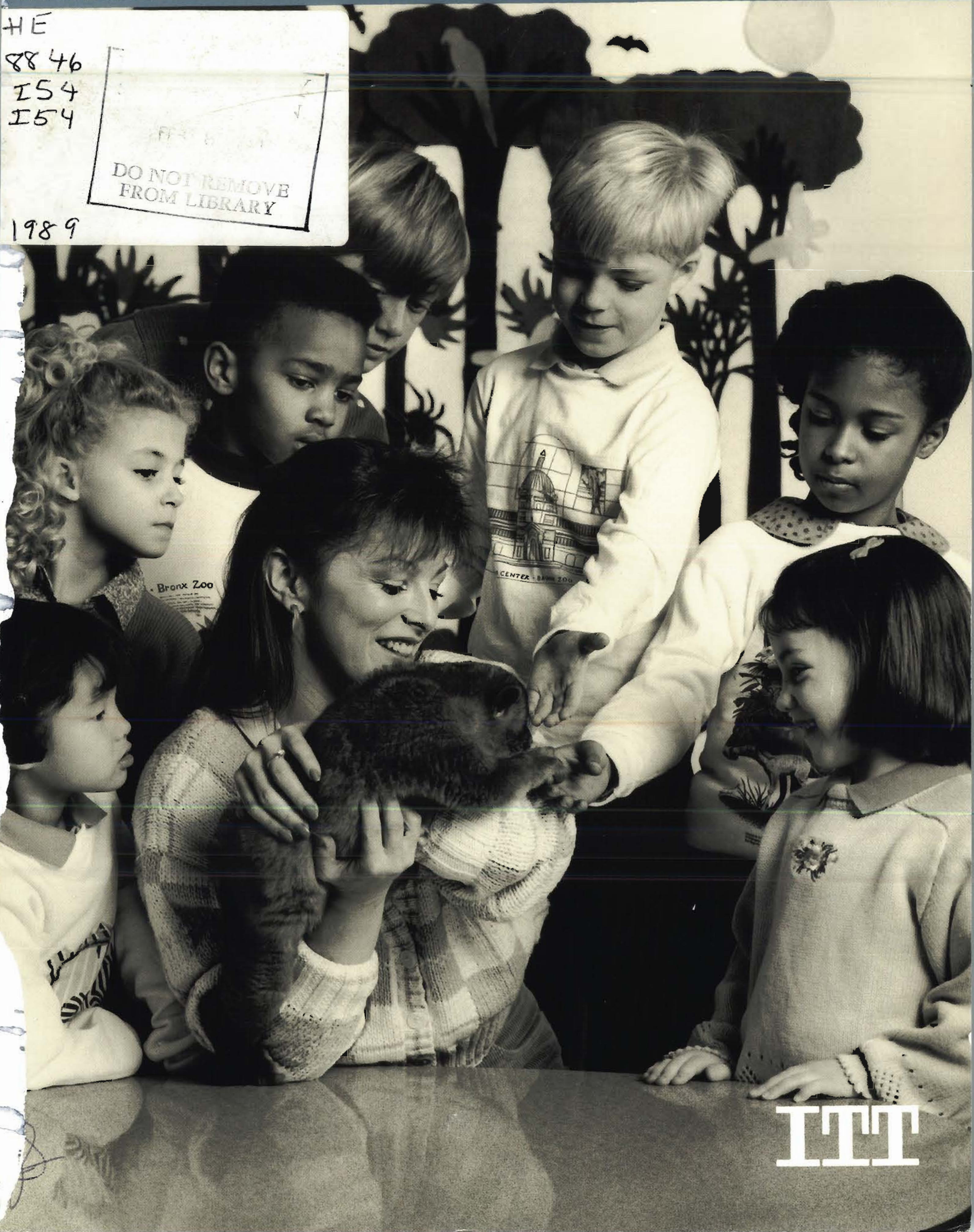
ITT CORPORATION **1989 ANNUAL REPORT** **OUR 70TH YEAR**



On the Cover:
At the New York Zoological Society's Bronx Zoo, instructors introduce children to the wonders of wildlife with such animals as the kinkajou. In addition to the Bronx Zoo, the largest urban zoo in the United States, the society operates the New York Aquarium, the Osborn Laboratories of Marine Sciences, the Central Park Zoo, Wildlife Conservation International, and the Wildlife Survival Center in Georgia. ITT Hartford provides insurance coverages for the New York Zoological Society. Also, ITT Corporation supports the activities of the society with major financial contributions.

Annual Meeting
The Annual Meeting of Shareholders will be held at 10:30 A.M., local time, on Tuesday, May 15, 1990 in the Champagne Ballroom of the Sheraton Tucson El Conquistador, 10,000 North Oracle Road, Tucson, Arizona.

Form 10-K Report
The ITT 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.

1989 Annual Report
Copies of the ITT Annual Report and taped audio highlights are available upon request to the Corporate Relations Department.

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ITT Corporation
320 Park Avenue
New York, NY 10022
Telephone (212) 752-6000

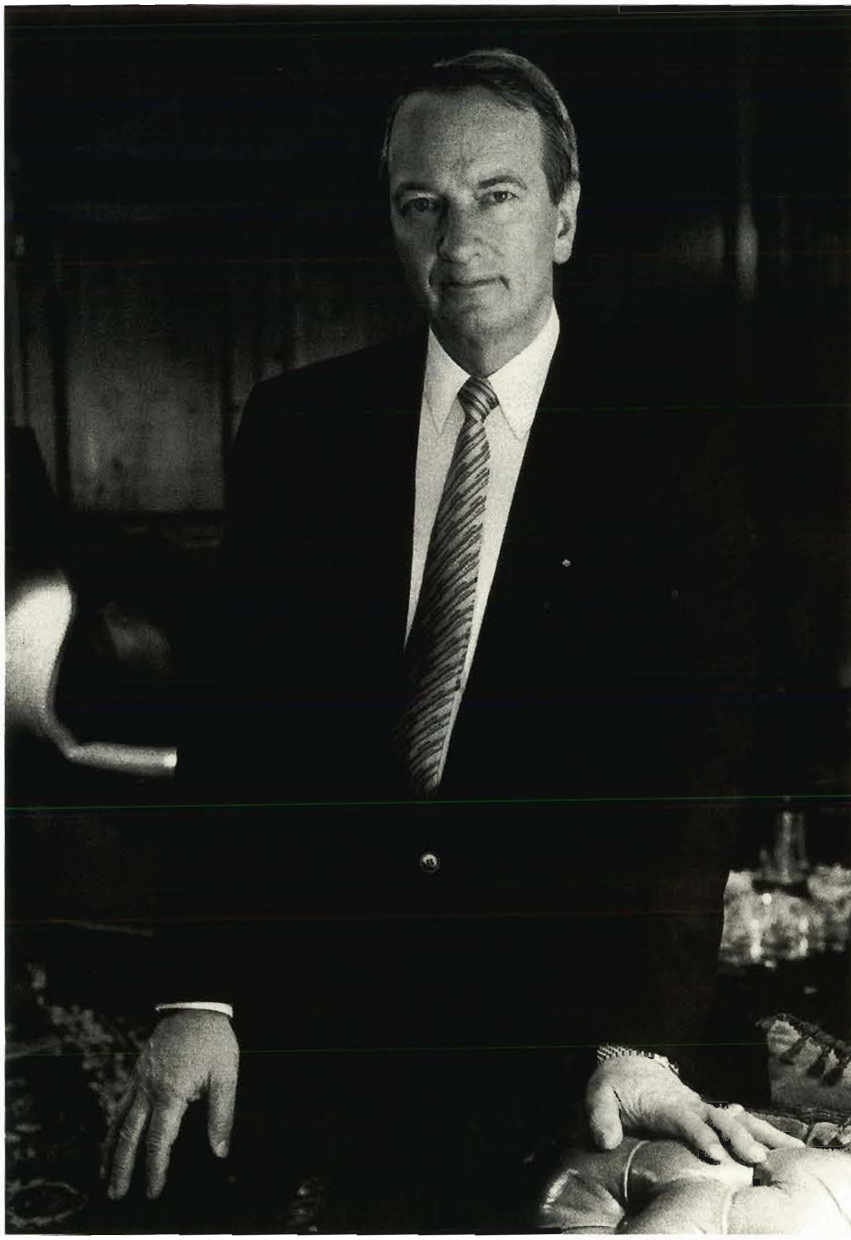
Contents

ITT Corporation is a diversified, multinational enterprise engaged principally in nine product and service businesses: Automotive, Electronic Components, Fluid Technology, Defense, Pulp and Timber, Insurance, Finance, Communication and Information Services, Hotels, and has a 37 percent equity interest in Alcatel N.V., the world's largest telecommunications equipment manufacturing company.

HIGHLIGHTS

In millions except per share	**1989**	1988	% Change
Total Sales and Revenues	**$20,054**	$19,355	+ 4
Net Income	**$ 922**	$ 817	+13
Earnings Per Share			
—Primary	**$6.52**	$5.70	+14
—Fully Diluted	**$6.30**	$5.68	+11
Average Common Equivalent Shares			
—Primary	**138**	143	- 4
—Fully Diluted	**145**	144	+ 1
Dividends Declared per Common Share	**$1.51**	$1.3075	+15
Stockholders Equity	**$ 8,057**	$ 8,035	—
Per Common Share	**$55.42**	$56.33	- 2
Gross Plant Additions	**$ 616**	$ 526	+17
Depreciation	**$ 417**	$ 428	- 2
Number of Stockholders of Record*	**90**	97	- 7
Number of Employees*	**119**	117	+ 2
Orders on Hand (Manufacturing)	**$ 4,374**	$ 4,922	-11

* *In thousands.*



Rand V. Araskog
Chairman and
Chief Executive

Last year marked another period of growth and progress for ITT. In 1989, earnings rose 13 percent to $922 million from $817 million in the prior year.

Eight of our ten businesses, including Alcatel, reported profit gains over 1988. Only the Electronic Components segment and the Insurance segment failed to reach 1988 income levels.

Of most significance were the record catastrophe losses at Hartford Fire Insurance Company, which totaled $133 million, including the effects of Hurricane Hugo and the San Francisco earthquake.

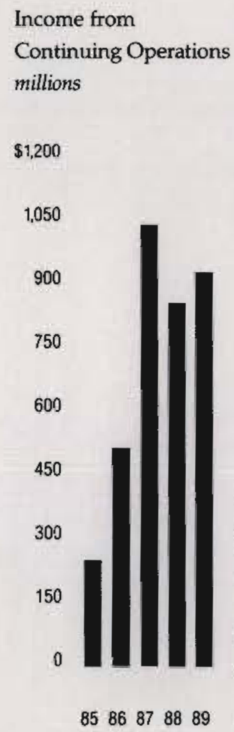
The catastrophe losses accompanied an industry-wide downturn in the property and casualty insurance businesses.

Our 1989 accomplishments signal the balance in operational strength of ITT's major businesses and are consistent with the goals we set for the company for 1989 and into the last decade of this century.

Financial Results

On a fully diluted basis, net income per share was $6.30 in 1989, compared to $5.68 in 1988. On a primary basis, net income per share was $6.52 in 1989, compared to $5.70 in 1988.

In 1989, our sales and revenues exceeded $20 billion for the first time since the transfer of our telecommunications companies to our French joint venture, Alcatel N.V., in 1986. The strength and steady performance of our operations, coupled with the balance of our products and services and our strong presence in Europe and Asia, provide the basis for opportunities in those markets as we enter the



1990s. At the same time, in a period of slow growth for most businesses in Latin America, our investments in the area continued to provide a steady flow of income to ITT, especially in hotels and automotive products.

Total sales and revenues for the year reached $20.1 billion, a 4 percent increase over the $19.4 billion reported for 1988.

Highlights include:

ITT's product businesses posted an 8 percent increase in sales over 1988, to $7.7 billion. Operating income by major business segments included:

- Automotive up 7 percent to $211 million,
- Electronic Components down 14 percent to $67 million,
- Fluid Technology up 12 percent to $102 million,
- Defense up 7 percent to $82 million, and
- Pulp and Timber up 28 percent to $248 million.

The company's 37 percent interest in the Alcatel N.V. joint venture contributed $167 million or $1.15 per share in 1989, up 34 percent over 1988.

ITT's service companies reported revenues of $12 billion, 5 percent above the prior year. Operating income by major segments was:

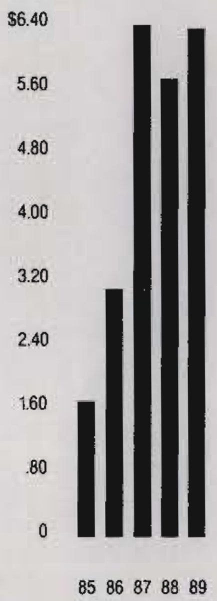
- Insurance down 26 percent to $322 million,
- Finance up 1 percent to $195 million,
- Communication and Information Services up 36 percent to $94 million, and
- Hotels up 4 percent to $117 million.

At year end, order backlog was $4.4 billion.

Corporate Development

The asset redeployment program, which was initiated in 1979 to eliminate nonstrategic and noncontributing assets, to reduce debt and to improve competitive positions in remaining businesses, has contributed to our improved performance. To date, more than 100 operations representing about $9 billion in sales have been divested. This has allowed us to concentrate on strengthening our position in strategic business segments.

Earnings per Share—Fully Diluted
dollars



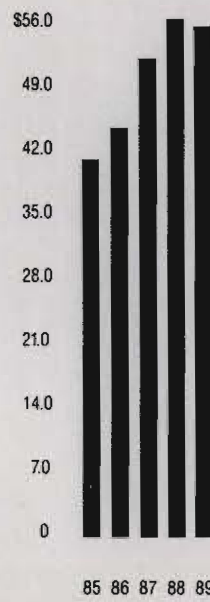
As part of this program, in 1989 we sold the company's long distance telephone operations, ITT Communications Services, Inc., and ITT Chernow Communications, Inc. to Metromedia Company. Assets of these two companies totaled $275 million on our balance sheet.

In May of 1989 the Board of Directors approved the adoption of an employee stock ownership plan (ESOP) that, when combined with an existing plan, places approximately 10.3 percent of the ownership of ITT in employee hands.

During the year, ITT repurchased 11.9 million common shares, principally in conjunction with the ESOP, in order to offset per share earnings dilution from this important employee benefit.

As a further reflection of the growing financial strength of the Corporation, the Board of Directors raised the common stock dividend from $1.48 to $1.60 on an annualized basis beginning with the first quarterly payment in 1990.

Stockholders Equity per Common Share
dollars



In 1989, we added to the outside directors on our Board with the election of Andrew T. Dwyer, chairman and president of JWP Inc., and Paul G. Kirk, Jr., managing partner of Sullivan & Worcester.

Robert A. Schoellhorn, a director since 1983, resigned after making many contributions to the Corporation during his tenure.

As this annual report indicates, we are dedicated to providing products and services that add value to the lives and businesses of our customers. We realize that these goals can only be achieved through the performance of dedicated employees.

As a corporation that directly touches hundreds of millions of people around the world, we are keenly aware of our obligations to society.

Examples of this commitment are our involvement in educational projects through direct support to colleges and universities, the funding of scholarships in this country and overseas, and grants to museums and organizations that come in direct contact with millions of youths each year.

The results we are sharing with you in this report are evidence that there is a broad-based commitment throughout all operations of ITT to better meet the expectations of our customers and the world in which we live.

On June 16, 1990 ITT will mark its seventieth anniversary. To meet our corporate trust to our shareholders, customers, employees, suppliers, and the places we do business, ITT Corporation will:

• Draw upon the considerable dynamic resources developed by the Corporation over the past 70 years to continue consistent development as a diversified international enterprise.

• Build upon the foundation of its several wholly or majority owned businesses and its significant minority participation in Alcatel N.V., to achieve continued worldwide growth.

• Invest in and actively pursue superior opportunities for enhanced returns on investment and cash flow to the Corporation over the long term.

• Maintain a sound and resilient financial structure.

• Continue the commitment of the Board of Directors and management to integrity in conducting the affairs of the company.

Sincerely,

Rand Araskog

Rand V. Araskog
Chairman and
Chief Executive

March 13, 1990

In millions	Sales and Revenues 1989	Sales and Revenues 1988	Sales and Revenues 1987	Income 1989	Income 1988	Income 1987
Products						
Automotive	**$ 2,852**	$ 2,691	$ 2,352	**$ 211**	$ 198	$ 160
Electronic Components	**1,134**	1,124	1,035	**67**	78	95
Fluid Technology	**960**	839	741	**102**	91	87
Defense	**1,580**	1,387	1,279	**82**	77	34
Pulp and Timber	**1,151**	1,084	847	**248**	194	92
Services						
Insurance	**8,689**	8,553	8,345	**322**	435	325
Finance	**1,806**	1,479	1,292	**195**	194	123
Communication & Information Services	**754**	704	604	**94**	69	53
Hotels †	**782**	773	744	**117**	113	88
	19,708	18,634	17,239	**1,438**	1,449	1,057
Alcatel N.V.				**167**	125	73
Dispositions	**346**	721	956	**(56)**	(39)	143
Total Segments	**20,054**	19,355	18,195	**1,549**	1,535	1,273
Interest, net				**(216)**	(232)	(230)
Other				**(159)**	(230)	(181)
Gain (pretax) on sale of U.K. affiliate				**—**	—	384
Taxes				**(252)**	(215)	(214)
Discontinued Operations				**—**	(41)	—
Cumulative Effect of Accounting Change				**—**	—	(67)
	$20,054	$19,355	$18,195	**$ 922**	$ 817	$ 965

* *Reference is made to the Financial Summary and the Business Segment Information, which include descriptions of Business Segments.*

† *Total sales and revenues of the Hotels segment, including 100% of unconsolidated revenues generated by managed and franchise hotels, were $4.5, $4.4 and $4.1 billion in 1989, 1988 and 1987, respectively.*

Standing (left to right): C. Robert Powell, Benjamin F. Payton, Robert A. Schoellhorn, M. Cabell Woodward, Jr., Rand V. Araskog, DeRoy C. Thomas, Robert A. Burnett, Andrew T. Dwyer, Paul G. Kirk, Jr.
Seated (left to right): Margita E. White, Thomas W. Keesee, Jr., Michel David-Weill, Bette B. Anderson, Edward C. Meyer.

Bette B. Anderson[1, 2, 4, 5]
Executive Vice President,
KCI, Inc.,
consultants

Robert A. Burnett[1, 3, 5, 6, 7]
Chairman,
Meredith Corporation,
diversified media company

Michel David-Weill[1, 3, 5]
Senior partner,
Lazard Frères & Co.,
investment bankers

Andrew T. Dwyer[1, 5, 7]
Chairman and President,
JWP Inc.,
technical services company

Thomas W. Keesee, Jr.[1, 2, 3, 5, 6]
Corporate director and
financial consultant

Paul G. Kirk, Jr.[1, 2, 4, 5]
Managing partner,
Sullivan & Worcester,
law firm

Edward C. Meyer[1, 2, 4, 5, 7]
Managing partner,
Cilluffo Associates,
investment group

Benjamin F. Payton[1, 4, 5, 7]
President,
Tuskegee University

C. Robert Powell[1, 2, 5, 6, 7]
Chairman and
Chief Executive Officer (retired),
Reichhold Chemicals, Inc.,
chemical company

Robert A. Schoellhorn[1, 3, 4, 5]
Former Chairman and
Chief Executive Officer,
Abbott Laboratories,
health care company

Margita E. White[1, 2, 4, 5, 7]
President,
Association of Maximum
Service Telecasters, Inc.,
television trade association

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

DeRoy C. Thomas
President and
Chief Operating Officer, ITT

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

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

Automotive - Through 75 operating units in 12 countries, ITT Automotive ranks as one of the largest and most important suppliers of components and systems to automotive manufacturers, providing quality products that afford safety and convenience to drivers and passengers.

In 1989, ITT Automotive's braking group, ITT Teves, manufactured and supplied nearly 700,000 electronic anti-lock brake systems (ABS) for 70 models manufactured by 15 automakers worldwide. Because of growing concern for safety, anti-lock braking—considered by many to be the most significant automotive safety innovation in the past decade—is expected to become standard equipment on all automobiles and light trucks in the next ten years.

In 1989, the company's new Asheville, North Carolina, ABS manufacturing facility produced 100,000 of the new, fourth generation, Mark IV anti-lock brake systems at a reduced cost from the current version. This ultra-modern facility is designed for an annual capacity of 1.4 million ABS units, a level which is expected to be reached by the mid-1990s.

ITT Automotive is also at the forefront of conventional brake engineering technology as well as a leading supplier of rear disc brake designs. Every working day, ITT manufactures more than 100,000 disc brake linings, approximately 70,000 disc brakes, 25,000 vacuum brake boosters and 3,000 anti-lock braking systems.

The company is also a leading manufacturer of electrical and mechanical systems, including seat systems, wiper motors, lamp systems, electronically controlled suspension systems, high pressure die castings, exhaust systems and a host of other critical components for the world's largest and most respected auto manufacturers.

A leader in anti-lock brake systems, ITT Automotive provides products that contribute to safety, comfort and convenience for families worldwide.

With manufacturing plants in North America and Europe, ITT Automotive's electrical group, SWF Auto-Electric, currently produces 100,000 wiper blades, 40,000 wiper arms, 35,000 motors, 47,000 switches, 27,000 harnesses and 45,000 lamps on a daily basis.

In Italy, ITT Automotive has developed a fast, smart suspension system; an electronically controlled, high performance system that senses road conditions and instantaneously adjusts suspension for a smoother, safer ride.

Electronic Components – ITT Electronic Components products are vital to virtually every type of electronic application including aerospace and defense technology, automotive applications and a vast array of commercial and consumer products. With operations located in the United States, Europe, Japan and Korea, ITT is a major force in the supply of integrated circuits, electronic interconnect systems, connectors and switches to manufacturers around the globe.

ITT Semiconductors is a key supplier of cost-efficient digital signal processors for the new generation of European direct broadcast satellite TV systems. These systems provide consumers with vastly improved picture and sound, while assuring secure scrambling for pay TV operations and compatibility with the high definition TV systems of the future.

As a supplier of components to the automotive industry, ITT Semiconductors has pioneered electronic dashboards, processors that advise owners of the precise time that service is necessary, and other integrated circuits used in vehicles.

ITT ElectroMechanical Components' innovative STAR CARD™ is a reliable, fast and highly portable alternative to floppy disks, memory cartridges or internal memory changes. About the size of a credit card, STAR CARD is ideal for problem solving in automotive applications, hostile environments such as racing cars and motorcycles, robotics, power supplies, medical systems, musical instruments, modems, printers and a host of other applications.

During 1989, ITT Cannon operations in Santa Ana, California, and Whitby, Ontario, were awarded a contract to supply all of the connector requirements for a leading supercomputer manufacturer. ITT Cannon is also a major supplier of highly sophisticated connectors for medical imaging equipment used to scan the heart and abdominal organs.

Composers create, store and play back music on personal studio keyboards equipped with memory cards from ITT Electronic Components.

For virtually anything that flows, ITT Fluid Technology products can be found at work in the home as well as in business and industrial applications.

ITT Aerospace Controls was awarded the fuel valve contracts for Boeing's new 757 and 767 commercial airliners.

In 1989, ITT Fluid Technology operations also received major orders from Taiwan for a variety of valves and flow control devices for a coal-fired generating plant.

Fluid Technology - ITT Fluid Technology posted a record year in 1989. With operations in more than 80 countries worldwide, ITT Fluid Technology products are found in homes, boats, commercial businesses, municipal and governmental applications, and industrial and process plants. Major products include pumps and accessories for heating and cooling, water and wastewater, construction and industrial applications, heat exchangers, fluid controls, valves, instruments and meters.

ITT Flygt supplied 64 electric submersible mixers for a wastewater treatment plant in Missouri capable of handling 80 million gallons of water a day—making it the world's largest plant of its type.

ITT Barton recently shipped a flow system for enhanced oil recovery to a major oil field in the People's Republic of China and provided the necessary training for this customer. The system fulfills a need for automation through instrumentation in order to achieve greater accuracy and efficiency.

The company is introducing the newest manufacturing technologies at its various plant locations with the objective of enhancing its competitive position through service, technological excellence and greater efficiency. Results of projects completed in 1989 include a reduction of delivery time from five weeks to five days, substantially improved quality control, and a reduction of in-process inventory of up to 80 percent.

ITT Fluid Technology is also developing and marketing microelectronics-based systems for controlling processes which utilize its pump, heat transfer and instrumentation products.

ITT Flygt, in 1989, acquired Mactec Control AB, a developer of systems for remote control operation of sewage treatment plants, potable water treatment plants and pump stations.

Defense - ITT is one of the most respected names in the defense industry as the 1989 performance of this business segment illustrates. Sales were up even as we move toward a softening marketplace.

At the beginning of 1990, orders on hand were close to $3 billion or about twice current annual revenues, and several major ITT Defense programs were entering or were in the volume production phase. Among the more significant are SINCGARS, the Army's standard combat radio system; Generation III night vision goggles; ASPJ, a key Navy tactical aircraft self-protection system; and ANDVT, providing the Army with secure voice and data communications for radio and telephone networks.

Meanwhile, ITT Defense is preparing to enhance its position in the increasingly competitive defense market through improvements in basic engineering and manufacturing processes leading to meaningful increases in yields, while reducing costs. ITT Defense also will focus on selected growth market segments in which we intend to establish or maintain leadership. Other major strategies include the expansion of international business, now at 12 percent of total, and establishing a strong presence in key areas around the world.

Several notable milestones were achieved in 1989. ITT Defense more than doubled its night vision goggle production and is now delivering more Generation III night vision tubes than all other competitors combined. SINCGARS radio deliveries are on schedule while field reliability continues to be far in excess of customer requirements. The performance of our electronic countermeasures equipment has been recognized by each of the three services as among the best in the business.

Major new contracts include a $28.5 million project for the maintenance of a U.S. Air Force communications network in Greece and Turkey, a $125.8 million follow-on contract for an Air Force electronic countermeasure jamming system, $9.8 million for a U.S. Army radar jamming system, and a $34 million contract for the U.S. Navy to build a high quality secure voice and data system to link air, land and sea forces.

Pulp and Timber – In 1989, ITT Rayonier reported record sales and earnings for the second year in a row. Pricing and demand for pulp products remained high, especially for high grade chemical cellulose and fluffing pulps. International log markets remained strong as did demand for silvichemical products, including vanillin. Fifty-two percent of ITT Rayonier's total sales were made to export markets.

Intensive forest management programs continued with attention given not only to timber production but to environmental and recreational values as well. Early in 1990 the company will plant its 400 millionth seedling in the Southeast since reforestation efforts began there more than 50 years ago. Last year alone ITT Rayonier planted 23 million trees on 1.2 million acres of productive timberland.

Partnerships with pulp customers were expanded.

ITT Defense helps provide a safe missile testing environment at the U. S. Air Force Western Space and Missile Center through the teamwork of its 1,200 employees and U. S. Air Force Range Safety Officers.

ITT Rayonier provides a broad line of pulp products to help manufacture everything from clothes to movie film to sunglasses.

Active research partnerships were established with several customers to improve the quality of Rayonier® pulps and their performance in customers' plants. The partnerships also allow for the regular exchange of information and technical assistance providing both immediate and long-term benefits to each partner.

The first phase of a potential $110 million project, which was begun in the fourth quarter of 1989, will enable the Jesup Pulp Division to meet new state and federal environmental requirements and will increase production capacity by 40,000 metric tons to 570,000 metric tons. Engineering studies are now under way on a second phase which will raise plant capacity to 600,000 metric tons annually.

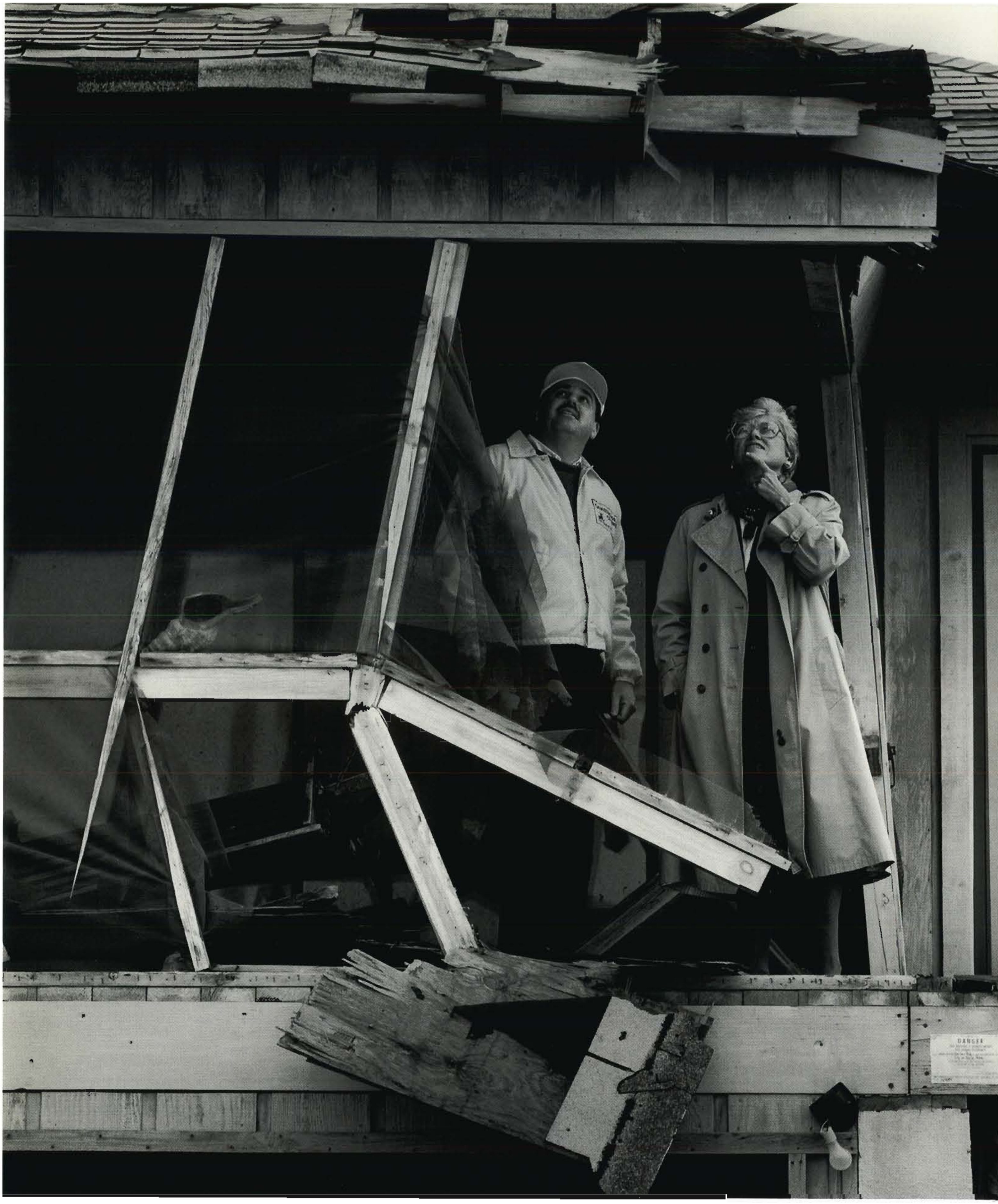
Earlier in the year, a $21 million expansion was completed which increased Jesup's production capacity by 46,000 metric tons annually.

In order to better serve international customers, new sales and service offices were established in Hong Kong and Auckland, New Zealand.

Insurance – After three consecutive years of profit increases, a general decline in property-casualty insurance business, coupled with unprecedented catastrophe losses, resulted in a decrease in net income for ITT Hartford Insurance in 1989.

In the aftermath of Hurricane Hugo, the insurance industry's costliest catastrophe in history, ITT Hartford opened two special storm claim offices in the Carolinas staffed by 120 of the company's most experienced claim representatives and support staff from around the country. ITT Hartford swung into action so quickly that adjusters were visiting agents and talking to customers while the hurricane was still moving up the East Coast.

Many of the same emergency claim representatives were later sent to the San Francisco Bay area, where they opened two more emergency offices to settle claims resulting from the October earthquake.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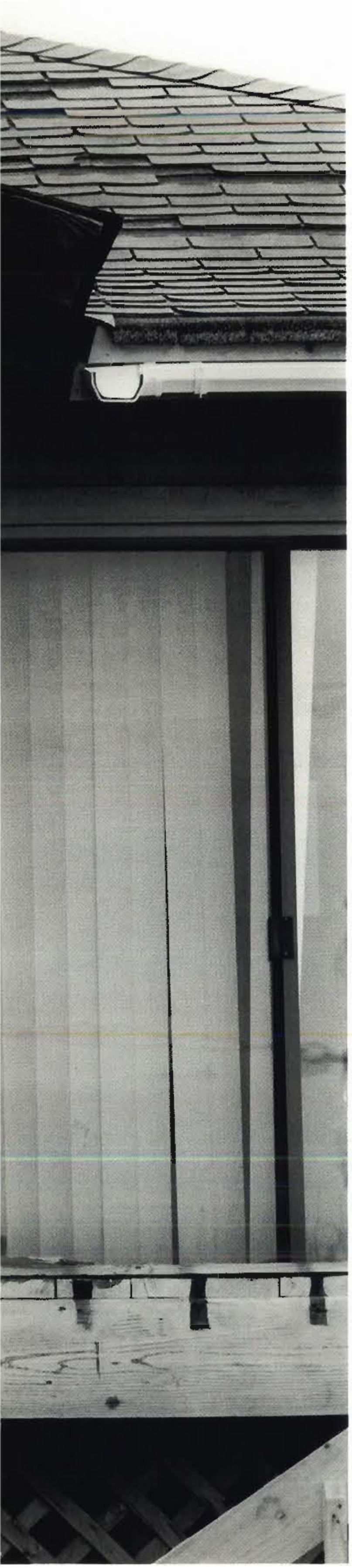


In the aftermath of Hurricane Hugo, ITT Hartford's claim department swung into action so quickly that adjusters were visiting customers while the storm was still moving up the East Coast.

In total, more than 90 percent of the claims filed by 10,000 personal and business customers in the Carolinas were settled within two months, and the quality of ITT Hartford's service following both disasters was commented on in letters from many satisfied customers.

The benefits of a customer-first philosophy also were evident in the outstanding performance of Zwolsche Algemeene in The Netherlands and London & Edinburgh in the United Kingdom, ITT Hartford's subsidiaries in Europe.

Zwolsche's sensitivity to the special needs of area insurance buyers helped lead to solid performance in its personal insurance operations in 1989, while London & Edinburgh's keen understanding of the U.K. insurance market resulted in a significant expansion of its personal auto insurance business. London & Edinburgh now serves more than 3 percent of the U.K. personal auto market, placing it among the leaders in the U.K. personal lines field.

Since its inception in 1984, ITT Hartford's auto and homeowners insurance program for members of the American Association of Retired Persons (AARP) has grown on a foundation of customer service. The program has repeatedly taught invaluable lessons about listening and responding to consumer needs.

During 1989, ITT Hartford's life insurance operations' emphasis on meeting customer needs resulted in two important milestones. The companies reached $10 billion in total invested assets under management, representing the funds the companies invest for pension, deferred compensation and individual life and annuities customers. Of that $10 billion, more than $6 billion was achieved by the asset management services division, which handles pension and deferred compensation plans.

Meanwhile, Hartford's group life and health insurance operation, which registered an impressive increase in profitability despite market pressures, is repositioning itself for the future with an emphasis on its administrative capabilities. By focusing on administrative services-only business, the group health operation limits its exposure to the costly fluctuations of the health care market.

Finance – ITT Financial reported approximately $10 billion in gross finance receivables outstanding at year-end 1989, retaining its position as one of the leading independent finance companies in North America. With more than 890 offices in 36 states and the Caribbean Basin, the company posted a 22 percent revenue gain in 1989.

ITT Consumer Financial Corporation reported a 27 percent growth rate in its consumer small loan portfolio, partially as a result of the successful development of the extended term financing program. This program enables the most creditworthy customers to reduce their monthly payments by choosing longer repayment terms.

For homeowner customers who desire longer terms, lower interest rates and the tax benefits of residential real estate loans, home equity and equity credit line products are available and continue to be an important portion of the portfolio.

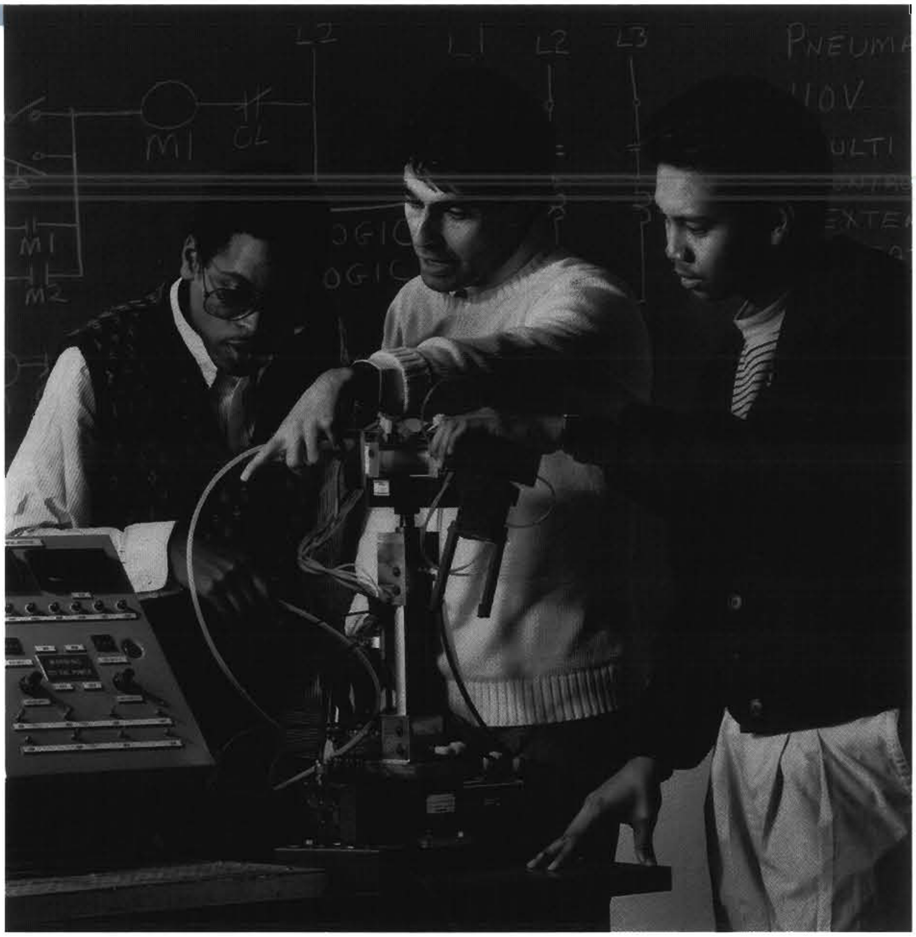
ITT Commercial Finance Corporation is one of the nation's largest companies in the specialized field of inventory financing. With an annual financing volume totaling more than $11 billion, ITT Commercial Finance ranks as one of the industry's top performers. The company serves over 20,000 manufacturers, distributors and dealers throughout the United States.

ITT Diversified Financial Corporation is a commercial installment finance company whose subsidiaries offer products ranging from the financing of over-the-road trucks to shopping centers and apartment complexes. It is comprised of three operating units: ITT Federal Bank, f.s.b., ITT Real Estate Services, and ITT Capital Finance.

ITT Financial's insurance operations are conducted by the Lyndon Insurance Group, one of the largest writers of credit insurance in the United States.

ITT Commercial Finance helped Teresa McBride succeed as the 1989 Minority Small Business Person of the Year.

More than 15,000 students are enrolled at ITT Technical Institutes where they learn the skills to contribute to the success of American industry.



Communication and Information Services – ITT's Communication and Information Services (COINS) operations offer a variety of products and services to businesses and individual consumers around the world.

This segment continued to increase its operating income as a result of improved performance in its "Yellow Pages" operations and Educational Services units, and a series of cost-saving measures. During 1989, ITT's long distance companies—ITT Communications Services, Inc. and ITT Chernow Communications, Inc.—were sold.

ITT World Directories, the leading producer of "Yellow Pages" directories outside the U.S., continued its expansion in Japan and Europe. ITT now assists the Nippon Telegraph & Telephone Corporation with publication of 46 million copies of 138 different directories throughout Japan.

ITT Bilka, the Turkish subsidiary, is installing that country's first automated Directory Assistance System and providing white and yellow pages directories in the Republic of Turkey.

ITT Educational Services continued to expand its nationwide Hands-on University℠ to 38 campuses with the addition of new schools in Albuquerque, Dallas, Milwaukee and Orlando. The company also increased the number of ITT Technical Institutes that offer bachelor as well as associate degrees.

More than 15,000 students are enrolled in ITT schools to study and practice business skills ranging from electronics and computer-aided design to robotics and secretarial science.

ITT Overseas Communications, through affiliate companies, continued to provide voice, record and data communications services to and from Cuba, the Philippines and the U.S. Naval Base at Guantanamo, Cuba.

Painstaking attention to detail is being given to maintain the beauty and tradition at the renowned New York landmark St. Regis Sheraton Hotel while providing guests the conveniences of modern life.

Hotels – ITT Sheraton is, by far, the world's most global hotel company with nearly 500 existing or planned properties serving more than 25 million guests annually in 64 countries around the world.

In late 1989, ITT Sheraton announced the first U.S.–Soviet joint venture to own and operate two hotels in the heart of Moscow. The hotels will be developed and owned by a joint venture comprised of ITT Sheraton, Pan American World Airways, Mossoviet (the governing body of the City of Moscow), and Aeroflot (the Soviet airline). ITT Sheraton is the first American hotel group to enter into such an agreement with Soviet authorities.

Under the agreement, which was reached after 18 months of negotiations, ITT Sheraton expects to manage at least two hotels in Moscow. The initial project, the 450-room, world-class Sheraton Moscow Hotel, will be located on Gorky Street about one mile from Red Square. It is expected to open in 1992.

The Sheraton® Guest Satisfaction System,℠ initiated in 1987, continues to be a cornerstone of our growth strategy as well as one of the most significant competitive elements at our disposal as we attempt to satisfy customers, one-by-one.

This program provides a highly reliable indication of service delivery and employee performance. In 1989, over 200,000 guest responses were generated and analyzed, the largest single pool of guest information in the hospitality industry worldwide.

Satisfied guests are the most critical element in the hospitality industry and this program is providing the key to greater levels of customer satisfaction throughout the ITT Sheraton chain.

In a recent survey of 27,000 frequent travelers from over 100 countries, ITT Sheraton was the preferred chain worldwide. European readers of *Business Traveler* also selected the Sheraton Towers Singapore and the Royal Orchid Sheraton Bangkok as two of the top ten hotels in the world.

Looking to the future, ITT Sheraton has many spectacular new hotels under construction from Chicago to St. Maarten and from Orlando to Botswana, as well as a number of renowned classic hotels which are undergoing restoration. For example, last year the Sheraton Moana Surfrider in Honolulu and the Sheraton Carlton in Washington, D.C., reopened after restoration to their former glory. Currently $200 million is being invested in restoring two other landmark buildings, the St. Regis Sheraton in New York City and the Sheraton Palace in San Francisco.

ITT Community Development Corporation, developer of the Palm Coast® community in northeastern Florida, began homesite sales and started construction in 1989 of the first estate homes in Hammock Dunes℠ Private Community. This upscale oceanfront golf community is now linked to Palm Coast by a high-span Intracoastal Waterway bridge that has made new ocean beach parks easily accessible to the growing working-age and retired population of Palm Coast.

Alcatel N.V. - ITT's equity income share in Alcatel N.V., the world's largest telecommunications equipment manufacturer, grew markedly over 1988 despite the unfavorable impact of the strengthened U.S. dollar and the absence of capital gains reported in 1988.

In 1989, Alcatel's sales rose to $14 billion. Public switching and transmission products accounted for nearly 40 percent of that total and the company had captured more than 16 percent of the telephone digital switching market worldwide. In Europe, nearly one out of every three telephone lines is connected to an Alcatel switching system exchange.

The company's two flagship digital switches continue to win heavy orders. The System 12® digital telecommunications switch, developed by ITT, continues to perform strongly and is profitable in every country where it has been installed. The E10™ switch also is performing strongly, with orders for both systems and lines installed exceeding 50 million equivalent lines and still growing.

Alcatel has received orders for and is supplying both systems to Eastern Europe.

Alcatel has also developed new processor-based features that are compatible with both the System 12 and System E10 to meet requirements for integrated services digital networks and intelligent network related services.

The company is currently working on contracts with the telecommunications administrations of Austria, France, The Netherlands and West Germany to supply digital cellular radio networks incorporating both E10 and System 12 switches as the core of the network infrastructure. It will also serve the Italian market through a recently-signed cooperation agreement with the state-owned Italtel company. These networks will form the basis of a pan-European mobile radio network.

Alcatel is in discussions with the French state-owned aerospace company, Aerospatiale, which could lead to the formation of the world's second largest satellite manufacturer.

Alcatel is the leading participant in a pan-European joint venture to develop digital cellular radio systems.

(Dollar amounts are in millions unless otherwise stated)

Sales, Revenues and Income
Worldwide sales and revenues were $20.1 billion in 1989 compared with $19.4 billion in 1988 and $18.2 billion in 1987. Excluding translation effects of foreign exchange and dispositions of units, sales and revenues increased by 8% in 1989 and 7% in 1988.

Net income for 1989 was $922 or $6.30 per fully diluted share compared with $817 or $5.68 per share in 1988 and $965 or $6.35 per share in 1987. Primary earnings per share were $6.52 in 1989, $5.70 in 1988 and $6.41 in 1987.

Net income in 1989 included a gain of $18 or $.12 per share on sale of ITT's former European headquarters facility and a loss of $28 or $.19 per share for write-off of ITT Hartford's remaining investment in Thomson McKinnon Inc. Net income in 1988 included an initial write-down of the TMI investment of $16 or $.11 per share and was also reduced by $41 or $.29 per share for Discontinued Operations. Net income in 1987 included a $1.66 per share gain on sale of ITT's remaining 24% interest in STC, a former U.K. affiliate, and a $.44 per share charge for an accounting change at ITT Defense.

"Fresh start" tax benefits are allowed the insurance subsidiaries under the 1986 Tax Reform Act, and amounted to $35 or $.24 per share in 1989, $52 or $.36 per share in 1988 and $100 or $.66 per share in 1987. The benefits will continue to decline in future periods.

After-tax realized gains from sale of investment securities by insurance and finance subsidiaries were $49 or $.34 per share in 1989, $19 or $.13 per share in 1988 and $45 or $.29 per share in 1987.

Cash Flow
The Corporation generated $2.5 billion of cash from operating activities during 1989, similar to the 1988 operating cash flow. For 1989, the insurance and finance subsidiaries generated approximately $1.6 billion, which, along with $1.4 billion of net additional borrowings at the finance subsidiaries, was substantially reinvested, largely in fixed-maturity investments and finance receivables. Net cash generated was primarily used to fund internal growth, repay close to $500 of other debt, and pay dividends. In 1989, asset divestments generated proceeds of $206 primarily from sale of the former European headquarters facility, the long distance telephone unit (Communications Services, Inc.), and a small European casualty insurance operation, in addition to sale of several small nonstrategic operations.

During 1989, the ITT Investment and Savings Plan for Salaried Employees was amended to add an Employee Stock Ownership Plan (ESOP) feature. ITT sold to the ESOP 9,384,951 shares of a new series of Cumulative Preferred Stock at a price of approximately $75 per share, financed through borrowings by the ESOP that are guaranteed by ITT. The Corporation used essentially all of the $700 proceeds from the sale of the preferred stock to repurchase 11.7 million of its common shares. Additionally, in 1989, 1988, and 1987 the Corporation repurchased 159,600, 2,952,156 and 7,842,900 shares at a total cost of $554.

During 1989 and 1988, dividend payments were $238 and $192, including $19 in 1989 related to the ESOP Preferred Stock. The Corporation's common stock dividend was increased by 8% with the 1989 fourth quarter declaration, to an annual rate of $1.60 per share.

Cash expenditures for plant, property and equipment were $604 in 1989, $524 in 1988 and $511 in 1987, and are expected to be about $750 in 1990. In 1989, approximately 66% of gross plant additions was for expansion, new products, and cost and production improvements, especially at Automotive, Hotels and Fluid Technology. Depreciation in 1989 was $417 compared with $428 in 1988 and $430 in 1987.

Expenditures for research, development and engineering totaled $553 in 1989, $516 in 1988 and $505 in 1987, of which approximately 60% was pursuant to customer contracts. These expenditures have funded numerous product developments including anti-lock brake systems, digital signal processing, decoders for satellite television, and gallium arsenide technologies.

The Corporation continually seeks to strengthen its market base. During 1989, expenditures for acquisitions totaling $74 were made, strengthening the Corporation's presence in Hotels and Fluid Technology. During 1988, ITT acquired a 2.8% interest in Compagnie Generale d'Electricite, a French multinational company. The Corporation sold this investment in January 1990, realizing net proceeds of $160 and a pretax gain of $71.

Insurance Investments
An essential element of the financial results of the insurance subsidiaries is the return on invested assets. The investment objective is the maximization of after-tax yield consistent with maintenance of appropriate liquidity and preservation of capital. Investment strategies are developed based on a variety of factors including business needs, regulatory requirements, and tax considerations. During 1987, cash flow was primarily invested in tax-exempt securities, whereas in 1988 and 1989 new funds were generally invested in intermediate-term taxable securities. Equity securities were less than 5% of total invested assets at December 31, 1989.

At December 31, 1989, insurance investments aggregated $19.0 billion, the majority invested in fixed-maturity U.S. Government, municipal and corporate bonds. The amortized cost of the fixed-maturity investments was $15.3 billion and the market value approximated $15.2 billion at December 31, 1989. The portfolio also contained $2.3 billion of liquid short-term investments, approximately $700 of equity investments and $750 of other long-term investments, primarily real estate investment properties.

Business Segments

Following is a discussion of important factors affecting sales, revenues and operating income:

Automotive

	1989	1988	1987
Sales	**$2,852**	$2,691	$2,352
Operating Income	**$ 211**	$ 198	$ 160

Sales improved in 1989 reflecting increased Western European vehicle production, largely in Germany, and higher installation rates of Teves anti-lock brake systems. The sales improvement was slowed because of reduced demand for vehicles in North America and the unfavorable impact of foreign exchange. The income improvement in 1989 was caused by the sales growth offset partially by start-up costs for wiper motor assembly capacity expansion in Canada.

Operating income and sales rose significantly during 1988, due largely to the completion of the start-up phase of Mark II anti-lock brake production and improved worldwide vehicle production rates. A new Mark IV anti-lock brake system assembly facility in Asheville, North Carolina, which will supply the U.S. market, began production during 1989.

Automotive operations in 1990 have started to experience the softness in the U.S. automotive industry, which will tend to depress volumes and profits in 1990.

Electronic Components

	1989	1988	1987
Sales	**$1,134**	$1,124	$1,035
Operating Income	**$ 67**	$ 78	$ 95

Electronic Components sales rose slightly in 1989 due to the 1988 acquisition of three connector companies, which were successfully integrated into the worldwide ElectroMechanical Group during the year, mostly offset by generally weak market conditions and the negative impact of foreign exchange. Sales in 1988 increased at a modest pace reflecting the impact of worldwide competitive pressures.

Operating income was lower in 1989 and 1988 due to restructuring actions, price and margin erosion in some semiconductor products and in the distribution business, and also from unfavorable foreign exchange.

Electronic Components is a key supplier of semiconductors to the new generation of European satellite-broadcast TV systems and to electronic dashboard display systems in the automotive industry.

Fluid Technology

	1989	1988	1987
Sales	**$960**	$839	$741
Operating Income	**$102**	$ 91	$ 87

Sales at Fluid Technology grew in 1989 and 1988 principally due to volume increases in submersible and other pumps, and in the controls and instruments businesses, and from the November 1988 acquisition of Allis-Chalmers Pump, Inc. Operating income increased in both years reflecting these improvements partly offset by the impact of competitive pressure on margins and unfavorable foreign exchange. Fluid Technology continues to make significant investments in factory and process technology to improve throughput and cost performance and these actions are expected to contribute to future profits.

Defense

	1989	1988	1987
Sales	**$1,580**	$1,387	$1,279
Operating Income	**$ 82**	$ 77	$ 34

Sales improved in 1989 reflecting higher shipments at the Defense Communications, Avionics, Electro-Optical and Aerospace/Optical divisions, partly offset by reduced volumes at Gilfillan.

Income increased in 1989 due to favorable contract performance, mainly at Avionics, and from increased shipments, largely offset by contract loss provisions at the Gilfillan and Aerospace/Optical divisions. The 1988 sales and operating income improvements primarily reflected higher shipments and better contract performance at Avionics and Electro-Optical.

Order backlog at December 31, 1989 was $2.8 billion, approximately two years sales. The backlog was down 17% from December 31, 1988 primarily due to the high level of shipments on mature contracts. Restructuring actions are under review in order to minimize exposure to defense spending cuts that could negatively impact future volumes and profits.

Pulp and Timber

	1989	1988	1987
Sales	**$1,151**	$1,084	$847
Operating Income	**$ 248**	$ 194	$ 92

Sales increased 6% in 1989 and operating income rose 28%, to record levels, as a result of continued favorable pulp and log pricing. Pulp mills ran at near capacity levels in 1989 and 1988. During both years, approximately 60% of pulp and log sales were to export markets.

Sales increased in 1988 and operating income more than doubled due to favorable prices and strong market conditions.

The significant increases in pulp prices experienced during 1989 and 1988 are not expected to continue in 1990.

Insurance

	1989	1988	1987
Revenues	**$8,689**	$8,553	$8,345
Operating Income	**$ 322**	$ 435	$ 325

Insurance revenues increased marginally in 1989 reflecting increased investment income due to strong cash flows and higher interest rates largely offset by pricing pressures in the soft North American property and casualty market.

Income decreased in 1989 reflecting unprecedented catastrophe losses and the effects of the domestic insurance industry downturn. Catastrophe losses totaled $133 in 1989, including $51 related to Hurricane Hugo, compared with $40 and $19 in 1988 and 1987, respectively. The worldwide combined ratio deteriorated to 107.7% in 1989 compared with 103.9% in 1988 and 103.7% in 1987. The effect of the higher combined ratio was partly reduced by higher investment income and improved results in the life operations, particularly in the group health and the asset management product lines.

Revenues and income increased in 1988 due to improved investment income and a turnaround in the group health business resulting from revised underwriting criteria.

Finance

	1989	1988	1987
Revenues	**$1,806**	$1,479	$1,292
Operating Income	**$ 195**	$ 194	$ 123

Finance revenues increased in 1989 and 1988 due to higher levels of finance receivables and investments. Operating income in 1989, essentially even with 1988, was reduced by $62 for reinforcement of charge-off policies in the consumer portfolio. This impact was offset by the volume improvements, capital gains on sales of securities of $29, and absence of the 1988 charge of $24 in connection with the settlement of a civil suit. The 1988 earnings improvement was due to the volume increases.

Gross finance receivables at December 31, 1989 and 1988 were $10.1 billion and $8.7 billion, respectively. At December 31, 1989, consumer receivables were 59% and commercial receivables were 41% of total finance receivables. Net charge-offs as a percentage of average net finance receivables were 3.25%, 2.28% and 3.95% in 1989, 1988 and 1987.

Communication & Information Services

	1989	1988	1987
Sales and Revenues	**$754**	$704	$604
Operating Income	**$ 94**	$ 69	$ 53

Communication & Information Services sales and revenues and income increased in 1989 and 1988 primarily reflecting growth and improved operating performance in the telephone directory operations. Additionally, 1988 income improved due to the absence of unprofitable schools in the educational services operations that were divested during 1988.

Operating results of Communication & Information Services have been restated to exclude the operations of the long distance unit, Communication Services, Inc., which was sold during 1989.

Hotels

	1989	1988	1987
Sales and Revenues	**$782**	$773	$744
Operating Income	**$117**	$113	$ 88

Hotels sales and revenues and income increased in 1989 reflecting improved hotel operations particularly in Europe, Africa and the Middle East and higher room rates, partly reduced by lower North American occupancy rates. Room rates averaged $79.46, $74.80 and $69.09 for 1989, 1988 and 1987, while hotel occupancy rates were 66.0%, 66.8% and 66.6%. The 1988 improvements were due to increased room rates and occupancy, and shelter and land sales.

During 1989, 23 new franchise and managed properties opened. Properties defranchised during 1989 totaled 33, reflecting ITT Sheraton's continuing emphasis on quality, guest satisfaction, and operating standards. Continuing major renovation projects include the New York St. Regis, in which the Sheraton purchased the remaining 50% interest from its joint venture partner during 1989, and the San Francisco Palace. Both are scheduled to be completed in late 1990 or early 1991. Total hotel properties, including franchised properties, were 454, 464 and 479 in 1989, 1988 and 1987.

Alcatel N.V.

	1989	1988	1987
Equity in earnings of Alcatel N.V.	**$167**	$125	$ 73

Income improved in both 1989 and 1988 reflecting strong worldwide performance in Alcatel's businesses. The income improvement in 1988 was aided by capital gains on the sale of certain businesses. Income in all three years included the realization of tax loss carryforwards. Alcatel's strong presence in Western Europe should provide substantial opportunities for future growth, in view of increasing integration of national economies throughout Europe.

Dispositions

Dispositions include the operating results and the gain or loss from sale or close-down of units that are not treated as "discontinued operations," and for 1989 include the write-off of Hartford's investment in Thomson McKinnon Inc. and a loss on the sale of Communications Services, Inc., partly offset by gains on sale of several relatively small product and service companies. The 1988 amount included an initial write-down of Hartford's TMI investment and several relatively small product companies and communications units. The 1987 amount includes the equity in earnings of STC prior to disposition and provisions for phaseout or sale of certain manufacturing operations.

Interest-net, Taxes and Other

Net interest expense in 1989 was lower than in 1988 primarily reflecting the lower level of debt outstanding partly reduced by higher rates. Net interest expense increased slightly in 1988 primarily reflecting higher interest on prior year tax liabilities.

Income taxes were higher in 1989 reflecting lower "fresh start" benefits and the higher level of pretax earnings. Income taxes were approximately the same in 1988 and 1987, as lower "fresh start" benefits in 1988 were offset by the effects of higher pretax earnings in 1987 and reduced U.S. tax rates in 1988.

"Other" consists primarily of corporate expenses and non-operating income (expense). In 1989, net costs were favorable to 1988 primarily due to the gain on sale of the European headquarters facility and absence of 1988 corporate provisions for facilities relocation and potential legal settlements. Net costs increased from 1987 to 1988 because of the 1988 corporate provisions. Headquarters administrative and general expenses in 1989 were comparable with 1988 and 1987.

Discontinued Operations

Discontinued operations include all divestments or cessation of operations that substantially eliminate ITT's involvement in a line of business. The 1988 loss from discontinued operations was primarily related to environmental issues in the wood-treatment operations, previously reported as discontinued. The 1988 amount also included a provision for additional phaseout costs at an industrial products unit.

Debt and Liquidity

Excluding the ESOP debt of $699, which is guaranteed by ITT, outstanding debt at the end of 1989 was $12.3 billion, compared with $11.4 billion at December 31, 1988. Stockholders equity increased $22 during 1989 to $8.1 billion. At the end of 1989, debt was 60% of total capitalization. The Corporation had cash and temporary investments of $649 at December 31, 1989. Year-end 1989 and 1988 debt levels include finance and insurance subsidiaries debt of $9.5 billion and $8.1 billion. Excluding these amounts, debt was 30% of total capitalization at the end of 1989, compared with 29% at the end of 1988.

Future debt needs can be met as required by traditional and emerging channels. In 1989, the Corporation issued debt of $400 including $100 each of 10.125% and 10.7% notes maturing in 1990, both of which were associated with variable interest rate swaps. Additionally, $100 of 8.85% notes maturing in 1994, and $100 of 8.25% debentures maturing in 2001 with a put option in 1994, were issued. Certain subsidiaries are subject to restrictions on transfer of funds to the Corporation, but the restrictions have not affected the Corporation's ability to meet its cash obligations. No change in this condition is anticipated.

The ITT parent company has revolving three-year credit agreements with 36 U.S. and foreign banks providing credit commitments of approximately $1.0 billion. These credit lines, for which ITT pays commitment fees, are used to assure working capital needs. Commercial paper is also used when appropriate, and the parent company had $191 of commercial paper outstanding at the end of 1989, some of which was used to replace external funding at Sheraton and Rayonier.

ITT's insurance and finance subsidiaries, foreign units, and certain other major domestic subsidiaries usually fill their capital needs on a direct basis. Equity advances are made to ITT's finance subsidiary, ITT Financial Corporation, to support its growth opportunities. The subsidiaries' funding sources are supplemented from time to time through Headquarters-established financing vehicles.

ITT Financial Corporation is a direct issuer of commercial paper in the United States, and issues Euro-commercial paper when market conditions provide a rate advantage. At December 31, 1989, $4.1 billion of commercial paper was outstanding. The company also maintains credit facilities with domestic and foreign banks totaling $3.2 billion. These credit facilities were available to support commercial paper borrowings at December 31, 1989. In 1989, medium and long-term debt totaling $1.4 billion was issued to fund growth and to replace maturing debt obligations.

The Corporation operates in a multinational environment with minimum exposures in hyperinflationary countries. As such, inflation has not had a significant impact on the financial position of the Corporation or results of its operations in recent periods, nor is it expected to do so in the near future.

The multinational operations of the Corporation also create exposure to foreign currency fluctuations. The Corporation minimizes its net investment at risk to such fluctuation through centrally coordinated hedging activities, primarily utilizing foreign currency denominated debt and swap transactions. During 1989, consolidated net assets were reduced by $33 reflecting the effect of the strengthening of the U.S. dollar on the Corporation's net foreign investments. Foreign currency transaction gains or losses were not significant during each of the three years in the period ended December 31, 1989.

REPORT OF MANAGEMENT

The management of ITT Corporation is responsible for the preparation and integrity of the information contained in the accompanying financial statements and other sections of the Annual Report. The financial statements are prepared in accordance with generally accepted accounting principles, and, where necessary, include amounts that are based on management's informed judgments and estimates. Other information in the Annual Report is consistent with the financial statements.

ITT's financial statements are audited by Arthur Andersen & Co., independent public accountants, elected by the shareholders. Management has made available to Arthur Andersen & Co. ITT's financial records and related data, and believes that the representations made to the independent public accountants are valid and appropriate.

ITT's system of internal controls is a major element in management's responsibility for the fair presentation of the financial statements. The internal controls, including accounting controls and the internal auditing program, are designed to provide reasonable assurance that the assets are safeguarded, that transactions are executed in accordance with management's authorization and are properly recorded, and that fraudulent financial reporting is prevented or detected.

ITT's internal controls provide for the careful selection and training of personnel and for appropriate divisions of responsibility. The controls are documented in written codes of conduct, policies, and procedures that are communicated to ITT's employees. Management continually monitors the system of internal controls for compliance. ITT's internal auditors independently assess the effectiveness of internal controls and make recommendations for improvement. Arthur Andersen & Co. also evaluate internal controls and perform tests of procedures and accounting records to enable them to express their opinion on ITT's financial statements. They also make recommendations for improving internal controls, policies and practices. Management takes appropriate action in response to each recommendation from the internal auditors and the independent public accountants.

The Audit Committee of the Board of Directors, composed of nonemployee directors, meets periodically with management and with the external and internal auditors to evaluate the effectiveness of the work performed by them in discharging their respective responsibilities and to assure their independent and free access to the Committee.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of ITT Corporation:

We have audited the financial statements of ITT Corporation (a Delaware corporation) and subsidiaries as of December 31, 1989 and 1988, and for each of the three years in the period ended December 31, 1989, as set forth on pages 28 through 37 of this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ITT Corporation and subsidiaries as of December 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles.

As discussed in the accompanying notes to financial statements, in 1987 the Company changed its method of revenue recognition for certain defense contracts.

Arthur Andersen & Co.

New York, New York
February 28, 1990

CONSOLIDATED INCOME

In millions except per share	1989	1988	1987
		Years ended December 31,	
Results for Year			
Sales and Revenues			
Products and Services	$ 9,559	$ 9,323	$ 8,558
Insurance	8,689	8,553	8,345
Finance	1,806	1,479	1,292
	20,054	19,355	18,195
Costs and Expenses			
Products and Services (including selling and general expenses of $925, $926 and $879)	8,635	8,523	7,882
Insurance	8,364	8,115	8,024
Finance (including interest expense of $773, $589 and $484)	1,616	1,287	1,169
Other	137	128	104
	1,302	1,302	1,016
Equity in earnings of Alcatel N.V.	167	125	73
Interest expense (net of interest income of $116, $117 and $127)	(216)	(232)	(230)
Miscellaneous income (expense), net	(16)	(66)	434
	1,237	1,129	1,293
Income taxes	(252)	(215)	(214)
Minority equity	(63)	(56)	(47)
Income from Continuing Operations	922	858	1,032
Discontinued Operations, net of tax benefit of $32	—	(41)	—
Income before Cumulative Effect of Accounting Change	922	817	1,032
Cumulative Effect of Accounting Change, net of tax benefit of $57	—	—	(67)
Net Income	$ 922	$ 817	$ 965
Earnings per Share—Primary			
Continuing Operations	$ 6.52	$ 5.99	$ 6.85
Discontinued Operations	—	(.29)	—
Income before Cumulative Effect of Accounting Change	6.52	5.70	6.85
Cumulative Effect of Accounting Change	—	—	(.44)
Net Income	$ 6.52	$ 5.70	$ 6.41
Earnings per Share—Fully Diluted	$ 6.30	$ 5.68	$ 6.35
Average Common Equivalent Shares—Primary	138	143	150
Average Common Equivalent Shares—Fully Diluted	145	144	153

CONSOLIDATED RETAINED EARNINGS

In millions except per share	1989	1988	1987
		Years ended December 31,	
Balance—Beginning of Year	$ 6,948	$ 6,329	$ 5,606
Net income	922	817	965
Dividends declared—			
Cumulative preferred stock, net of tax benefit	(43)	(22)	(24)
Common stock—$1.51, $1.3075 and $1.0625 per share	(198)	(176)	(149)
Redemption of preferred stock	—	—	(69)
Balance—End of Year	$ 7,629	$ 6,948	$ 6,329

The accompanying notes to financial statements are an integral part of the above statements.
ITT Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEET

In millions except for shares and per share	December 31, 1989	1988
Assets		
Cash (including temporary investments of $190 and $495)	$ 649	$ 880
Finance Receivables, net	8,732	7,600
Other Receivables, net	4,222	4,213
Inventories	1,327	1,308
Investment in Alcatel N.V.	1,810	1,683
Insurance Investments—		
Fixed maturities	15,303	13,685
Short-term	2,278	2,452
Other	1,451	1,175
Finance Investments	1,709	1,262
Deferred Policy Acquisition Costs	1,062	1,055
Plant, Property and Equipment, net	3,558	3,411
Other Assets	3,402	3,217
	$45,503	$41,941
Liabilities and Stockholders Equity		
Liabilities—		
Policy liabilities and accruals	$18,531	$16,859
Finance debt	8,475	7,127
Other debt	3,839	4,311
ESOP debt	699	—
Accounts payable and accrued liabilities	3,371	3,237
Other liabilities	2,531	2,372
	37,446	33,906
Stockholders Equity—		
Cumulative preferred stock (aggregate liquidation value $1,254 as of December 31, 1989)	977	278
Common stock: Authorized 200,000,000 shares, $1 par value Outstanding 122,759,885 and 133,631,615	123	134
Capital surplus	204	851
Deferred compensation—ESOP	(697)	—
Cumulative translation adjustments	(229)	(196)
Unrealized gain on equity securities, net of tax	50	20
Retained earnings	7,629	6,948
	8,057	8,035
	$45,503	$41,941

The accompanying notes to financial statements are an integral part of the above statements.
ITT Corporation and Subsidiaries

In millions	1989	1988	1987
		Years ended December 31,	
Operating Activities			
Net Income	$ 922	$ 817	$ 965
Adjustments to net income:			
Depreciation and amortization	485	500	506
Provision for doubtful receivables	319	191	248
Gain on divestments	(25)	(15)	(429)
Change in receivables, inventory, payables and accrued liabilities	110	(144)	(271)
Accrued and deferred taxes	(105)	(290)	(120)
Increase in liability for policy benefits and unpaid claims	1,039	1,343	1,724
Change in deferred policy acquisition costs	(16)	(39)	(189)
Finance charges earned but not collected	(85)	(64)	(53)
Other	(174)	117	(294)
Cash from operating activities	2,470	2,416	2,087
Investing Activities			
Additions to plant, property and equipment	(604)	(524)	(511)
Proceeds from divestments	206	72	1,525
Purchase of insurance and finance investments	(14,075)	(11,115)	(13,013)
Sale and maturity of insurance and finance investments	11,782	8,893	10,803
Finance receivables originated or purchased	(14,437)	(11,413)	(9,893)
Finance receivables repaid or sold	13,061	10,007	8,676
Change in temporary investments	305	94	(496)
Other	(77)	(126)	(119)
Cash used for investing activities	(3,839)	(4,112)	(3,028)
Financing Activities			
Short-term debt, net	(368)	1,044	1,142
Long-term debt issued	1,839	1,067	595
Long-term debt repaid	(656)	(872)	(1,269)
Investment life contracts, net	863	870	594
Issuance of ESOP preferred stock	700	—	—
Repurchase and redemption of stock	(703)	(140)	(472)
Dividends paid	(238)	(192)	(166)
Other	2	(12)	96
Cash from financing activities	1,439	1,765	520
Exchange Rate Effects on Cash	4	6	4
Increase (decrease) in cash	74	75	(417)
Cash—beginning of year	385	310	727
Cash—end of year	$ 459	$ 385	$ 310
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 1,070	$ 947	$ 839
Income taxes	$ 337	$ 345	$ 525

The accompanying notes to financial statements are an integral part of the above statements.
ITT Corporation and Subsidiaries

CONSOLIDATED CAPITAL STOCK AND SURPLUS

In millions except for shares	Cumulative Preferred Stock Shares	Cumulative Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Capital Surplus
Balance—January 1, 1987	6,925,808	$321	141,342,894	$141	$1,264
Stock incentive plans	—	—	849,099	1	39
Debt and stock conversions	(431,961)	(16)	1,485,836	2	54
Redemptions and repurchases	(715,379)	(27)	(7,842,900)	(8)	(398)
Balance—December 31, 1987	5,778,468	278	135,834,929	136	959
Stock incentive plans	—	—	635,608	1	26
Debt and stock conversions	(7,360)	—	113,234	—	3
Repurchases	—	—	(2,952,156)	(3)	(137)
Balance—December 31, 1988	5,771,108	278	133,631,615	134	851
Issue of ESOP Series preferred stock	9,384,510	700	—	—	—
Stock incentive plans	—	—	539,043	1	24
Debt and stock conversions	(38,380)	(1)	448,827	—	20
Repurchases	—	—	(11,859,600)	(12)	(691)
Balance—December 31, 1989	15,117,238	$977	122,759,885	$123	$ 204

CUMULATIVE PREFERRED STOCK

Stated value in millions

	Per share—Dec. 31, 1989 Conversion Rate	Per share—Dec. 31, 1989 Redemption Price	1989 Shares	1989 Stated Value	1988 Shares	1988 Stated Value
$4.00 Series K	1.6380	$100.00	3,702,693	$174	3,724,053	$175
$2.25 Series N	1.2660	85.00	1,036,205	4	1,052,925	4
$5.00 Series O	1.4474	100.00	993,830	99	994,130	99
$5.221 ESOP Series	1.0000	74.59	9,384,510	700	—	—
			15,117,238	$977	5,771,108	$278

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 for the Series K and O, $34 per share for the Series N and $79.81 per share for the ESOP Series.

The accompanying notes to financial statements are an integral part of the above statements.
ITT Corporation and Subsidiaries

(Dollar amounts are in millions unless otherwise stated)

Accounting Policies

Consolidation Principles: The financial statements include the accounts of all majority-owned subsidiaries. Certain 1988 and 1987 items have been reclassified to conform to the 1989 presentation.

Inventories: Inventories are generally valued at the lower of cost (first-in, first-out) or market. In manufacturing operations, a full absorption procedure is employed using standard cost techniques. Revenue from long-term contracts is recognized on the percentage-of-completion method. Expected losses on long-term contracts and potential losses from obsolete and slow-moving inventories are provided for currently.

Plant, Property and Equipment: Plant, property and equipment are recorded at cost, including capitalized interest applicable to major project expenditures. The Corporation normally claims the maximum depreciation deduction allowable for tax purposes. In general, for financial reporting purposes, depreciation is provided on a straight-line basis over the useful economic lives of the assets involved. Accumulated depreciation was $2,685 and $2,565 at December 31, 1989 and 1988.

Insurance Operations: Policy acquisition costs, representing commissions, premium taxes and certain other underwriting costs of developing and implementing new insurance programs, are deferred and amortized over the periods benefited. Estimates of future revenues, including investment income, are compared with 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.

The liability for property and casualty claims includes amounts determined by claims adjusters on an individual basis and estimates of unreported claims based on past experience. Reserves, principally for disabled claimants, terminated reinsurance treaties, and certain reinsurance contracts that fund loss runoffs for unrelated parties, are discounted to present values. The reserves amounted to $599 and $596 as of December 31, 1989 and 1988, after discounting at interest rates of 3% to 14%.

While the reserves for unpaid claims are believed to be adequate, no representation is made that the ultimate liability may not exceed such estimates. Unearned premium reserves are calculated principally by the application of monthly pro rata fractions for the unexpired terms of policies in force.

Liabilities for future life insurance payments, excluding investment and universal life-type contracts, are computed by the net level premium method, based on estimated future investment yields, withdrawals, mortality and other assumptions appropriate at the time the policies are issued. Liabilities for investment and universal life-type contracts are stated at policyholder account values under the retrospective deposit method. Revenue on these contracts represents policyholder charges, and the cost of acquiring new business is recognized over the term of the contract in proportion to estimated gross profits.

Finance Operations: Revenues from finance receivables are recognized using the interest method, whereby finance charges, loan origination fees and direct loan origination costs are recognized over the life of the related loan to provide a constant effective yield. Because the insurance subsidiaries of the finance companies are integral parts of the finance operations, the accounts of those subsidiaries are included in finance revenues, operating costs and expenses, assets and liabilities. The reserve for credit losses is based on analysis of historical loss experience and is considered adequate to cover incurred losses in the finance receivables portfolio.

Research and Development: ITT incurs significant costs each year for research, development, and engineering programs expected to contribute substantial profits to future operations. Such costs are charged to income as incurred except to the extent recoverable under existing contracts. Total expenditures amounted to $553 in 1989, $516 in 1988 and $505 in 1987, including $345, $334 and $314 of costs expended pursuant to customer contracts and certain engineering and other development costs.

Earnings per Share: Primary earnings per share are based on the weighted average of common and common equivalent shares outstanding, which include Series K and N convertible preferred stock, certain convertible debentures and stock options. With respect to options, it is assumed that proceeds to be received upon exercise are used to acquire common stock of the Corporation. Net income applicable to primary earnings per share consists of reported net income less dividend requirements on preferred stock not considered common stock equivalents, net of the related tax benefits. Fully diluted earnings per share are based on the weighted average of common stock equivalents and assumes conversion of the Series O and ESOP Series convertible preferred stock and other debentures. Net income applicable to fully diluted earnings per share consists of reported net income, less the amount, net of tax, the Corporation would be required to contribute to the ESOP if the ESOP Series preferred shares were converted into common stock.

Accounting Change: Effective January 1, 1987, the Corporation modified its method of percentage-of-completion accounting for long-term fixed-price production contracts of the Defense business. Revenues are currently recognized based on the ratio of units delivered to total units. Previously, revenue recognition for such contracts was generally based on the ratio of cost incurred to total estimated cost.

Alcatel N.V.

Equity in earnings of Alcatel N.V. represents the Corporation's 37% equity in after-tax income of Alcatel N.V., adjusted for amortization of the amount by which the Corporation's investment exceeds its underlying equity in the joint venture, over periods not longer than 40 years. Alcatel N.V.'s after-tax income is estimated at $528 for 1989 and was $425 and $363 for 1988 and 1987, respectively.

At December 31, 1989 (estimated) and 1988, Alcatel N.V. had (in billions) current assets of $9.7 and $8.5, total assets of $13.6 and $12.3, current liabilities of $8.3 and $7.6, and total liabilities of $10.7 and $10.0. For the years ended December 31, 1989 (estimated), and 1988 and 1987, Alcatel had sales (in billions) of $14.1, $13.1 and $12.9.

Receivables

Net finance receivables of $8,732 and $7,600 at December 31, 1989 and 1988 were reduced by unearned income of $1,117 and $896 and by reserve for credit losses of $270 and $239. Consumer receivables were $6,011 and $4,919 and commercial receivables were $4,108 and $3,816 at December 31, 1989 and 1988. These receivables are generally written with maximum original terms of 48 months for consumer small loans, 84 months for commercial loans and 180 months for consumer and commercial mortgages. Net charge-offs as a percentage of average net finance receivables were 3.25%, 2.28% and 3.95% in 1989, 1988 and 1987.

Net other receivables were $4,222 and $4,213 at December 31, 1989 and 1988, net of allowances for doubtful accounts of $90 and $62. These balances include insurance premiums receivable and agents' balances of $2,177 and $2,113, trade receivables of $1,490 and $1,594, and long-term notes receivable of $645 and $568.

Income Tax

Income tax data include discontinued operations and cumulative effect of accounting change:

	1989	1988	1987
Pretax income:			
U.S.	$ 548	$ 479	$ 671
Foreign	523	443	390
	$1,071	$ 922	$1,061
Provision for income tax:			
Current—			
U.S. federal	$ 124	$ 175	$ 146
State and local	16	16	24
Foreign	259	214	184
	399	405	354
Deferred—			
U.S. federal	(125)	(198)	(232)
Foreign and other	(22)	(24)	35
	(147)	(222)	(197)
	$ 252	$ 183	$ 157

In the preceding table, ITT's equity in the earnings of Alcatel N.V. and other 20% to 50% owned companies is excluded from pretax income.

No additional provision was made for U.S. taxes payable upon distribution of foreign net assets amounting to approximately $600, since these amounts are permanently reinvested. With respect to 1989 U.S. income, the Corporation and its subsidiaries will pay a U.S. federal income tax of approximately $130.

The deferred income tax provision (benefit) is the tax effect related to recording revenues and expenses in different periods for financial reporting and tax purposes. The insurance subsidiaries accounted for $110, $158 and $175 of the deferred benefit in 1989, 1988 and 1987, largely due to loss reserve discounting and unearned premium reserves. Other items which included accelerated depreciation, tax credits and reserve for credit losses were not individually significant.

A reconciliation of the U.S. statutory rate to the effective income tax rate is as follows:

	1989	1988	1987
U.S. statutory rate	34.0%	34.0%	40.0%
Foreign tax rate differential	.3	(.7)	(2.3)
Tax exempt interest income	(9.0)	(11.5)	(10.9)
Fresh start tax benefits	(3.3)	(5.7)	(9.5)
Tax on foreign dividends	3.6	5.1	3.1
Capital gains benefits	—	—	(3.1)
Other taxes	(2.1)	(1.4)	(2.5)
Effective income tax rate	23.5%	19.8%	14.8%

A new accounting standard related to income taxes is now scheduled for implementation in 1992. Since the proposed standard has not yet been finalized, the Corporation cannot quantify the effect of adoption, nor can a decision be made as to the method of adoption. The final standard, however, is not expected to have a material impact on the Corporation's financial position.

Miscellaneous Income (Expense), net

Miscellaneous income (expense) items were:

	1989	1988	1987
Net gains (losses) on sale or phaseout of companies	$(39)	$(24)	$420
Sale of facilities and assets	25	(4)	(10)
Claims and settlements	(12)	(26)	—
Other—net	10	(12)	24
	$(16)	$(66)	$434

Debt

As of December 31 debt consisted of:

	Finance		Other	
	1989	1988	**1989**	1988
Commercial paper	**$4,079**	$3,914	**$ 898**	$1,219
Bank loans and other short-term	**574**	496	**587**	834
Long-term	**3,822**	2,717	**2,354**	2,258
	$8,475	$7,127	**$3,839**	$4,311

Long-term debt maturities and interest rates at December 31 were:

	Finance		Other	
Maturities	Under 9%	Over 9%	Under 9%	Over 9%
1990	$ 88	$ 379	$ 317	$ 401
1991	117	61	6	65
1992	241	422	219	73
1993	356	33	281	10
1994	169	430	263	12
1995-2005	470	944	546	167
2006-2011	92	200	195	2
Total-1989	$1,533	$2,469	$1,827	$ 730
Total-1988	$ 932	$2,010	$1,733	$ 736

The balances as of December 31, 1989 and 1988 exclude amortizable debt discounts of $180 and $225 for finance and $203 and $211 for other operations.

Bank loans and other short-term debt are drawn down under lines of credit, some of which extend for a fixed term of several years. As of December 31, 1989, unused credit lines were (in billions) $3.1 for finance and $1.8 for other operations.

Discontinued Operations

A provision of $41, net of taxes, was made in 1988, primarily related to environmental issues in the wood-treatment operations of ITT Rayonier, previously reported as discontinued.

Retained Earnings

Under the Corporation's long-term debt agreements, approximately $4.7 billion of consolidated retained earnings as of December 31, 1989 was unrestricted as to the payment of dividends. Subsidiaries are subject to various restrictions, such as regulatory and borrowing restraints on transfers of funds to the Corporation in the form of cash dividends, loans or advances. The restricted net assets of subsidiaries amounted to $1.4 billion as of December 31, 1989.

Leases and Rentals

As of December 31, 1989, minimum rental commitments under operating leases were $240, $208, $161, $127 and $104 for 1990, 1991, 1992, 1993 and 1994. For the remaining years, commitments amounted to $708, aggregating total minimum lease payments of $1,548.

Rental expenses for operating leases were $354, $363 and $378 for 1989, 1988 and 1987.

Capital Stock

In 1989, the Corporation used the proceeds of the sale of preferred stock to the ESOP to repurchase 11.7 million shares of ITT Common Stock. In addition, in 1989, 1988 and 1987 the Corporation repurchased 159,600, 2,952,156 and 7,842,900 shares of ITT Common Stock. The excess costs of $691, $137 and $398, respectively, over par value were charged to Capital Surplus.

As of December 31, 1989, reserved shares of authorized and unissued common stock were (in thousands of shares):

Conversion of cumulative preferred stock	18,200
Conversion of debt	26
Stock options and restricted stock awards	6,584
Shares reserved	24,810

Employee Benefit Plans

The Corporation and its subsidiaries sponsor numerous pension plans. The plans are funded with trustees, except in some countries outside the U.S. where funding is not required.

Total pension expenses were:

	1989	1988	1987
Defined Benefit Plans			
Service cost	$100	$ 90	$ 95
Interest cost	231	206	198
Return on assets	(412)	(245)	(114)
Net amortization and deferral	214	64	(51)
Net periodic pension cost	133	115	128
Other Pension Cost			
Defined contribution (savings) plans	30	23	22
Other	7	8	9
Total Pension Expense	$170	$146	$ 159

U.S. pension expenses included in the net periodic pension costs in the prior table were $77, $58 and $77 for 1989, 1988 and 1987.

The following table sets forth the funded status of the pension plans, amounts recognized in the Corporation's consolidated balance sheet at December 31, 1989 and 1988, and the principal weighted average assumptions inherent in their determination.

	December 31, 1989		December 31, 1988	
	Domestic	Foreign	Domestic	Foreign
Actuarial present value of benefit obligations				
Vested benefit obligation	$1,958	$ 523	$1,577	$ 436
Accumulated benefit obligation	$2,059	$ 564	$1,676	$ 483
Projected benefit obligation	$2,422	$ 678	$1,975	$ 587
Plan assets at fair value	2,294	255	1,926	198
Projected benefit obligation (in excess of) plan assets	(128)	(423)	(49)	(389)
Unrecognized net (gain) or loss	241	(20)	113	(12)
Unrecognized net obligation (asset) from January 1, 1986	(68)	41	(74)	40
Pension asset (liability) recognized in the balance sheets	$ 45	$(402)	$ (10)	$(361)
Discount rate	8.50%	7.84%	9.25%	7.77%
Rate of return on invested assets	9.75%	8.41%	9.75%	8.35%
Salary increase assumption	5.6%	4.9%	5.6%	4.4%

For substantially all domestic plans, assets exceed accumulated benefits and, for substantially all foreign plans, accumulated benefits exceed the related assets.

In May 1989, the ITT Investment and Savings Plan for Salaried Employees was amended to add an Employee Stock Ownership Plan (ESOP) feature. ITT sold to the ESOP 9,384,951 shares of a new series of cumulative preferred stock at a price of $74.5875 per share, which was financed through borrowings by the ESOP guaranteed by ITT. Shares are allocated to participants as a percent of each covered employee's salary and respective contribution.

The ESOP debt of $699 is included on the consolidated balance sheet due to the Corporation's guarantee of its repayment by the ESOP and is offset by a reduction in stockholders equity as deferred compensation. The debt is at fixed rates ranging between 8.53% and 8.84% and matures in varying amounts through 2004. Interest and principal repayments are funded by dividends on the ESOP Series preferred stock and Plan contributions from the Corporation.

The Corporation and some of its subsidiaries provide health care and life insurance for certain retired employees. The aggregate costs amounted to $22, $17 and $15 in 1989, 1988 and 1987. The cost of health care benefits is generally recognized as incurred, while the cost of life insurance benefits is generally provided in accordance with actuarial determinations through a funded plan with payments made to a trust.

Stock Incentive Plans

The Corporation's Stock Option Incentive Plan provides common shares for options to employees, exercisable over ten-year periods. The price per share is the fair market value on the date each option is granted. As of December 31, 1989, 5,159,869 shares were available for future grants.

As of December 31, 1989, options for 894,386 shares were exercisable under incentive plans. Common shares subject to options during 1989 were (in thousands of shares):

January 1, 1989	1,482
Granted ($52.00 to $61.13 per share)	438
Exercised ($23.00 to $55.25 per share)	(311)
Canceled or expired ($25.25 to $57.88 per share)	(185)
December 31, 1989 ($23.00 to $61.13 per share)	1,424

The Restricted Stock Award Plan authorizes awards of common shares to employees which are subject to a restriction period (generally three years) during which they cannot be sold or otherwise transferred. During 1989, 277,942 shares were awarded.

Foreign Currency
Balance sheet accounts are translated at the exchange rate in effect at each year end, and income accounts are translated at the average rates of exchange prevailing during the year. The national currencies of foreign operations are generally the functional currencies.

Translation adjustments recorded in a separate component of stockholders equity were:

	1989	1988	1987
Balance—Beginning of Year	$(196)	$ (93)	$(383)
Translation of foreign currency financial statements	(58)	(166)	425
Hedges of net foreign investments	25	63	(135)
Balance—End of Year	$(229)	$(196)	$ (93)

Reinsurance
ITT's insurance operations cede insurance to other insurers to limit maximum loss. Such transfers do not relieve the originating insurers of their primary liabilities. These operations also assume insurance from other insurers. Property and casualty premiums ceded and deducted from earned premiums were (in billions) $1.0, $1.1 and $1.2 for 1989, 1988 and 1987. Property and casualty reinsurance assumed and included in earned premiums was $803, $750 and $858 for 1989, 1988 and 1987.

Property and casualty reinsurance recoverable on losses and claims deducted in the development of the reserve for unpaid claims were $2.6 billion for 1989 and 1988. Property and casualty reinsurance recoverable on paid losses were $947 and $820 at December 31, 1989 and 1988.

Insurance Operating Costs and Expenses
Insurance operating costs and expenses were:

	1989	1988	1987
Benefits, claims and claim adjustment expenses	$6,038	$5,821	$5,700
Amortization of deferred policy acquisition costs	1,443	1,506	1,463
Other insurance expenses	883	788	861
	$8,364	$8,115	$8,024

Insurance and Finance Investments
Fixed-maturity investments held by ITT's insurance subsidiaries are carried at amortized cost. The market values at December 31, 1989 and 1988 were $15,227 and $13,072. Short-term investments of insurance subsidiaries are carried at cost, which approximates market. Other insurance investments are primarily equity securities and real estate. Equity securities are carried at market, and were $700 and $559 at December 31, 1989 and 1988. The after-tax difference from cost for equity securities is reflected in stockholders equity. Net investment income including realized gains is reflected in insurance revenues and totaled $1,475, $1,259 and $1,098 for 1989, 1988 and 1987, net of investment expenses of $70, $72 and $63.

Finance investments consist principally of fixed-maturity investments and are carried at amortized cost. The market values were over cost by $36 and $17 at December 31, 1989 and 1988.

Total realized investment gains for 1989, 1988 and 1987 were $74, $30 and $69. Net pretax changes in unrealized gains (losses) for fixed-maturity and equity securities were $600 for 1989, $(6) for 1988 and $(680) for 1987.

Policy Liabilities and Accruals
Policy liabilities and accruals at December 31 were:

	1989	1988
Future policy benefits, unpaid claims and claim adjustment expenses	$11,401	$10,504
Other policy claims and benefits payable	4,819	3,956
Unearned premiums	2,311	2,399
	$18,531	$16,859

Commitments and Contingencies
The Corporation and its subsidiaries are involved in various legal actions, including antitrust matters, some of which involve claims for substantial sums. However, ITT's ultimate liability with respect to these and other contingencies is not considered material to its consolidated financial position.

In millions	Identifiable Assets 1989	Identifiable Assets 1988	Identifiable Assets 1987	Gross Plant Additions 1989	Gross Plant Additions 1988	Gross Plant Additions 1987	Depreciation 1989	Depreciation 1988	Depreciation 1987
Products									
Automotive	**$ 1,744**	$ 1,541	$ 1,536	**$192**	$136	$129	**$ 90**	$ 83	$ 82
Electronic Components	**781**	780	780	**64**	55	53	**55**	49	53
Fluid Technology	**623**	587	491	**41**	28	26	**29**	23	20
Defense	**539**	551	474	**53**	52	53	**41**	37	32
Pulp and Timber	**1,481**	1,389	1,342	**81**	70	58	**69**	93	77
Services									
Insurance	**24,493**	22,787	20,843	**46**	46	51	**59**	60	54
Finance	**10,752**	9,117	7,594	**29**	24	14	**17**	13	12
Communication & Information Services	**454**	373	350	**28**	21	27	**12**	11	12
Hotels	**1,451**	1,256	984	**70**	45	37	**24**	21	19
Alcatel N.V.	**1,810**	1,683	1,650						
Dispositions	**39**	596	521	**6**	27	48	**15**	27	62
Total Segments	**44,167**	40,660	36,565	**610**	504	496	**411**	417	423
Other	**1,336**	1,281	1,726	**6**	22	30	**6**	11	7
	$45,503	$41,941	$38,291	**$616**	$526	$526	**$417**	$428	$430

Products. Automotive, Electronic Components and Fluid Technology units are engaged in the manufacture and sale of equipment for commercial, military and process industries. Products include pumps, valves, electrical connectors, components, integrated circuits, other semiconductors, automotive equipment and accessories and parts for the OEM and aftermarket.

Defense activities include the development, manufacture, sale, installation, maintenance and operation of military electronic and communications equipment, primarily for the U.S. Government.

Pulp and Timber includes the production of wood pulps (chemical cellulose and bleached papermaking pulps) and other wood products. Also included are units involved in the mining, preparation and sale of metallurgical and steam coal.

Services. Insurance and Finance businesses write a broad range of life, property and casualty insurance and make consumer and commercial loans. Communication & Information Services primarily provides telephone directories and educational services. Hotels includes a worldwide network of hotels and inns as well as community development in northern Florida.

Geographical Information

In millions	Sales and Revenues 1989	Sales and Revenues 1988	Sales and Revenues 1987	Income 1989	Income 1988	Income 1987	Identifiable Assets 1989	Identifiable Assets 1988	Identifiable Assets 1987
U.S.	**$14,327**	$13,820	$13,284	**$ 797**	$ 915	$ 784	**$35,887**	$32,677	$29,094
Western Europe	**4,866**	4,760	4,201	**475**	386	351	**4,962**	4,792	4,629
Canada and Other	**861**	775	710	**110**	109	65	**1,508**	1,508	1,192
Alcatel N.V.				**167**	125	73	**1,810**	1,683	1,650
Total Segments	**$20,054**	$19,355	$18,195	**$1,549**	$1,535	$1,273	**$44,167**	$40,660	$36,565

* Reference is made to page 6 wherein Business Segment sales and revenues and income information is provided. Business segment presentations have been modified to reflect activities of the ongoing asset redeployment program. Dispositions include gains and losses and results of operations of major units sold, partially divested or closed, other than discontinued operations.

Income of the segments consists of the gross profit on sales and revenues less operating expenses incurred. "Other" includes nonoperating income, corporate expenses and minority equity. Intersegment sales, which are priced on an arm's-length basis and eliminated in consolidation, are not material.

QUARTERLY RESULTS FOR 1989 AND 1988 *(unaudited)*

In millions except per share	Three Months Ended Mar. 31	June 30	Sept. 30	Dec. 31	Year
1989					
Sales and Revenues	$4,830	$5,215	$4,922	$5,087	$20,054
Costs and Expenses	$4,537	$4,852	$4,597	$4,766	$18,752
Net Income	$ 200	$ 244	$ 221	$ 257	$ 922
Earnings Per Share—					
Primary	$ 1.40	$ 1.70	$ 1.55	$ 1.87	$ 6.52
Fully Diluted	$ 1.40	$ 1.65	$ 1.46	$ 1.79	$ 6.30
1988					
Sales and Revenues	$4,544	$4,963	$4,691	$5,157	$19,355
Costs and Expenses	$4,284	$4,619	$4,345	$4,805	$18,053
Net Income	$ 179	$ 228	$ 230	$ 180	$ 817
Earnings Per Share—					
Primary	$ 1.25	$ 1.59	$ 1.60	$ 1.26*	$ 5.70*
Fully Diluted	$ 1.24	$ 1.58	$ 1.60	$ 1.26*	$ 5.68*

** Amounts are net of a $.29 per share charge for Discontinued Operations.*

ITT COMMON STOCK— MARKET PRICES AND DIVIDENDS *(unaudited)*

In dollars	1989 High	1989 Low	1988 High	1988 Low
Three Months Ended				
March 31	**$55.75**	**$49.75**	$49.25	$43.25
June 30	**60.75**	**52.88**	53.38	44.25
September 30	**64.50**	**56.38**	53.00	46.25
December 31	**63.75**	**57.13**	54.88	47.75

The above table reflects the range of market prices of ITT Common Stock as reported in the consolidated transaction reporting system of the New York Stock Exchange, the principal market in which this security is traded, under the trading symbol "ITT".

During the two-month period ended February 28, 1990, the high and low reported market prices of ITT Common Stock were $60.13 and $52.00. The dividends declared in 1989 were $.37 per common share in each of the first three quarters and $.40 per common share in the fourth quarter.

See Financial Summary—"Debt and Liquidity" and Notes to Financial Statements—"Retained Earnings" for descriptions of restrictions on dividend payments.

There were approximately 73,000 holders of record of ITT Common Stock on February 28, 1990.

ITT Common Stock is listed on the following exchanges: Amsterdam, Antwerp, Basel, Bern, Brussels, Frankfurt, Geneva, Lausanne, London, New York, Pacific, Paris, Tokyo, Vienna and Zurich.

Export Sales (unaudited)
In serving its global markets, ITT generates significant export sales, which benefit local economies. Sales of products (including intercompany) manufactured in various countries for shipment to other countries consisted of the following:

In millions Manufacturing Location	Sales Destination	1989	1988	1987
United States	Western Europe	**$ 219**	$ 230	$ 230
	Other	**650**	669	489
		869	899	719
Western Europe	United States	**190**	187	111
	Western Europe	**497**	430	392
	Other	**115**	98	85
		802	715	588
Other		**106**	84	72
		$1,777	$1,698	$1,379

In millions except per share	1989	1988	1987	1986	1985
Results and Position					
Sales and Revenues	$20,054	$19,355	$18,195	$16,271	$13,781
Income from Continuing Operations	$ 922	$ 858	$ 1,032	$ 511	$ 254
Discontinued Operations	—	$ (41)	—	$ 12	$ 12
Net Income †	$ 922	$ 817	$ 965	$ 477	$ 266
Total Assets	$45,503	$41,941	$38,291	$34,407	$31,611
Long-Term Debt—					
Excluding finance subsidiaries	$ 2,354	$ 2,258	$ 2,911	$ 2,924	$ 2,756
Finance subsidiaries	$ 3,822	$ 2,717	$ 2,118	$ 2,404	$ 2,219
Stockholders Equity	$ 8,057	$ 8,035	$ 7,586	$ 6,968	$ 6,360
Earnings per Share—Primary					
Continuing Operations	$ 6.52	$ 5.99	$ 6.85	$ 3.34	$ 1.61
Discontinued Operations	—	$ (.29)	—	$ .08	$ .09
Net Income †	$ 6.52	$ 5.70	$ 6.41	$ 3.12	$ 1.70
Earnings per Share—Fully Diluted †	$ 6.30	$ 5.68	$ 6.35	$ 3.11	$ 1.69
Dividends Declared per Common Share	$ 1.51	$1.3075	$1.0625	$ 1.00	$ 1.00
Significant Ratios*					
Return on Sales**	4.9%	4.7%	5.9%	3.4%	2.0%
Return on Assets	2.3%	2.1%	2.9%	1.7%	1.0%
Return on Total Capital	8.4%	8.0%	9.3%	6.7%	4.9%
Return on Stockholders Equity	11.5%	10.5%	14.2%	7.8%	4.3%
Assets to Sales	218%	207%	200%	202%	205%
Book Value per Share	$ 55.42	$ 56.33	$ 52.11	$ 44.91	$ 40.84

† *Includes effect of accounting change in 1987 and extraordinary item in 1986.*
* *Excludes effect of accounting change in 1987 and extraordinary item in 1986.*
** *Excludes effects of Discontinued Operations.*

As reported in the ITT Annual Reports for the respective years

Dollars in millions except per share	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
Results for Year										
Sales and Revenues:										
Products and Services	**$ 9,559**	9,323	8,551	7,596	11,871	12,701	14,155	15,958	17,306	18,530
Insurance and Finance	**$10,495**	10,032	10,974	9,841	8,136	6,852	6,094	5,963	5,891	5,289
Taxes—Income and Other	**$ 788**	716	730	990	853	738	909	1,595	1,677	1,979
Income*	**$ 922**	817	1,085	540	294	448	675	703	695	894
Earnings per share										
—Primary	**$ 6.52**	5.70	7.20	3.53	1.89	2.97	4.50	4.75	4.70	6.12
—Fully Diluted	**$ 6.30**	5.68	7.13	3.52	1.88	2.97	4.44	4.68	4.63	5.95
Return on Stockholders Equity*	**11.5%**	10.5%	14.5%	7.9%	4.7%	7.4%	11.1%	11.5%	11.1%	15.0%
Dividends Declared										
Per common share	**$ 1.51**	1.3075	1.0625	1.00	1.00	1.88	2.76	2.70	2.62	2.45
Gross Plant Additions	**$ 616**	526	526	446	713	786	823	920	1,020	1,131
Depreciation	**$ 417**	428	430	387	508	489	553	540	532	520
Year-End Position										
Plant, Property and Equipment (net)	**$ 3,558**	3,411	3,482	3,514	4,718	4,701	5,295	5,361	5,540	5,387
Total Assets	**$45,503**	41,941	39,983	35,805	37,849	31,341	30,612	29,172	28,975	28,378
Long-Term Debt:										
Excluding finance subsidiaries	**$ 2,354**	2,388	2,645	2,745	2,816	2,705	2,924	3,029	3,449	2,958
Finance subsidiaries	**$ 3,822**	2,717	1,772	2,042	2,326	1,996	1,828	1,568	1,527	1,303
Stockholders Equity	**$ 8,057**	8,035	7,820	7,146	6,470	6,033	6,106	6,123	6,116	6,274
Per common share	**$ 55.42**	56.33	53.83	46.17	41.62	38.73	39.36	39.12	39.08	39.32
Year-End Statistics										
Common Shares Outstanding (millions)	**123**	134	136	141	141	140	138	133	130	122
Stockholders (thousands)	**90**	97	110	125	147	163	181	193	200	214
Employees (thousands)	**119**	117	120	123	232	252	278	283	324	348
Orders on Hand (Manufacturing)	**$ 4,374**	4,922	5,061	3,720	6,688	5,529	5,389	5,739	7,062	7,363

* *Before cumulative effect of accounting change in 1987 ($67 million) and extraordinary losses in 1986 ($46 million) and 1981 ($18 million).*

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Trustee and Registrar for 8⅝% Convertible Subordinated Debentures
United States Trust Company
of New York
New York, NY 10005

Trustee and Registrar for 8⅜% Notes Due 1990, 8⅞% Debentures and 10⅛% Notes
Continental Illinois National Bank and
Trust Company of Chicago
Chicago, IL 60699

Trustee and Registrar for 8¼% Debentures, 8.85% Notes and 10.70% Notes
The Chase Manhattan Bank N.A.
New York, NY 10081

Trustee and Registrar for 7⅞% Notes, 8⅜% Notes Due 1996 and 10.45% Variable Duration Notes
The Bank of New York
New York, NY 10015

Trustee and Registrar for 6½% Debentures and 7½% Debentures
Bank of America, NTSA
Los Angeles, CA 90071

Fiscal Agent for 11% Notes
Bankers Trust Company
New York, NY 10015

Fiscal Agent for 6¾% Yen Bonds
The Mitsubishi Trust and
Banking Corporation
Tokyo, Japan

Agent for 5⅛% Swiss Franc Bonds
Morgan Guaranty (Switzerland) Ltd.
Zurich, Switzerland

Trustee and Chief Paying Agent for 7% Deutsche Mark Bonds
Deutsche Bank Aktiengesellschaft
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Central Paying Agent for 7% Netherland Guilder Notes
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