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MOODY'S[®]

INDUSTRIAL MANUAL

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MOODY'S INVESTORS SERVICE, INC.

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INTERNATIONAL TELEPHONE & TELEGRAPH CORPORATION

CAPITAL STRUCTURE

LONG TERM DEBT

Issue	Rating	Amount Outstanding	Times Charges Earned 1974 1973	Interest Dates	Call Price	Price Range 1974 1973
1. 11% notes, 1982	A	\$100,000,000		J&J 1	\$100.00	107 1/2-101 1/2
2. S.F. debenture 3.90s, 1995	A	100,000,000		A&O 1	\$107.120	104 1/2-85 1/2
3. 8.30% notes, 1975	A	50,000,000		A&O 1		101 1/2-92
4. S. f. deb. 10s, 2000	A	\$75,000,000		J&D 1	\$109.375	
5. 9 1/2% notes, 1983	A	\$75,000,000		J&D 1	\$100	
6. Conv. subord. deb. 8 1/2s, 2000	Baa	\$100,000,000		J&D 1	\$108.625	
7. Conv. sub. deb. 4 1/2s, 1987		50,000,000		Oct. 1	\$103 1/2	
8. 8 1/2% notes, 1989		50,000,000				
9. French Franc deb. 3.50s, 1979-88		45,000,000	3.18 3.99			
10. 12.6% l. t. bank loans, 1976-79		37,500,000				
11. 8.31-9% notes, 1982		37,000,000				
12. 4 1/2% notes, 1973-84		35,000,000				
13. L. t. bank loans, 1973		30,000,000				
14. L. t. bank loans, 1981		20,000,000				
15. S.F. deb. 4.90s, 1987	A	18,701,000		A&O 1	\$103.25	78 - 58 82 - 75
16. Other		27,497,000				
17. Consolidated Subsidiaries		1,574,379,000				

CAPITAL STOCK

Issue	Par Value	Amount Outstanding	Earned per Sh. 1974 1973	Divs. per Sh. 1974 1973	Call Price	Price Range 1974 1973
1. \$4 cum. conv. pfd., ser. E	No par	71,423 shs.		\$4.00 \$4.00	Text	85 1/2-38 176 1/2-79
2. \$4 cum. conv. pfd., ser. F	No par	70,837 shs.		4.00 4.00	Text	78 1/2-38 1/2 168 1/2-73
3. \$4 cum. conv. pfd., ser. H	No par	557,187 shs.		4.00 4.00	Text	58 - 29 109 - 50 1/2
4. \$4.50 cum. conv. pfd., ser. I	No par	2,156,487 shs.	\$21.56 \$24.90	4.50 4.50	Text	58 1/2-31 1/2 103 - 51
5. \$4 cum. conv. pfd., ser. J	No par	379,450 shs.		4.00 4.00	Text	53 - 28 1/2 101 1/2-47 1/2
6. \$4 cum. conv. pfd., ser. K	No par	6,033,840 shs.		4.00 4.00	Text	52 1/2-28 1/2 100 - 46
7. \$2.25 series N	No par	10,033,244 shs.		2.25 2.25	Text	35 1/2-18 74 - 30 1/2
8. \$5 series O	No par	1,000,000 shs.		5.00 5.00	Text	61 1/2-36 98 1/2-53
9. Common	\$1	\$123,224,000 shs.	\$3.63 \$4.17	1.43 1.28		29 1/2-12 60 1/2-25

Subject to change; see text. As reported on average shares including common equivalents, 1973 before extraordinary items; after, \$4.22. Beginning July 1, 1981. Sold in July 1974. Sold June 5, 1975. Beginning June 1, 1981.

HISTORY

Incorporated in Delaware Jan. 31, 1968, succeeding a company of same name incorporated in Maryland, June 16, 1920. and 1974 Moody's Industrial Manuals. Company reported no major acquisitions during 1974.

PRINCIPAL SUBSIDIARIES

Name	Jurisdiction in Which Organized	Parent	% of Voting Secur. Owned	Name	Jurisdiction in Which Organized	Parent	% of Voting Secur. Owned
Int'l Tel. and Tel. Corp. ("ITT")	Del.	ITT	100	Int'l Standard Elec. Corp. ("ISEC")—Cont'd			
Ashe Chemical Ltd.	England	ITT	100	Stand. Telephones and Cables Ltd.	England	ISEC	100
Fed. Electric Corp.	Del.	ITT	100	Stand. Telephones and Cables Pty. Ltd.	Australia	ISEC	100
Hamilton Management Corp.	Del.	ITT	100	Transelectronics Ltd.	Hong Kong	ITT Far East Limited	100
ITT Community Development Corp.	Del.	ITT	100	ITT Industries, Inc. ("ITTI")	Del.	ISEC	100
ITT Consum. Serv. Corp. ("ITICS")	Del.	ITT	91.65	Grohe Handels G.m.b.H.	Germany	ITTI	85
ITT Continental Baking Co.	Del.	ITT	100	ITT Gesellschaft für Beteiligung G.m.b.H. ("ITIG")	Germany	ITTI	100
ITT Educational Services, Inc.	Del.	ITT	100	ITT Svenska AB	Sweden	ITTI	100
ITT Grinnell Corp.	Del.	ITT	100	SWF Spezialfabrik für Autozubehör Gustav Rau G.m.b.H.	Germany	ITTI	100
ITT Gwaltney Inc.	Del.	ITT	100	Alfred Teves G.m.b.H.	Germany	ITIG	100
ITT Higbie Mfg. Co.	Del.	ITT	100	U. S. Tel. & Tel. Corp. ("UST&T")	Del.	ITT	100
ITT Rayonier Inc.	Del.	ITT	100	Amer. Cable & Radio Corp. ("AC&R")	Del.	UST&T	100
ITT Service Industries Corp.	Del.	ITT	100	All Amer. Cables & Radio, Inc.	N. Y.	AC&R	100
ITT Thompson Industries, Inc.	Del.	ITT	100	Commercial Cable Co., The	N. Y.	AC&R	100
ITT World Directories Inc.	Del.	ITT	75	ITT World Comm. Inc.	Del.	AC&R	100
Josef Reiss, Technische Kunststoffwarenfabrik G.m.b.H.	Germany	ITT	100	ITT Comm. Inc.—Virgin Isl. ("CIVI")	Del.	AC&R	100
Pa. Glass Sand Corp.	Del.	ITT	100	Virgin Islands Tel. Corp.	Virgin Isl.	CIVI	100
Rayonier Quebec, Inc.	Canada	ITT	100	Int'l Tel. & Tel. Corp., Sud America	Del.	ITT	100
Howard W. Sams & Co., Inc.	Del.	ITT	100	Significant Insurance and Finance Abbey Int'l Corp.	Ca.	ITT	100
The O. M. Scott & Sons Co.	Del.	ITT	100	Excess Holdings Ltd.	England	ITT	100
The Sheraton Corp.	Del.	ITT	100	Hartford Fire Ins. Co.	Conn.	ITT	99.9
Transp. Displays, Inc.	New York	ITT	100	Intercontinentale Assicurazioni S.p.A.	Italy	ITT	100
Int'l Standard Elec. Corp. ("ISEC")	Del.	ITT	100	Int'l Tel. & Tel. Credit Corp.	Del.	ITT	100
Bell Tel. Mfg. Co.	Belgium	ISEC	99.99	ISE Finance Hlds. S.A.	Luxembg.	ISEC	100
Compagnie Generale de Con. Telephone	France	ISEC	99.95	ITT Financial Corp. ("ITIFC")	Del.	ITIFC	100
Fabbrica Apparecchiature per Comunicazioni Elettriche Standard S.p.A.	Italy	ISEC	100	ITT Life Ins. Corp.	Wisc.	ITIFC	97
Le Materiel Phonique	France	ISEC	67.96	ITT Indus. Credit Co.	Nev.	ITIFC	100
Rimmel Limited	England	ITT Indust.	100	Kellogg Credit Corp.	Del.	ITT	100
Stand. Electrica, S.A.	Brazil	ISEC	100	Transatlantische Versicherungs A.G.	Germany	ISEC	99.26
Stand. Electrica, S.A.	Spain	ISEC	75.1				
Standard Elektrik Lorenz A.G.	Germany	ISEC	99.44				
Stand. Telefon und Radio A.G.	Switzerland	ISEC	100				

Note: The names of some consolidated wholly-owned subsidiaries of ITT carrying on the same lines of business as other subsidiaries named above, have been omitted. Also omitted from the list are the names of other subsidiaries since, if considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary.

See appended statements.

Joint Venture: In 1973 formed United States Transmission Systems (USTS) with Transcontinental Gas Pipeline Corp., and filed for FCC approval to operate it. Company plans to provide private-line communication service along a 200-mile-wide corridor from New York to Texas.

BUSINESS

General: Engaged directly and through subsidiaries, in development, manufacture, sale, leasing and service of electronic and telecommunication equipment and industrial and consumer products and related financial activities; in life, fire and casualty insurance; production of chemical cellulose, wood pulp, lumber & wood derived chemicals; mining, beneficiating and marketing of silica and attapulgitte; consumer and business services; manufacture and distribution of food products and automotive parts; and telecommunication operations.

Relative contributions to consolidated sales and revenues and income by principal product groups for the five years ended Dec. 31, 1974, are shown below:

Principal Product Groups	1974	1973	1972	1971	1970
	Sales & Revenues				
	(Dollar Amounts in Millions)				
Manufacturing:					
Telecommunication equipment	\$3,037 27%	\$2,451 24%	\$1,874 22%	\$1,541 20%	\$1,198 18%
Industrial products	2,453 22	2,022 20	1,573 18	1,418 19	1,336 20
Automotive & consumer products	1,441 13	1,346 13	1,068 12	864 11	715 10
Natural resources	586 5	456 5	355 4	313 4	305 5
Defense and space programs	443 4	445 4	469 6	469 6	434 6
Total mfg.	7,960 71	6,720 66	5,279 62	4,605 60	3,986 59
Consumer and Business Services:					
Food processing and services	1,319 12	1,145 11	1,013 12	971 13	917 14
Consumer services	724 7	674 7	600 7	554 7	493 7
Telecommunication operations	161 1	139 1	122 1	111 1	95 1
Business and financial services	588 5	518 5	414 5	388 5	322 5
Total Cons. & Bus. Svs.	2,792 25	2,476 24	2,149 25	2,024 26	1,837 27

Manufacturing (cont'd):
Divestible Operations:
Under consent decrees
Other

	1974		1973		1972		1971		1970	
	Sales & Revenues		Sales & Revenues		Sales & Revenues		Sales & Revenues		Sales & Revenues	
	(Dollar Amounts in Millions)		(Dollar Amounts in Millions)		(Dollar Amounts in Millions)		(Dollar Amounts in Millions)		(Dollar Amounts in Millions)	
	384	3	377	9	1,040	12	937	12	856	13
	18	1	110	1	101	1	109	2	101	1
Total	\$11,154	100%	\$10,183	100%	\$8,569	100%	\$7,675	100%	\$6,780	100%
	Income		Income		Income		Income		Income	
	1974		1973		1972		1971		1970	
	(Dollar Amounts in Millions)		(Dollar Amounts in Millions)		(Dollar Amounts in Millions)		(Dollar Amounts in Millions)		(Dollar Amounts in Millions)	
Manufacturing:	\$176	39%	\$155	30%	\$110	23%	\$85	15%	\$46	12%
Telecommunication equipment	98	22	89	17	61	13	59	14	54	14
Industrial products	28	6	54	10	43	9	36	8	32	8
Automotive & consumer products	66	14	54	10	38	8	28	7	30	8
Natural resources	5	1	12	2	11	2	11	2	11	3
Defense and space programs										
Total mfg.	371	82	364	69	263	55	199	46	173	45
Consumer and Business Services:										
Food processing and services	(4)	(1)	(7)	(1)	6	1	19	4	21	6
Consumer services			(8)	(1)	13	3	12	3	13	3
Telecommunication operations	34	8	25	5	22	5	15	3	16	4
Hartford Fire	81	18	125	24	126	26	105	25	83	23
Business and financial services	6	1	28	5	28	6	24	6	17	5
Tot. Cons. & Bus. Svcs.	117	26	163	32	195	41	175	41	155	41
Divestible Operations:										
Under consent decrees	(19)	(4)	(5)	(1)	14	3	33	8	27	7
Other	(18)	(4)	(1)	--	5	1	21	5	27	7
Total	\$451	100%	\$521	100%	\$477	100%	\$428	100%	\$382	100%

Includes Puerto Rico Telephone Co. 1970-73, Argentina operations 1970-Sept. 30, 1974 and Chilean companies on an equity basis 1970-71.

Excludes 1973 and 1972 gains on extraordinary divestments under consent decrees of \$6.5 and \$6.7 million, respectively, or \$0.05 per common share in both years, and 1971 provision for losses on investment in Chilean operations of \$70 million or \$0.57 per common share.

Allocated corporate charges for 1973 have been restated to conform with improved techniques initiated in 1974.

Sales and revenues of consolidated United States and Canadian operations aggregated \$4,992,542,000, \$4,911,929,000, \$4,578,853,000, \$4,263,638,000 and \$3,972,440,000 for the years 1974, 1973, 1972, 1971 and 1970, respectively. United States and Canadian operations accounted for approximately 51%, 47% and 55% in 1974, 1973 and 1972, respectively, and 65% in the two preceding years, of consolidated income before extraordinary items.

MANUFACTURING—U. S. & CANADA

Manufacturing operations of ITT in United States and Canada, with sales of \$2.6 billion in 1974, are conducted through divisions and subsidiaries that may be grouped as follows:

Telecommunication Equipment Group, which accounted for 10% of the total sales of United States and Canadian manufacturing divisions and subsidiaries of ITT for 1974, is principally engaged in the engineering, manufacture, sale and installation of telephone apparatus, switching systems, automatic toll ticketing and transmission equipment, postal automation equipment, commercial microwave systems, private communication systems and marine navigational and communication aids.

Industrial Products Group, which accounted for 50% of the total sales of United States and Canadian manufacturing divisions and subsidiaries of ITT for 1974, is principally engaged in the engineering, manufacture and sale of equipment for the construction and process industries and of components for the aviation, computer and construction industries. Its principal products include temperature and process controls and instruments, pumps and air compressors, heating and air-conditioning equipment, abrasive products, electrical connectors and vacuum devices, semiconductors, integrated circuits and wire and cable.

Automotive Products Group, which accounted for 8% of the total sales of United States and Canadian manufacturing divisions and subsidiaries of ITT for 1974, is engaged in the engineering, manufacture and sale of automotive equipment and accessories for the original equipment market and aftermarket. Its principal products include automotive stampings, mouldings, accessories and parts.

Natural Resources Group, which accounted for 22% of the total sales of United States and Canadian manufacturing divisions and subsidiaries of ITT for 1974, is engaged in the production of wood pulps (chemical cellulose and bleached papermaking pulps) and other wood products (lumber, plywood, treated wood products, logs and silvichemicals), and in the business of mining, beneficiating and marketing silica (used in the manufacture of glass, ceramic tile and porcelain products) and attapulgite (a form of fuller's earth, which is used as an absorbent or carrier in a wide variety of products and processes).

Defense and Space Programs Group, which accounted for 10% of the total sales of United States and Canadian manufacturing divisions and subsidiaries of ITT for 1974, is principally engaged in the engineering, manufacture, sale, installation, maintenance and operation of telecommunication, electronic and energy related equipment, including component parts, and in research, development and training in these and allied fields. Most

of the work of this Group is done for the United States Government under prime contracts and subcontracts that are subject to renegotiation and termination by the Government. Certain of these contracts also contain provisions for price redetermination based on performance and for liquidated damages in favor of the Government in certain circumstances.

MANUFACTURING—FOREIGN

The principal foreign manufacturing operations of ITT have, as their principal customers, foreign governments, agencies operating communication systems and automobile companies. Products of the group are sold directly and through a worldwide network of distributors, field representatives and sales subsidiaries.

In 1974, total sales of foreign manufacturing subsidiaries in Western Europe (including the United Kingdom), Latin America and other areas aggregated \$5.4 billion, and such areas accounted for approximately 94%, 3% and 3%, respectively, of the total foreign manufacturing sales of ITT and its subsidiaries consolidated.

These foreign manufacturing operations include:

Germany: Standard Elektrik Lorenz AG (99.44% owned), the largest foreign manufacturing unit of ITT in terms of sales, manufactures a wide variety of communication and electronic equipment, including telephone apparatus, switching systems, transmission equipment, wire and cable, teleprinters, UHF and VHF wideband radio links, railway signaling equipment, military communication equipment, data systems and data peripheral equipment, document and material handling equipment, instrumentation controls, components, integrated circuits, electron tubes and consumer electronic products. Alfred Teves G.m.b.H. (100% owned) is engaged primarily in the manufacture and sale of automobile brakes, hydraulic equipment for aircraft and industry and air-conditioning equipment.

United Kingdom: Standard Telephones and Cables Limited (100% owned), the second largest foreign manufacturing unit of ITT in terms of sales, manufactures a wide variety of communication and electronic equipment, including telephone apparatus, switching systems, transmission equipment, components, land and submarine cable systems and consumer electronic products.

France: Compagnie Generale de Constructions Telephoniques (CGCT) (99.95% owned), Le Materiel Telephonique (67.96% owned) and other smaller companies manufacture an extensive line of telephone apparatus, switching systems, signaling systems, remote control devices, radio transmitters, air navigation systems, flight simulators, electronic measurement and indicating instruments, temperature and process controls and instruments, pumps and plumbing products, consumer electronic products, heating accelerators and fluid circulating pumps.

Belgium: Bell Telephone Manufacturing Company (99.99% owned) manufactures a wide variety of communication and electronic equipment, including telephone apparatus, switching systems, transmission equipment, components, mail handling equipment and consumer electronic products.

Other European Countries: ITT has wholly-owned or majority-owned subsidiaries engaged in the manufacture of communication and electronic equipment in Austria, Denmark, Finland, Greece, Italy, The Netherlands, Norway, Portugal, Spain, Sweden and Switzerland. Products of these companies include military communication equipment, telephone apparatus, switching systems, transmission equipment, mobile radio equipment and consumer electronic products. ITT also has wholly-owned subsidiaries engaged in the manufacture of automotive equipment in Italy.

Certain European units have subsidiaries in Africa. Special organizations have been established in Europe to coordinate export of telecommunication equipment and other products to markets in Africa, the Middle East and Eastern Europe. Special management organizations have been established to coordinate the marketing in Europe of a full line of electronic components and of private communication and industrial and consumer products.

Latin America: Standard Electrica, S.A. (100% owned), one of Brazil's major manufacturers of communication equipment, produces telecommunication systems including telephone apparatus, switching systems and transmission equipment. Manufacturing facilities in Mexico (49% owned) and Peru (60% owned) produce telecommunication equipment. In March 1975, ITT announced that it plans to sell a majority of its shares in the Brazilian manufacturing subsidiary to Brazilian interests. The terms of this planned sale have not been established. With respect to ITT's manufacturing subsidiaries in Argentina, reference is made to "Other Divestible Operations" below.

Far East and Pacific: Australia. Standard Telephones & Cables Pty. Ltd. (100% owned) produces telecommunication and electronic equipment, including telephone apparatus, switching systems, transmission equipment, radio transmitters and air navigation equipment; it owns a substantial interest in the largest cable manufacturing company in Australia. Hong Kong. Transelectronics Ltd. (100% owned) produces certain consumer electronic products for European markets.

Investments: ITT has investments in the capital stock of two Japanese companies: Nippon Electric Co., Ltd. (3.8% owned), which manufactures communication and electronic equipment, and Sumitomo Electric Industries, Ltd. (6.7% owned), which principally manufactures wire and cable.

CONSUMER AND BUSINESS SERVICES

ITT's consumer and business services are carried on through divisions and through subsidiaries substantially all of which are wholly-owned. At Dec. 31, 1974, the gross plant investment in ITT facilities related to consumer and business services, excluding Hartford Fire Insurance Co., represented approximately 30% of the consolidated gross plant, property and equipment of ITT. The more important consumer and business services are described below.

Food Processing and Services:

ITT Continental Baking Co. is principally engaged in the manufacturing and selling at wholesale of bread, cakes and snack foods, frozen foods, candy and related products in the United States. Continental's baked prod-

ucts are sold principally under two trademarks, "Wonder" for its bread products, and "Hostess" for its cake products. Continental's frozen food products are sold under the "Morton" trademark.

ITT Gwaltney Inc. processes a variety of fresh and processed pork products, ranging from fresh pork cuts to the aged and specially cured "Genuine Smithfield" Ham, and including bacon sausage and luncheon meats.

Consumer Services:

The Sheraton Corp. owns and operates, or operates under lease or management agreements, or grants franchises to independent operators of, hotels and motor inns in approximately 150 cities in the United States and 25 foreign countries.

ITT Community Development Corp. is engaged in land development at Palm Coast, Flagler County, Fla., where it is in the process of implementing development plans for approximately 30,000 acres and may develop substantial additional contiguous acreage presently held within ITT.

The O. M. Scott & Sons Co. is engaged in the sale of lawn grass seed, the manufacture and sale of lawn fertilizers, weed and insect controls and the sale and distribution of other lawn care products.

Other ITT subsidiaries operate parking facilities at airports, downtown lots and garages, hospitals and stadiums in the United States and Europe, provide cleaning, maintenance and related services for commercial and industrial buildings, publish reference services, magazines and books, and provide post-high school resident and home study training in technical, trade and business subjects.

Telecommunication Operations:

Through ITT World Communications Inc. and other subsidiaries, ITT operates by submarine cable, satellite and radio in providing international telegraph, telex and other record communication services to and from the United States and its principal possessions, the United Kingdom, the Philippines and several countries in Latin America and the Caribbean, as well as international telephone services in Indonesia, Puerto Rico, the Virgin Islands, Panama and Bolivia. These companies provide their respective services on a worldwide basis through interconnection arrangements with each other and with other telecommunication entities.

An ITT subsidiary furnishes telephone service in the Virgin Islands.

Business and Financial Services:

Hamilton Management Corp. is the investment adviser and distributor of Hamilton Funds, Inc., Hamilton Income Fund, Inc., and Hamilton Growth Fund, Inc., open-end investment companies registered under the Investment Company Act of 1940. In Mar. 1975, ITT and Oppenheimer Management Corp. reached a preliminary agreement for the sale of Hamilton to Oppenheimer. The proposed sale is subject to various conditions, including the negotiation of a formal agreement and the approval of the shareholders of the Hamilton investment companies. The directors of the investment companies have taken the proposed sale under consideration for study and investigation along with other alternatives.

A broad range of life and accident and health insurance is written throughout most of the United States by ITT Life Insurance Corp. In addition, ITT subsidiaries operating in Canada, the United Kingdom, the Bahamas (including Abbey Companies that operate in all such countries, and Xcel Holding Group which operates in the United Kingdom and which has branches and subsidiaries in several countries), The Netherlands, Italy and Germany write a broad range of life, accident and health, and casualty insurance.

Subsidiaries of ITT Financial Corp. make direct installment and commercial loans to individuals and businesses and purchase retail installment contracts. Kellogg Credit Corp. renders financial assistance to ITT customers, principally telephone companies in the United States, by extending long and short-term financing arrangements.

ITT World Directories Inc. (75% owned), through subsidiaries and affiliates, compiles and publishes telephone directories providing classified directory services ("Golden Pages") for telephone subscribers in more than ten foreign countries.

Other ITT companies are engaged in the sale and lease of data communication equipment to business and industry and in the distribution of electrical and automotive replacement parts produced by others.

ITT finance subsidiaries in Australia, Belgium, England, Germany, Luxembourg and the United States hold leases and installment sales contracts relating to products of other ITT companies and otherwise assist such companies in financing sales to their customers.

Hartford Fire Insurance Co.:

ITT owns 99.9% of the common stock of Hartford Fire Insurance Co. (Hartford).

Hartford and its insurance company subsidiaries as a group are engaged in the business of writing fire, marine, casualty, life and accident and health insurance, annuity contracts and surety bonds, and in the investment and reinvestment of their assets. Such group is frequently referred to by persons in the insurance industry and others as the Hartford Insurance Group or The Hartford.

For complete description of operations, see Moody's Bank & Finance Manual.

In March 1974, the U. S. Commissioner of Internal Revenue advised tax counsel for Hartford Fire Insurance Co. that the Internal Revenue Service was revoking retroactively its 1969 rulings relating to ITT's acquisition of Hartford. The rulings related to the "tax-free" nature of the exchange, i.e., to the right of former Hartford shareholders to defer payment of any tax on the excess of the value of the ITT stock acquired in exchange for their Hartford stock over the tax base of such Hartford stock, until such time as the ITT stock so acquired was sold or otherwise disposed of in a taxable transaction. The Internal Revenue Service indicated that the rulings were incorrect as a matter of law, asserted that performance under a certain contract submitted to the Service by ITT in connection with its ruling request was not in accordance with the contract, and asserted that certain material facts were misstated or omitted in the ruling request submitted by ITT. ITT is of the opinion that the Internal Revenue Service is in error on all these points, and ITT is taking steps to challenge these contentions in court.

In the event that the courts do not sustain the tax-free nature of the Hartford exchange, it is ITT's intention to reimburse former Hartford shareholders for any net overall additional Federal income tax which might result from the Internal Revenue Service action, including any Federal income tax that might be due as a result of such reimbursement. Many complex factors would affect such shareholders' tax liabilities which would be reimbursed. On the basis of an independent survey of former Hartford shareholders conducted in 1974, based on statistical sampling, ITT estimates that it might have a contingent liability of approximately \$100,000,000 for such reimbursement, including interest and tax on the tax liability. If it were to become apparent that the courts would not uphold ITT's position as to the tax-free nature of the Hartford exchange, ITT would make an extraordinary charge to income in the amount of the then estimated liability, which charge would have a material effect on net income for the year in which the charge is made.

See also Other Legal Proceedings below.

Divestible Operations Under Consent Decrees

The consent decrees of Sept. 24, 1971, described under Antitrust Consent Decrees below require that ITT (i) within two years of the date of such decrees divest itself of Canteen Corp. and its subsidiaries, the fire protection division of ITT Grinnell Corp. and Grinnell's 46% interest in Hajoca Corp.; and (ii) within three years of such date divest itself of Avis, Inc., Levitt and Sons, Inc., and their respective subsidiaries, and ITT Hamilton Life Insurance Co. and ITT Life Insurance Co. of New York. Each consent decree provides that if the divestitures required thereby are not accomplished within the prescribed period, then ITT shall be required, except as the appropriate Court may otherwise direct, to place its remaining interest in the entities which it has not divested in the control of a Court-appointed trustee, with authority in such trustee to manage and dispose of such interest, subject to supervision by the Court.

The former fire protection division of ITT Grinnell Corp. (now known as Grinnell Fire Protection Systems Co. Inc.), which is engaged in the business of producing and installing automatic fire protection systems and equipment, was transferred in 1973 to the control of a Court-appointed trustee in accordance with the consent decrees.

On Jan. 8, 1975, all of the shares of stock of Avis still owned by ITT were transferred to the control of a Court-appointed trustee in accordance with the consent decrees. Based upon the Dec. 31, 1974 New York Stock Exchange closing price per share of Avis common stock of \$5.00, at that date the market value of the Avis common stock held by ITT was approximately \$20,000,000 less than ITT's investment in Avis common stock. ITT invested \$5,000,000 in preferred stock of Avis in 1974, and in April 1975 purchased an additional 1,487,000 shares of Avis common stock for \$17,295,000 (\$11.63 per share). Such shares were similarly transferred to the trustee. On Mar. 3, 1975, the trustee reported to the Court that unless otherwise ordered by the Court, the trustee would not undertake a public sale of the Avis common shares held by the trustee until after Jan. 15, 1976, and prior to that date would not accept any private offer for such Avis shares at a price less than \$11.63 per share. Avis is engaged in the business of renting and leasing vehicles to the general public. Although the oper-

ating results of Avis will not be included in ITT's financial statements, any net proceeds from the sale of such shares will be turned over to ITT.

Levitt is principally engaged in the business of acquiring and improving tracts of land in the continental United States, Puerto Rico, Canada, France and Spain and in the planning and constructing thereon of residential communities and in the sale of completed single family dwellings. In Dec. 1973, after pursuing many avenues of divestment possibilities, ITT estimated the value that it could currently anticipate recovering from the divestment of Levitt, and concluded that an after-tax provision of \$35,400,000 was necessary to cover probable unrealizable values. At Dec. 31, 1974, ITT's investment in Levitt, net of such provision for probable unrealizable values, amounted to \$136,427,000, including debt of Levitt assumed by ITT in 1974. On Jan. 16, 1975, all of the shares of capital stock of Levitt were transferred to the control of a Court-appointed trustee in accordance with the consent decrees. Although the operating results of Levitt will not be included in ITT's financial statements, any net proceeds from the sale of such shares will be turned over to ITT. ITT is obligated to provide additional capital that may be required by Levitt prior to disposition by the court-appointed trustee.

Whether a gain or loss will be sustained by ITT on the final dispositions of the former fire protection division of Grinnell, Avis, and Levitt will be dependent upon the methods, terms and times of dispositions approved by the Court.

Other Divestible Operations

The financial statements refer to certain companies which have been divested by ITT otherwise than under the consent decrees, or the accounts of which for another reason have ceased to be consolidated with the accounts of ITT. Reference is made to the Statement of Consolidated Income of ITT and to the first tabulation under "Business" for information as to sales and revenues and income of such companies.

In 1971, the Government of Chile took over the management of ITT's telephone operating subsidiary in that country. In view of that and other developments in Chile during 1971, a reserve of \$70,000,000 was provided (with no associated United States income tax benefits), which was equivalent to the excess of ITT's total investment in all Chilean companies over amounts receivable from insurance carried with the Overseas Private Investment Corporation ("OPIC"), an agency of the United States Government, with respect to such companies, and other recoveries. Approximately 60% of ITT's original net investment of approximately \$150,000,000 in the telephone operating subsidiary was insured against expropriation with OPIC. In Dec. 1974, the Government of Chile formally expropriated ITT's interest in the subsidiary and entered into a settlement with ITT in respect of such interest. In Jan. 1975, ITT and OPIC agreed to a settlement of ITT's insurance claim against OPIC. The net results of these settlements were that ITT received \$66,000,000 cash from the Government of Chile and OPIC, and \$59,000,000 principal amount of 10% promissory notes, maturing semi-annually through 1984, issued by a Chilean governmental agency and guaranteed by the Central Bank of Chile and by OPIC, and ITT agreed to invest \$25,000,000 over a 10-year period in a non-profit joint venture with the Government of Chile for the construction and maintenance of a laboratory in Chile for nutrition and communications research. In connection with the settlements, ITT recorded approximately \$28,000,000 of interest income attributable to continuing operations in 1974, of which approximately \$18,000,000 was related to interest imputed for the period 1971 through 1974 attributable to such transactions.

In July 1974, the Puerto Rico Telephone Authority, a governmental authority of the Commonwealth of Puerto Rico, purchased, as of Jan. 1, 1974, ITT's interest in Puerto Rico Telephone Co. for \$4,999,775 cash, \$20,000,000 in 6% subordinated notes maturing in equal installments on Jan. 1, 1975 and 1976, and \$100,440,000 in 6 3/4% subordinated revenue bonds maturing in installments through 1999, a total principal amount approximately equivalent to the book value of the company at Dec. 31, 1973. Interest payments on such notes and bonds are exempt from Puerto Rican and United States income taxation. The net income of Puerto Rico Telephone Co. for the year ended Dec. 31, 1973, was \$5,007,000, and, as of that date, the gross plant investment in telephone operating facilities in Puerto Rico represented approximately 7% of the total gross plant, property and equipment of ITT.

At Dec. 31, 1974, ITT had an investment of approximately \$100,000,000 in Compania Standard Electric Argentina, a 100% owned subsidiary engaged principally in the manufacture of telecommunication equipment for the telephone company owned by the Government of Argentina. Contract disputes be-

tween the subsidiary and the telephone company were the subjects of negotiations when, in September 1974, the Argentine law officially approving the contract was revoked. In Oct. 1974, the President of Argentina made a policy statement regarding "Argentinization" of certain companies, including the ITT subsidiary. In Feb. 1975, the President of Argentina decreed the annulment of the contract between the subsidiary and the telephone company and the appointment of a commission to promote an Argentine national company dedicated to the manufacture of telecommunications equipment. Among other things, the commission was directed to carry out an adjustment of the accounts between the ITT subsidiary and the telephone company and to determine the amount of damages allegedly payable to Argentina by the subsidiary on the basis of a June 1974 report of a special investigating commission of the Argentine Chamber of Deputies that examined the contract between the subsidiary and the telephone company. It now appears that the extent to which ITT will realize this investment is dependent upon the terms of "Argentinization" and actions of the governmental commission, none of which has yet been announced. As ITT has been unable to control effectively the subsidiary's operations, it ceased to consolidate the accounts of the subsidiary as of Oct. 1, 1974.

ANTITRUST CONSENT DECREES

On Sept. 24, 1971, the United States District Courts for the Northern District of Illinois and for the District of Connecticut approved, signed and entered consent decrees which terminated the Government's antitrust suits challenging ITT's acquisitions of Canteen Corp., Grinnell Corp. and Hartford Fire Insurance Co. The decrees require that ITT make certain divestitures, which are described under Divestible Operations Under Consent Decrees" above. Under the decrees, which are effective for 10 years, ITT is prohibited from acquiring any domestic business with assets of over \$100 million and from acquiring any leading firm (being one with total annual sales of over \$25 million and holding more than 15% of any market in which total annual sales exceed \$100 million) in any concentrated market within the United States (being one in which the four leading firms hold more than 50%) without the approval of the Department of Justice or the Courts. ITT may not, without the approval of the Department of Justice or the Courts, acquire any domestic automatic sprinkler company or any domestic insurance company with insurance assets exceeding \$10 million; and ITT and its subsidiary companies are to continue the ITT policy of not engaging in reciprocity (i.e., using purchasing power to promote sales).

OTHER LEGAL PROCEEDINGS

ITT and certain of its directors are defendants in several pending law suits based on alleged failures to make appropriate disclosure of the progress of the negotiations which led to the aforementioned antitrust consent decrees, and on sales of ITT stock

by persons who allegedly had "inside information" concerning those negotiations. ITT has reported pending settlement discussions with respect to these suits.

There is also a class action pending against ITT and certain of its directors based on alleged inadequate disclosure to the former shareholders of Hartford Fire Insurance Co. of facts relating to the tax consequences to such holders arising from the acquisition of their Hartford stock by ITT. Plaintiff in this action demands judgment for, among other things, damages, restitution or rescission, and an accounting for the profits made by ITT. There are other suits pending against ITT directors and others which arose out of the Internal Revenue Service's revocation of its tax rulings relative to the ITT-Hartford transaction, or which arose out of sales of Hartford and ITT stocks in connection with the ITT-Hartford transaction.

See also "Hartford Fire Insurance Co." under "Business" above.

There are also various other lawsuits pending against ITT and its subsidiaries, some of which involve claims for substantial amounts.

RESEARCH, DEVELOPMENT AND PATENTS

ITT research and development, centrally coordinated by the Technical Department at World Headquarters in New York, N. Y., is carried out in laboratory and engineering facilities at most manufacturing divisions and subsidiaries, and in central laboratory facilities in England, France and Spain. At Dec. 31, 1974, approximately 22,000 persons were employed in engineering and scientific activities in connection with domestic and foreign laboratory projects.

Research, development and engineering activities, including product development, sponsored by ITT and activities performed by ITT under contracts for the United States Government involved expenditures aggregating approximately \$452 million in 1974, \$400 million in 1973, and \$328 million in 1972. Of such amounts, ITT-sponsored research and development accounted for \$213 million in 1974, \$188 million in 1973 and \$145 million in 1972.

ITT owns and controls a substantial number of patents, trademarks and trade names which, in the aggregate, are of material importance to its business. ITT is licensed to employ patents of others under certain agreements and has granted licenses to use patents of ITT.

CAPITAL INVESTMENT PROGRAM

Gross expenditures by ITT for plant, property and equipment were \$742,000,000 in 1974 (excluding such expenditures of approximately \$64,000,000 on properties of divestible companies) and \$852,000,000 in 1973, and it is presently estimated they will be approximately \$550,000,000 in 1975. It is expected that funds required for current and future capital expenditures will be provided through retained earnings and other internal sources, from bank borrowings, and from proceeds of sale of additional securities by subsidiaries as well as by the parent company.

MANAGEMENT

Officers

H. S. Geneen, Chairman & Chief Exec.
F. J. Dunleavy, President & Chief Oper. Officer
R. E. Bennett, Exec. Vice-President—Office of the Pres.—Operations
L. C. Hamilton, Jr., Exec. Vice-Pres. & Treasurer
H. C. Knortz, Exec. Vice-Pres. & Comptroller
J. V. Lester, Exec. Vice-President—Office of the Pres.—Operations
H. J. Albel, Sen. Vice-Pres. & Gen. Counsel
F. P. Barnes, Senior Vice-Pres. & Product Group Mgr.—Telecom. Prod. & Sys.
R. L. Brittenham, Sen. Vice-Pres., Law and Counsel
A. E. Cookson, Senior Vice-Pres. & Gen. Tech. Dir.
E. J. Gerrity, Jr., Sen. Vice-Pres.—Corp. Rel. & Adv.
John Hanway II, Sen. Vice-Pres.—Admin.
Richard Hodgson, Senior Vice-Pres. & Prod. Group Mgr.—Ind. Prod. Comp. Controller
Stanley Luke, Senior Vice-Pres.—Bus. Devel.
F. J. McCabe, Senior Vice-President—Personnel
John Seath, Senior Vice-Pres.—Taxes
R. H. Smith, Senior Vice-Pres.—Corp. Devel.
M. R. Valente, Senior Vice-Pres., Pres., ITT Europe, Inc., & Senior Group Exec., Europe, Africa & Middle East
J. J. Navin, Vice-Pres. & Secretary

Directors

R. E. Bennett, Englewood Cliffs, N. J.
Eugene R. Black, New York
Raymond L. Brittenham, New York
A. J. A. Bryan, Houston, Tex.
Pomeroy Day, Hartford, Conn.
F. J. Dunleavy, Blue Bell, Pa.
William E. Eilers, Boston, Mass.
A. E. Friedman, Manhasset, N. Y.
H. S. Geneen, New York
L. C. Hamilton, Jr., Upper Montclair, N. J.
H. C. Knortz, Ridgefield, Conn.
J. Patrick Lannan, Chicago
J. V. Lester, New York
John A. McCone, Los Angeles, Calif.
Richard S. Perkins, New York
F. G. Rohatyn, New York
H. P. Schoen, West Hartford, Conn.
Member of Executive Committee.

Auditors: Arthur Andersen & Co.

Annual Meeting: Second Wednesday in May or as otherwise determined by resolution of Board (May 7, 1975).

No. of Stockholders: Dec. 31, 1974: Preferred: \$4 conv. (by series): E, 1,145; F, 690; H, 1,754; J, 1,614; K, 36,737; \$4.50 series I, 11,895; \$2.25 series N, 13,677; \$5 series O, 1,799; common, 168,181.

No. of Employees: Dec. 31, 1974, 409,000.

World Headquarters: 320 Park Ave., New York N. Y. 10022.

INCOME ACCOUNTS

COMPARATIVE INCOME ACCOUNT, YEARS ENDED DEC. 31

(International Telephone & Telegraph Corp. only)

(Thousands of Dollars)

	1974	1973	1972	1971	1970
Sales and Other Income:					
Sales—					
Customers	\$963,509	\$872,434	\$735,820	\$677,309	\$538,886
Affiliated companies	75,958	56,756	39,910	26,397	29,480
	1,039,467	929,190	775,730	703,706	568,366
Dividends, interest and other income—					
Dividends					
Subsidiaries consolidated	276,979	225,549	154,658	141,772	109,184
Hartford and Financial	50,793	51,292	52,235	51,245	25,658
Interest—					
Subsidiaries consolidated	7,082	3,368	2,332	2,867	4,081
Other	9,367	6,033	3,358	4,721	5,503
Other income—					
Service fee—subsidiaries consolidated	15,485	13,858	8,880	7,316	5,067
Miscellaneous income and deductions—net	19,793	1,269	(5,607)	(344)	(2,098)
	1,418,966	1,230,559	991,584	911,083	715,761
Costs and Expenses:					
Cost of sales	780,078	707,402	577,252	541,863	434,262
Selling and general expenses	331,215	237,680	197,683	181,110	161,120
Interest and other financial charges					
Interest on long-term debt	38,767	25,024	18,778	18,820	8,397
Interest on bank borrowings	56,447	18,725	2,061	1,330	5,529
Other interest charges	6,268	3,797	1,816	643	3,647
	1,212,775	992,628	797,590	743,766	612,955
	206,191	237,931	193,994	167,317	102,806
Income Taxes:					
United States Federal					
Income taxes (credit)	(14,221)	1,406	(2,676)	(13,890)	(18,811)
Foreign and other income taxes	1,368	1,943	2,283	2,851	2,195
	(12,853)	3,349	(393)	(11,039)	(16,616)
Income before Extraordinary Items	219,044	234,582	194,387	178,356	119,422
Extraordinary Items	(3,826)	87,093	13,088	—	20,732
Net income	\$215,218	\$321,675	\$212,476	\$178,356	\$140,154