Peoples Natural Gas Division of Northern Natural Gas Company

KEEP A GOOD THING GOING, AMERICA:

ENERGY CONSERVATION!

A Homeowner's Guide to important energy savings all year long.

Peoples Natural Gas Division of Northern Natural Gas Company

We at Peoples believe the time has come for strong moves on energy conservation. Moves that go beyond turning down your thermostat or changing your furnace filter.

So in addition to offering dozens of valuable tips designed for day-to-day energy savings, this booklet also offers several home improvements designed for much larger savings on a permanent basis.

These improvements include Attic Insulation (based on guidelines set for this part of the country by the Department of Commerce), a Power Attic Ventilator, and an Automatic Clock Thermostat.

Such improvements cost money. But think of them as prudent investments, not painful expenditures. Because they will return to you energy savings and increased comfort worth many times their initial cost.

Can you overspend on conservation improvements? Not with Peoples' new Energy Savers Improvement Plan (see page 9.) We'll help you determine exactly what you need to achieve optimal savings. We'll arrange for experts to do the work. We'll inspect the work when they are finished. We'll even arrange financing so you can put the payments on your gas bill.

We want to help you cope with today's rising energy costs, and to get maximum value from your energy dollar. The suggestions in this booklet can help you. We urge you to make good use of them!

Call us today and we'll make a free home inspection. That's the first step toward increased energy savings, greater year-round comfort, and a more valuable home.

Jack C. Osborne

President
Peoples Natural Gas

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ATTIC INSULATION

Americans have always enjoyed abundant energy supplies, and we've built our homes accordingly. So it's not surprising that most of our 40 million owner-occupied homes are seriously under-insulated.

What is surprising is the tremendous amount of precious energy that could be saved just by making sure our attics were properly insulated. Studies show that in homes with poorly insulated attics, up to 30 percent of the heating energy each day goes right through the roof!

INSULATION AND THE R-VALUE

In the past, the effectiveness of insulation was determined by measuring its thickness. Today, a better yardstick is used. It's the R-value, or insulation's ability to resist the flow of heat. The higher the R-value, the more effective the insulating ability. It's important to keep in mind that R-value, not inches, really determines the effectiveness of the insulation.

HOW MUCH INSULATION IS ENOUGH?

That question depends on the construction of your attic, how much insulation is already there, and how high an R rating you want to end up with.

Let's say you now have an R-11 rating. You want to bring it up to an R-30, which means you would have to add an R-19.

Of course, R-values vary slightly among different types of insulation. But you can get a rough idea of how well your present attic insulation measures up by using as a guideline the following R-values and total inches required for an R-30 of properly installed loosefill insulation.

TYPE	R-VALUE PER INCH OF LOOSEFILL	INCHES FOR R-30
Fiberglass	2.2	13.6
Rockwool	2.9	10.3
Cellulose	3.7	8.1

THE R-30 HOME

A recent Department of Commerce study recommends that for this part of the country, attics should have an insulation rating of R-30 or higher. (A copy of this study, "Making the Most of Your Energy Dollars," is available for your review at your local Peoples office.)

Increasing your attic insulation to an R-30 can result in annual fuel savings of as much as 30 percent. Unfortunately, there are few homes with ratings that high. But with rising energy prices, bringing your attic up to an R-30 rating is a wise investment—one that will soon pay for itself in energy savings.

The R-30 home offers other benefits, too. Pure comfort, for instance. You'll stay warmer in winter, cooler in summer.

And because it boasts an excellent insulation rating, the R-30 home today sells faster and at a higher price than a poorly insulated house that uses more energy and thus costs more to heat and cool.

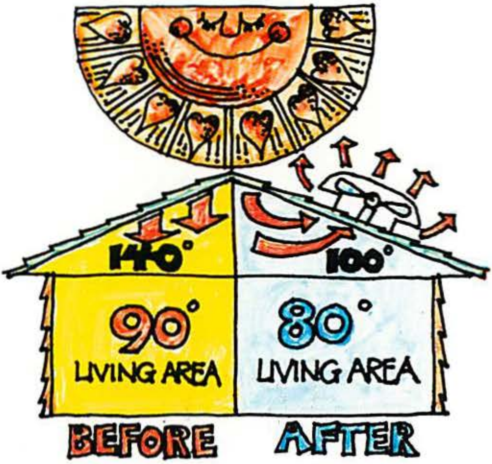
PROPER INSTALLATION IS IMPORTANT

For the greatest energy savings, proper installation of insulation is just as important as the R-value itself. If you're not a do-it-yourselfer, it will pay you to have the job done professionally.

There are many types of insulation on the market today, each with its own special advantages. The type of attic and your existing insulation will frequently dictate the type of insulation you should use.

For example, in attics having limited room between roof and floors, the rolled batts and the bags of loosefill insulation which are hand-poured would be difficult to install. A better choice would be the loosefill type which is blown in by machine.

Peoples offers a new Energy Savers Improvement Plan which features professionally installed R-30 attic insulation, inspection and certification, and convenient financing on your regular gas bill. (See page 9 for more details.)



THE POWER ATTIC VENTILATOR

On hot summer days, poorly ventilated attics can superheat to temperatures of 140° and more. Even with a thick layer of insulation in the attic, some of this heat can penetrate down through the ceiling, keeping your home uncomfortably warm and the air conditioner running overtime.

In addition, superheated air speeds deterioration of paints, soffits, shingles, insulation and wiring.

The answer to all these problems is an important new home appliance: the Power Attic Ventilator.

A DIFFERENCE YOU CAN FEEL

The illustration above shows what a difference a Power Attic Ventilator can make in the summer temperature of an average house.

On the left half are temperatures which often build in homes not equipped with a Power Attic Ventilator. The right half shows how attic temperatures drop when the fan exhausts superheated air and replaces it by drawing in cooler outside air. This in turn keeps living areas cooler by not allowing excessive attic heat to build and penetrate downward.

In a home without air conditioning, a Power Attic Ventilator can really help maintain comfortable temperatures during the summer months.

AN ECONOMICAL ENERGY SAVER

Power Attic Ventilators cost only pennies a day to operate, while providing comfort and energy savings.

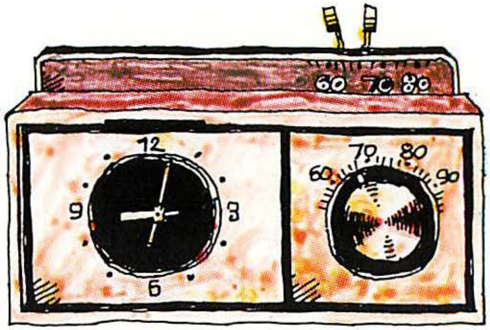
They can even protect your home in winter. During cold weather, moisture from other areas of the home constantly seeps into the attic. There it condenses on roof boards, rafters, insulation, and other materials, and can cause damage that mounts up over the years.

Power Attic Ventilators equipped with optional humidistats can remove this moisture-laden air and keep attics clean, dry, and protected against deterioration.

MANY MODELS AVAILABLE

Power Attic Ventilators come in many different sizes to fit any style of home. Installation can be completed in just a few hours, and its economical price makes the Power Attic Ventilator affordable for the homeowner.

Peoples offers a new Energy Savers Improvement Plan that features a professionally installed Power Attic Ventilator and convenient financing on your regular gas bill. (See page 9 for more details.)



AUTOMATIC CLOCK THERMOSTAT

Whether summer or winter, most people prefer sleeping in the comfort of a cooler home. But that means setting back the thermostat at night, and setting it up again in the morning—a bothersome chore.

That's why the Automatic Clock Thermostat was designed. You simply set it for **when** to lower the temperature, **how long** to lower the temperature, and **how much** to lower the temperature. From then on, the clock thermostat handles your nighttime setbacks and morning setups automatically.

SAVES ENERGY WINTER AND SUMMER

In winter, try a setting of 68° from six in the morning until ten at night, and a refreshing 63° from ten to six. Just before bedtime the temperature will drop automatically, then rise again in the morning to get you up and about in cozy comfort. You'll sleep better and save valuable heating energy all night. Remember, every degree of night setback means about 1.5 percent less heating fuel consumed.

In summer, a comfortable setting might be 75° from ten at night until six in the morning. Then the automatic daytime setup would hold the temperature at a comfortable 80° from six to ten.

PEOPLES' ENERGY SAVERS IMPROVEMENT PLAN

Here's how to insulate your attic, add a Power Attic Ventilator, install an Automatic Clock Thermostat, and put the payments on your gas bill.

We want to help you cope with today's rising energy costs. Our new Energy Savers Improvement Plan gives you an easy, affordable way to do just that.

Just call us for a FREE home insulation inspection, and a cost estimate on installing one, two, or all three of the energy savers featured on the preceding pages. These are all famous brand products—the finest available on the market today.

Peoples will arrange for professional installations. We will inspect and certify the insulation job. And we offer complete financing with convenient payments on your monthly gas bill.

This is an exclusive plan offered by Peoples Natural Gas. So don't wait to take advantage of it.

Call us today and start enjoying substantial energy savings, greater year-round comfort, and a more valuable home!

SAVING ENERGY IN WINTER

During the harsh months of winter, America's heating needs put great demands on energy supplies. That's why this season in particular makes energy conservation so important.

We offer the following tips in hopes that you and your family will make good use of them wherever and whenever you can.

You can stay snug and warm at lower thermostat settings if you dress sensibly. Keep a sweater or cozy comforter handy! Remember, sunshine is free heat. So on sunny days, open up drapes and let the sun shine in. On cloudy, windy days, keep drapes and curtains closed.

Don't block vents with furniture or drapes. Close registers in unused rooms. Keep doors to attic, basement and garage closed winter and summer. Keep the fireplace damper closed when not is use.

Encourage the kids to keep outdoor traffic to a minimum so heat isn't lost through open doors.

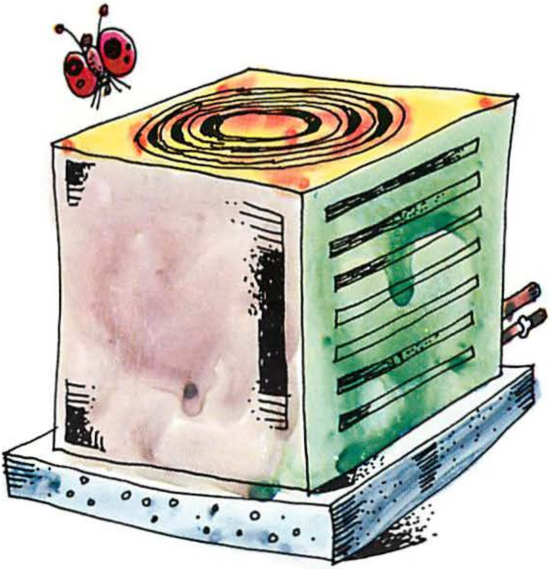
Keep your thermostat at 68°, lower at night. And to help you feel more comfortable at lower temperature settings, maintain humidity at 30-35%.

CHECK FURNACE FILTERS REGULARLY

Dirty, clogged filters block much of the warm air coming from the furnace blower. Clean or replace filters at least once a month. Your furnace will operate easier and more efficiently, and your home will stay warmer.

"KEEP A GOOD THING GOING" CHECKLIST

- **DRESS WARMLY**
- **SUNSHINE IS FREE HEAT**
- **DON'T BLOCK VENTS**
- **CLOSE OFF UNUSED ROOMS**
- **CLOSE ATTIC, BASEMENT & GARAGE DOORS**
- **CLOSE FIREPLACE DAMPER WHEN NOT IN USE**
- **KEEP OUTDOOR TRAFFIC TO A MINIMUM**
- **SETBACK THERMOSTAT TO 68°, LOWER AT NIGHT**
- **KEEP HUMIDITY AT 30-35%**
- **CHECK FURNACE FILTERS**



SAVING ENERGY IN SPRING

Hook up your garden hose and flush leaves, paper, grass and dirt from the coils and louvered surfaces of your outdoor air conditioning unit. For top performance, repeat the cleaning periodically.

You should also check the unit's lubrication and fan belt tension on a regular basis. And at least every other year, have a professional give your entire cooling system a good tune-up — including a check of the refrigerant level.

Make sure the power humidifier on your furnace is turned off for the summer. Clean or replace the furnace filter for more efficient cooling. Adjust the room air outlets for cooling, if necessary. And make sure vents aren't blocked by furniture or drapes.

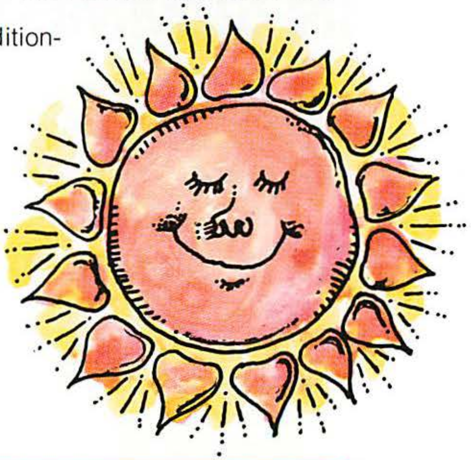
SAVING IN THE LAUNDRY ROOM

It takes nearly twice as much water, energy and money to do two half loads as it does to wash and dry one full load. So do full loads only, but don't overload. Whenever possible, wash loads in cold water and use the short cycles. Always dial the degree of dryness, you want to avoid overdrying.

Clean lint traps and check pockets of garments before each operation for objects which might damage your appliances. To keep excess moisture from your home during the air conditioning season, make sure your dryer is vented to the outside.

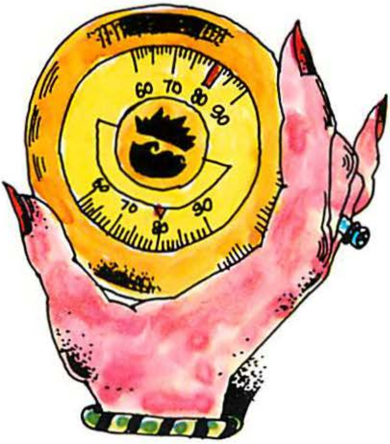
DON'T LET THE SUN SHINE IN

During air conditioning season, keep hot sunshine out with awnings, curtains and drapes. Install a Power Attic Ventilator to keep attic temperatures lower. You'll save on air conditioning!



"KEEP A GOOD THING GOING" CHECKLIST

- CLEAN & SERVICE OUTDOOR A/C UNIT
- TURN OFF POWER HUMIDIFIER ON FURNACE
- CLEAN OR REPLACE FURNACE FILTERS
- ADJUST ROOM AIR OUTLETS, IF NECESSARY
- DON'T BLOCK VENTS
- WASH & DRY ONLY FULL LOADS
- USE COLD WATER & SHORT CYCLES
- CLEAN LINT TRAPS
- VENT DRYER TO OUTSIDE
- KEEP HOT SUNSHINE OUT
- INSTALL A POWER ATTIC VENTILATOR



SAVING ENERGY IN SUMMER

Next to the winter heating season, the summer cooling season is your biggest energy user. But the following tips can greatly reduce your energy consumption and give you a cooler, more comfortable home all summer long!

SET UP AND SAVE

A daytime temperature setting of 80° is usually sufficient for summer comfort. Used throughout the cooling season, it will mean great energy savings.

Each morning set your thermostat at 80° and leave it there until just before bedtime. Then, lower the setting five degrees or so for a night of cool, refreshing sleep.

To avoid forgetting the adjustments, install the Automatic Clock Thermostat. It will handle those adjustments automatically and dependably.

COOKOUTS KEEP HEAT OUT

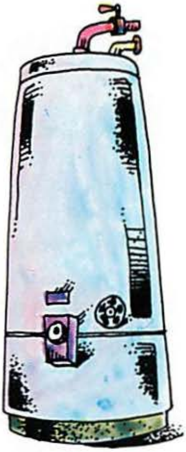
Whenever you can, enjoy backyard barbecues. You won't heat up the kitchen, and that makes the whole house easier to cool.

If you can, plan your use of heat-generating appliances (dishwashers, irons, washers and dryers, etc.) for the cooler hours of morning or evening.

WATER HEATER TIPS

About once a month, flush your water heater tank until the water runs clear. This removes sediment and mineral deposits which can reduce the tank's heating efficiency.

Don't overheat the water. A medium setting of 150° is hot enough. Without a dishwasher an even lower temperature is adequate.



Try taking short showers. They use much less hot water than filling the tub for a bath.

Fix all leaky faucets. A leak that fills a coffee cup in 10 minutes will waste over 3000 gallons of hot water per year.

A water heater that's sized right for your family will be more efficient than one that's too large or too small. Having 10 gallons of daily capacity for each person is about right.

"KEEP A GOOD THING GOING" CHECKLIST

- **KEEP DAYTIME THERMOSTAT SETTING AT 80°**
- **INSTALL CLOCK THERMOSTAT FOR AUTOMATIC SAVINGS**
- **COOKOUTS KEEP HEAT OUT**
- **MINIMIZE USE OF HEAT-GENERATING APPLIANCES**
- **FLUSH WATER HEATER TANK ONCE A MONTH**
- **150° WATER IS HOT ENOUGH**
- **QUICK SHOWERS SAVE**
- **FIX LEAKY FAUCETS**
- **GET THE RIGHT-SIZED WATER HEATER**
- **INSTALL A POWER ATTIC VENTILATOR**

SAVING ENERGY IN AUTUMN

Before cold weather hits, now's the time for some actions that can deliver big savings during the heating season and year-round.

IT'S FURNACE TUNE-UP TIME

Have a qualified service man give your heating system its annual tune-up. He'll clean and adjust the main burner, check the gas valve blower, fan control, motor, pilot light, thermostat, and air filter. He may also service your power humidifier and correct any other problem that could boost your fuel bills.

BLANKET YOUR ATTIC

Chances are, the attic in your home is under-insulated. And since the attic is where most cold weather heat loss occurs, adding more insulation can be a tremendous energy saver. It will also make your home more comfortable and increase its value. These days, a well-insulated home sells faster and at a higher price than a poorly insulated home. In fact, some leading institutions do require a certain level of insulation prior to financing of a home.

MORE GOOD TIPS

Check your heating ducts for cracks or separations at the joints. They can easily be sealed up with inexpensive adhesive duct tape available at most hardware stores. If it's been years since the ductwork was professionally cleaned, have it inspected and cleaned if necessary.

Check for drafts around all doors and windows and apply weatherstripping where necessary. Apply caulking compound to cracks around window panes and between window and door frames and walls. If cracks exist in chimney and foundation brick, caulk those up too.

Without storm doors and windows you can lose up to 15 percent of your home's heat in winter, and a similar amount of energy during the cooling season. That's why snug-fitting storms are such a good investment. Insulated exterior doors also do a lot to reduce heat loss.

"KEEP A GOOD THING GOING" CHECKLIST

- GET FURNACE TUNE-UP
- ADD INSULATION TO THE ATTIC
- SEAL CRACKS IN HEATING DUCTS
- HAVE DUCTWORK PROFESSIONALLY CLEANED
- WEATHERSTRIP DOORS AND WINDOWS
- CAULK ALL CRACKS IN HOME'S EXTERIOR
- INSTALL SNUG STORM DOORS AND WINDOWS
- INSTALL INSULATED EXTERIOR DOORS

AMERICAN NATURAL RESOURCES COMPANY

1 Period ended March 31, 1977 Interim Report To Stockholders

Maintain Current Deliveries, Stockholders Meeting Told

American Natural expects to maintain its current level of natural gas deliveries for the next several years, Chairman Seder told the stockholders at their annual meeting April 27.

Seder said that because the commencement of deliveries of gas in 1978 from new offshore Texas fields will offset decreasing production from some older fields, "we foresee no further curtailment of gas delivered to our 52 utility customers in the upcoming contract year."

The Chairman also noted that because of the significant effect of weather patterns on System earnings, net income for the entire calendar year 1977 probably would not maintain the level of increase over 1976 indicated by the first quarter's results. He added, however, that earnings for the year will be up substantially, reflecting the increase in capital expenditures incurred to maintain deliveries of gas to the Company's customers.

Stockholders voted to add Darwin E. Smith, Chairman of the Board and Chief Executive Officer of Kimberly-Clark Corp., to the American Natural Board and reelected the 12 incumbent directors. They also voted to retain Arthur Andersen & Co., as auditors for the year 1977.

Mr. Smith, an attorney, joined Kimberly-Clark's legal department in 1958, and was elected president in 1970 and chairman in 1971.

HIGHLIGHTS	Twelve Months Ended March 31 1977	1976	Percent Change
Revenues Millions of dollars	$1,411	$1,100	28.3%
Net Income Millions of dollars	$124.5	$105.2	18.3
Earnings Per Share On average shares	$6.04	$5.15	17.3
Annual Dividend Rate Per Share at end of period	$2.80	$2.64	6.1
Sales Billion cubic feet	886	893	(0.8)

To The Stockholders

Earnings Increase

Consolidated earnings of the American Natural System for the 12 months ended March 31, 1977 rose to $124.5 million from $102.1 million for the comparable period in 1976, after the exclusion of earnings from Wisconsin Gas Company, whose stock was distributed to American Natural stockholders in mid-1975. The current earnings include approximately $500,000 of pooled income from our recently acquired subsidiary, Associated Freightways, Inc. Earnings per share on a larger number of shares was $6.04, compared to $5.00 for the prior period.

Earnings for the first three months of 1977 reached $70 million, compared to $52.5 million in the first quarter of last year. Per share earnings were $3.32 on 21.1 million shares, compared to last year's first quarter of $2.57 on 20.4 million shares.

The considerable increase in earnings for the quarter results from several factors. First, the period includes gas sold in the latter part of December which was not billed until January. Both December and January were extremely cold, as was early February. As a result Michigan Consolidated's sales for space heating for the quarter were 12.7 billion cubic feet higher than the same period last year. However, Michigan Consolidated's total sales increased only 6 billion cubic feet as a result of the extended interruption of those industrial customers having alternate fuel capabilities.

Michigan Wisconsin Pipe Line also contributed substantially to the increased earnings by virtue of rate increases which became effective November 1, 1975 and November 1, 1976.

Other sources adding to the higher earnings include increases in revenues from storing and transporting gas for other gas systems and improved earnings of Great Lakes Gas Transmission Company.

To The Stockholders *(Continued from Page 1)*

Dividend Increased

On March 22 the Board of Directors voted to increase the quarterly dividend from 66 cents to 70 cents per share. The dividend was payable May 1 to common stockholders of record April 15, and is the 289th consecutive dividend paid, going back to 1904.

The 16 cent raise in the annual dividend rate, from $2.64 to $2.80, is the 12th increase in dividends in the past 15 years, in addition to which American Natural stockholders received the equivalent of 34 cents per share in additional annual dividends from the distribution of Wisconsin Gas common stock in 1975.

Rate Action

Michigan Consolidated on March 11 filed an application with the Michigan Public Service Commission for authority to increase its revenues approximately $110 million annually beginning January 1, 1978. This is the first general rate increase Michigan Consolidated has sought since 1975 and would add approximately $1.50, or about 4.5 percent, to the average heating customer's monthly bill. Large volume users' rates would increase approximately 13 percent under the company's proposal. Hearings before the Commission begin May 16.

The rate request is designed to cover increased costs of labor, materials and supplies, higher interest on its securities, higher taxes and depreciation and to improve the company's return on equity. The increase also provides incentives for the company to create an emergency reserve of about 20 billion cubic feet of gas which would be stored against emergencies such as a disruption or curtailment of supplies from pipelines or abnormally cold winter weather.

Michigan Wisconsin filed a $66 million rate increase application with the Federal Power Commission on April 29, 1977. The increased rates, which will become effective November 1, 1977, subject to refund, are designed to recover general increases in costs, including costs associated with the transportation of new gas reserves through the HIOS pipeline being constructed into the Texas offshore area of the Gulf of Mexico.

In addition to the general cost increases, the filing also includes the higher costs of new gas and increased producer prices. However, the proposed increased rates will be offset in large part by reductions resulting from the expiration of surcharges on October 31, 1977, so that the annual net increase to Michigan Wisconsin's customers will approximate $21 million.

Settlement agreements reached with the FPC staff on two prior rate increases, which became effective subject to refund on November 1, 1975, and November 1, 1976, are still before the Commission for final approval. Operating revenues of Michigan Wisconsin have been adjusted to reflect the terms of the settlement agreements and do not include revenues being collected applicable to unresolved issues. (See notes to the condensed financial statements.)

Merger Completed

American Natural completed its first non-gas acquisition March 31 with the consummation of the merger of Associated Freightways of Grand Rapids into a wholly-owned subsidiary of American Natural. The merger provided for the issuance of 588,837 shares of unissued American Natural stock for the outstanding shares of Associated.

Associated is a holding company which owns all the stock of Associated Truck Lines, Inc., a general freight carrier serving the states of Michigan, Indiana, Ohio, Illinois, Kentucky and Pennsylvania. It is also the parent company of Road Equipment, Inc., New Life Transport Parts Center, Inc., and Associated Central Terminal Company. Associated has some 2,750 employees and its net income for 1976 was $3.4 million on revenues of $99.3 million. It operates nearly 4,000 tractors, trucks and trailers and carries about 2 million tons of freight annually, serving some 12,000 customers.

Coal Gasification Project

Peoples Gas Company of Chicago on March 15 agreed in principle to join American Natural in the joint construction of a first-phase coal gasification plant on our site in Mercer County, North Dakota. Peoples Gas also has the option to participate in the second phase plant. Each plant would produce 125 million cubic feet of gas a day.

The agreement provides that Peoples Gas will pay all costs associated with the plant after January 1, 1977 until its contribution equals that of American Natural. Thereafter the two companies will share the costs equally, with American Natural as the project administrator.

A Peoples Gas subsidiary also proposes to build a gasification plant in neighboring Dunn County, North Dakota. American Natural has a reciprocal right to participate in that project.

The agreement with Peoples Gas does not lessen American Natural's requirements for obtaining federal loan guarantees on the debt portion of financing the coal gasification plant.

The Carter Administration's position on federal support for financing coal gasification, as announced in the White House Fact Sheet, is somewhat ambiguous. In one instance it states that "the government will not subsidize existing technologies," while later stating that "the government will pursue high-Btu coal gasification . . . to insure that new technologies will be ready when needed."

Company officials are attempting to obtain clarification from the Administration.

Preferred Stock Sale

Michigan Consolidated sold 1.2 million shares of cumulative preferred stock in March, its first public stock offering. The stock was sold at $25 a share with a $2.05 annual dividend yielding 8.2 percent. The proceeds were used to finance a portion of the utility's $74 million 1977 construction budget.

New York Office Closed

Effective May 1, American Natural's Corporate headquarters will be located at One Woodward Avenue, Detroit, Michigan, 48226, telephone (313) 965-1200. The Rockefeller Plaza office will be closed in the near future.

Arthur R. Seder, Jr.

Chairman and President

May 3, 1977

AMERICAN NATURAL RESOURCES COMPANY
ONE WOODWARD AVENUE, DETROIT, MICHIGAN 48226

Condensed Consolidated Incom

Operating Revenues. . . . .

Operating Expenses:
Natural gas purchased. . . . .
Operation and maintenance . . . .
Depreciation and depletion . . . .
Federal and other income taxes . . . .
Property and other taxes . . . .
Total operating expenses . . . .
Operating income . . . .

Other Income:
Equity in net earnings of unconsolidated affiliates
Amortization of investment tax credit by Michigar
Other—net . . . .
Total other income . . . .
Gross income . . . .

Income Deductions:
Interest. . . . .
Dividends on preferred stock of subsidiaries . . . . .
Allowance for funds used during construction . . . .
Other—net. . . . .
Total income deductions . . . .

Consolidated Net Income. . . . .
Adjustment assuming divestment of Wisconsin Gas Co

Consolidated Net Income, after pro forma exclusion c

Consolidated Earnings Per Share. . . . .
Adjustment assuming divestment of Wisconsin Gas Co
Consolidated Earnings Per Share, after pro forma exclusion of Wisconsin Gas Company. . . . .

Average shares outstanding (Thousands). . . . .

The notes to the condensed financial statements are an inte e

	Three Months Ended March 31		Twelve Months Ended March 31	
	1977	1976	1977	1976
	(Thousands of Dollars)		(Thousands of Dollars)	
	$517,927	$373,045	$1,410,549	$1,099,726
	238,899	165,158	687,806	513,042
	84,006	54,155	257,389	202,122
	26,913	25,861	102,003	93,643
	68,296	46,530	114,225	77,993
	13,149	11,652	48,778	41,956
	431,263	303,356	1,210,201	928,756
	86,664	69,689	200,348	170,970
	3,431	2,378	12,375	7,855
Wisconsin	1,554	1,325	5,281	4,921
	1,815	516	2,769	2,941
	6,800	4,219	20,425	15,717
	93,464	73,908	220,773	186,687
	22,996	21,689	89,101	85,865
	2,445	1,337	7,129	2,675
	(2,011)	(1,471)	(5,606)	(7,278)
	11	(108)	5,685	265
	23,441	21,447	96,309	81,527
	70,023	52,461	124,464	105,160
mpany as of beginning of period	—	—	—	3,091
f Wisconsin Gas Company	$ 70,023	$ 52,461	$ 124,464	$ 102,069
	$3.32	$2.57	$6.04	$5.15
mpany as of beginning of period	—	—	—	.15
	$3.32	$2.57	$6.04	$5.00
	21,078	20,433	20,606	20,433

gral part of this statement.

( ) Denotes negative figure.

Condensed Consolidated Financial Position

	March 31 1977	March 31 1976
	(Thousands of Dollars)	
PROPERTY AND OTHER ASSETS:		
Property, Plant and Equipment, at original cost	$2,793,862	$2,560,221
Less—Accumulated depreciation and depletion	906,174	783,907
	1,887,688	1,776,314
Investments	61,256	52,253
Advance payments related to gas supply	232,906	218,712
Current assets	559,538	329,382
Deferred charges	19,192	11,555
	$2,760,580	$2,388,216
CAPITALIZATION AND OTHER LIABILITIES:		
Common stockholders' equity		
Common stock and other paid-in capital	$ 409,306	$ 401,498
Retained earnings ($237,000,000 available for cash dividends pursuant to long-term note agreement restriction)	430,902	346,838
Cumulative preferred stock	130,000	50,000
Long-term debt	986,913	877,078
Total capitalization	1,957,121	1,675,414
Notes payable pending permanent financing	50,548	109,526
Other current liabilities	373,343	305,631
Deferred taxes and other credits	291,816	263,508
Potential rate refunds	87,752	34,137
	$2,760,580	$2,388,216

Condensed Consolidated Funds for Capital Expenditures

	Three Months Ended March 31 1977	Three Months Ended March 31 1976
	(Thousands of Dollars)	
Source of Funds:		
Funds from operations	$ 122,323	$ 103,076
Dividends declared on common stock	(14,758)	(13,485)
Retirement of long-term debt	(8,930)	(4,090)
	98,635	85,501
Sale of common stock	394	–
Sale of cumulative preferred stock	30,000	–
Common stock issued to acquire Associated Freightways (Note 1)	20,349	–
Change in notes payable pending permanent financing	(14,185)	(114,515)
Other changes in financial position	(67,771)	72,610
	$ 67,422	$ 43,596
Capital Expenditures:		
Construction	$ 47,019	$ 38,936
Investment in Associated Freightways (Note 1)	20,349	–
Advance payments related to gas supply	54	930
Investment in HIOS	–	3,730
	$ 67,422	$ 43,596

The notes to the condensed financial statements are an integral part of these statements. ( ) Denotes negative figure.

Notes to the Condensed Financial Statements

1. Acquisition of Associated Freightways

On March 31, 1977, American Natural acquired all the outstanding common stock of Associated Freightways, Inc. in exchange for 588,837 shares of previously unissued American Natural common stock. Associated conducts principally a trucking operation serving several midwestern states. The acquisition was accounted for as a pooling of interests. The condensed consolidated financial statements include Associated beginning January 1, 1977. The financial statements for prior periods have not been restated for the acquisition due to the immaterial effect on the condensed consolidated financial statements. The book value of Associated at January 1, 1977 of $20,349,000 consisted of net property, plant and equipment of $20,670,000, current and other assets of $18,960,000, long-term debt of $5,263,000 and current and other liabilities of $14,018,000.

If prior periods had been restated, consolidated operating revenues, net income and earnings per share would have been as follows:

	Operating Revenues	Net Income	Earnings Per Share*
	(Thousands of Dollars)		
Three Months Ended			
March 31, 1976	$ 393,363	$ 52,975	$2.52
Twelve Months Ended:			
March 31, 1976	1,182,696	107,474	5.11
March 31, 1977	1,489,498	127,323	6.05

*After adjusting for the issuance of additional shares.

2. Rate Matters

Agreement has been reached with the Federal Power Commission staff and all interested parties on essentially all issues concerning Michigan Wisconsin's general rate increases placed into effect subject to FPC approval and possible refund on November 1, 1975 and November 1, 1976, except the FPC staff proposes that the amount of advance payments which have not been expended by the producers should not be included in rate base. Formal settlement agreements filed for approval with the FPC in September 1976 and January 1977 provide for increases in annual revenues of about $88,000,000 effective November 1, 1975 and $22,000,000 effective November 1, 1976. Approximately $22,000,000 of additional revenues to November 1, 1976 and $16,000,000 annually thereafter, related to the advance payment issue, will be the subject of further proceedings and a decision by the FPC.

Consolidated net income for the periods ended March 31, 1977 reflects the terms of the settlement agreements. Amounts refundable under the settlement agreements were $23,934,000 at March 31, 1977 and the amounts related to specific unresolved issues pending before the FPC were $59,403,000 at March 31, 1977 of which $7,535,000 and $26,525,000 apply to the three and twelve months ended March 31, 1977, respectively. The unresolved issues relate principally to the advance payment issue referred to above and the cost of both Michigan Wisconsin's own gas production and emergency purchases of gas in excess of the applicable nationwide rate for gas. The above amounts which are being collected subject to refund have been excluded from income in the accompanying statement of condensed consolidated income and are included in potential rate refunds in the statement of condensed consolidated financial position. Consolidated net income would be increased by approximately 50% of any revenues that might be restored to income as a result of resolution of the unresolved issues.

3. Full Cost Accounting

In connection with gas and oil exploration programs, the System companies follow the full cost accounting policy of capitalizing lease acquisition and exploration costs, including nonproductive drilling and delay rentals. These capitalized costs, exclusive of the cost applicable to undeveloped properties pending completion of exploration, are being amortized on a unit of production basis except that if cost was to exceed net realizable value of reserves discovered, the excess would be charged to expense.

The cost of undeveloped gas and oil properties (before any income tax benefit) was $115,000,000 at March 31, 1977 which includes $68,000,000 applicable to Production Company of which $42,000,000 was incurred in the offshore Louisiana and Texas areas since January 1, 1974. The System companies are currently conducting a program to explore offshore and onshore properties.

In the opinion of management, based upon results to date, the System's investment in gas and oil properties at March 31, 1977 will be recovered.

4. General

There has been no change in the System companies' principal accounting policies which were set forth in the 1976 Annual Report of the Company.

A third quarter 1976 adjustment to reflect the terms of the settlement agreement filed with the FPC in September 1976, as discussed in Note 2 above, increased consolidated net income by approximately $8,400,000 of which $1,300,000 relates to the fourth quarter of 1975, and $3,700,000 and $3,400,000 relate to the first and second quarters of 1976, respectively. The twelve months ended March 31, 1977 reflects a reserve of $11,188,000 ($5,818,000 after income taxes) provided against the investment in planning and engineering for a proposed coal gasification plant, of which $9,600,000 ($5,000,000 after income taxes) was provided in the third quarter of 1976.

The information furnished, in the opinion of management, reflects all adjustments necessary for a fair statement of the results of the interim periods. However, these unaudited condensed financial statements are subject to resolution of the rate issues and such other adjustments as later information may require. Because of seasonal and other factors as discussed elsewhere in this report, the revenues, expenses and net income for the interim periods should not be construed as representative of revenues, expenses and net income for all or any part of the balance of the current year or succeeding periods.

This statement is submitted for the general information of the stockholders of American Natural Resources Company and not in connection with, or to induce, any sale or offer to sell or to buy any securities.

AMERICAN NATURAL RESOURCES COMPANY

ONE WOODWARD AVENUE, DETROIT, MICHIGAN 48226

2 Period ended June 30, 1977

Interim Report To Stockholders

ANR to Support Alcan Alaskan Pipeline Project

Re Tennico position for El Paso approach

American Natural and seven other U.S. pipeline systems formerly associated with the Arctic Gas Project have agreed to support Northwest Pipeline Corporation's proposed Alcan Project to deliver Alaskan gas to the lower 48 states.

Although we felt that the Arctic Gas Project was superior to Alcan economically and environmentally, the Canadian National Energy Board's rejection of Arctic Gas's application effectively eliminated any chance that it would be approved by the Canadian and United States governments.

Of the two remaining Alaskan gas pipeline proposals, we believe that Alcan, which is also designed to deliver gas via an overland Canadian route, is superior to the trans-Alaska pipeline-LNG tanker proposal of El Paso Company, which would deliver all the gas on the West Coast. Unlike the El Paso Project, the Alcan pipeline also offers Canada the opportunity to eventually tap its own frontier gas reserves, reducing the likelihood of an early curtailment of contracted exports to the U.S. The Alcan Project also incorporates the delivery of gas to the Midwest via the Northern Border Pipeline, of which American Natural is a sponsor.

It is contemplated that a board of directors for the Alaskan portion of the project will be formed representing all of the participating companies, including American Natural.

Costs incurred on the Arctic Gas Project were charged to expense as they occurred, thus termination of the project has no effect on the earnings of the American Natural System.

HIGHLIGHTS	Twelve Months Ended June 30 1977	1976	Percent Change
Revenues			
Millions of dollars	**$1,483**	$1,141	30.0%
Net Income			
Millions of dollars	**$124.7**	$109.7	13.7
Earnings Per Share			
On average shares	**$6.00**	$5.37	11.7
Annual Dividend Rate Per Share			
at end of period	**$2.80**	$2.64	6.1
Sales			
Billion cubic feet	**859**	876	(1.9)

To The Stockholders

Earnings Increase

Consolidated earnings of the American Natural System for the 12 months ended June 30, 1977 reached $124.7 million, compared to $109.7 million for the same period last year. Earnings per share on a larger number of shares rose to $6.00 from $5.37.

The comparison of earnings for the two periods is affected by two revenue adjustments recorded in the third quarter of 1976, one of which reflected an increase in revenues applicable to prior periods as a result of a pipeline rate settlement (see Note 4) while the other reduced earnings by providing for a reserve against our investment in the North Dakota coal gasification project. Increased earnings for the most recent period include contributions from the System's exploration and production effort ($1.7 million), from earnings on our investment in the High Island Offshore System represented by interest during construction ($1.8 million) and from the inclusion of the earnings of Associated Freightways, Inc., the System's newly acquired trucking subsidiary ($1.6 million).

Earnings for the first six months of 1977 reached $95.9 million, compared to $78.1 million for the prior period. Earnings per share were $4.55, compared to $3.82 in the first half of last year.

Dividend Declared

The Board of Directors on June 15 declared a regular quarterly dividend of 70 cents per share on the Company's common stock, payable August 1 to shareholders of record July 15. This marks the 290th consecutive quarterly dividend paid by American Natural dating back to 1904.

Rate Action

Hearings on the application of Michigan Consolidated to increase its rates by $110 million annually are proceeding before the Michigan Public Service Commission. Cross examination of the company's witnesses is not expected to be completed until September. The slow pace of the rate proceedings indicates that a final decision may not be issued by the end of the year. Consequently, the company will probably file an application for interim relief and request it to be made effective January 1, 1978.

Michigan Wisconsin will place higher rates in effect on November 1, subject to refund, to recover general increases in costs, including those associated with payment for the transportation of new gas supplies through the High Island Offshore System pipeline. The HIOS project, in which the American Natural System has a 20 percent interest, is nearing completion in the offshore Texas area of the Gulf of Mexico. The increase in revenues to Michigan Wisconsin requested in its rate application is $66 million annually.

The FPC still has not issued final orders approving settlement of rate increases Michigan Wisconsin placed in effect on November 1, 1975 and November 1, 1976. Decisions on these matters are expected in the near future.

Operating revenues of Michigan Wisconsin have been adjusted to reflect the terms of the settlement agreements and do not include revenues applicable to unresolved issues, which are being collected subject to refund. (See notes to the condensed financial statements.)

Gas Supply Activities

American Natural Gas Production Company, a subsidiary of Michigan Wisconsin, acquired interests in 12 offshore blocks covering some 60,000 acres in the Gulf of Mexico in the Federal gas and oil lease sale held on June 23, 1977. Ten of the blocks are located in Louisiana waters and two in offshore Texas.

Production Company committed $25.5 million to acquire an average 34 percent working interest in the acreage. It subsequently agreed to assign partial working interests, valued at $6.5 million in lease payments, in nine blocks to other producers, while retaining the right to purchase all of the gas to which it would have been entitled under its initial working interests. This reduces Production Company's commitment to $19 million, with the possibility of further assignments in the offing.

Three of the blocks in which Production Company retained its full initial interests are adjacent to a previously leased block in which Production Company and its partners had discovered oil and gas in recent months. The operator is now in the process of installing a six-well drilling platform to partially develop the field. Production Company has a 12-1/2 percent interest in the discovery block as well as in the adjacent newly acquired blocks. As a result of the most recent lease sale, Production Company now has an average 28.5 percent working interest in some 169,000 offshore acres.

American Natural has opened a new Gas Supply and Exploration district office in Jackson, Mississippi, which will be responsible for lease acquisitions and exploration in the southeastern United States. Production Company holds leases on approximately 25,000 acres in Mississippi and will commence a drilling program in the near future.

Coal Gasification Project

The North Dakota Public Service Commission has begun public hearings on ANG Coal Gasification's application for site approval of the proposed gasification plant and related water intake system.

When the U.S. House of Representatives returns in September, it is expected to act on the Energy Research and Development Administration authorization bill, which gives ERDA generic authority to make loan guarantees for synthetic fuels projects such as coal gasification plants. The measure, which is vital to the orderly financing of the first coal gasification plants, has already been passed by the Senate. Passage of the legislation in its present form would still require Congressional approval of loan guarantees for each specific project.

Dividend Reinvestment Plan

The Board of Directors has approved a revised dividend reinvestment service to become effective for holders of record October 15, 1977. Commencing with the November 1, 1977 dividend, the new service will allow shareholders to purchase additional shares of common stock through the reinvestment of dividends and cash contributions without having to pay a brokerage commission or bank service charge.

Current participants will automatically be included in the expanded service. All non-participating shareholders will receive the new explanatory brochure and authorization card by mid-September.

Proposed Accounting Change

On July 15, 1977 the Financial Accounting Standards Board (FASB) issued an exposure draft proposing that all oil and gas exploration and production be accounted for on the so-called "successful efforts" basis. American Natural's exploration activities have been accounted for on the "full cost" basis, which has been widely employed in the industry.

The differences between the two methods are indicated in Note 3 to the condensed financial statements. If the FASB proposal is finally adopted, the successful efforts method would be adopted by the System beginning in 1979, with a restatement of earnings and balance sheet accounts for prior years. The effect of the restatement in the case of American Natural, whose exploration program has been growing rapidly in recent years, would be to reduce prior period net income and retained earnings. However, future earnings would be less affected as the System further develops its exploratory successes, and over the life of the program essentially the same earnings are reported. Most importantly, cash flow would not be affected by the change in accounting methods.

Arthur R. Seder, Jr.

Chairman and President

August 9, 1977

Condensed Consolidated Incor

Operating Revenues

Operating Expenses:
Natural gas purchased
Operation and maintenance
Depreciation and depletion
Federal and other income taxes
Property and other taxes
Total operating expenses
Operating income

Other Income:
Equity in net earnings of unconsolidated affiliate
Amortization of investment tax credit by Michiga
Other—net
Total other income
Gross income

Income Deductions:
Interest
Dividends on preferred stock of subsidiaries
Allowance for funds used during construction
Other—net
Total income deductions

Consolidated Net Income

Consolidated Earnings Per Share

Average shares outstanding (Thousands)

The notes to the condensed financial statements are an i

ne

	Three Months Ended June 30		Six Months Ended June 30		Twelve Months Ended June 30	
	1977	1976	1977	1976	1977	1976
	(Thousands of Dollars)		(Thousands of Dollars)		(Thousands of Dollars)	
	$359,916	$287,525	**$877,843**	$660,570	**$1,482,683**	$1,141,397
	168,189	130,773	**407,088**	295,931	**725,395**	537,010
	84,868	57,304	**168,874**	111,459	**285,087**	205,093
	29,969	26,330	**56,882**	52,191	**105,183**	97,190
	20,231	20,571	**88,527**	67,101	**113,906**	84,446
	13,757	11,585	**26,906**	23,237	**50,895**	42,118
	317,014	246,563	**748,277**	549,919	**1,280,466**	965,857
	42,902	40,962	**129,566**	110,651	**202,217**	175,540
s	**2,760**	3,068	**6,191**	5,446	**12,068**	9,294
n Wisconsin	**1,554**	1,282	**3,108**	2,607	**5,552**	4,928
	2,086	598	**3,901**	1,114	**4,291**	3,020
	6,400	4,948	**13,200**	9,167	**21,911**	17,242
	49,302	45,910	**142,766**	119,818	**224,128**	192,782
	21,807	20,370	**44,803**	42,059	**90,499**	85,240
	3,013	1,338	**5,458**	2,675	**8,804**	4,012
	(1,463)	(1,369)	**(3,474)**	(2,840)	**(5,699)**	(6,616)
	88	(30)	**99**	(138)	**5,803**	437
	23,445	20,309	**46,886**	41,756	**99,407**	83,073
	$ 25,857	$ 25,601	**$ 95,880**	$ 78,062	**$ 124,721**	$ 109,709
	$1.23	$1.25	**$4.55**	$3.82	**$6.00**	$5.37
	21,088	20,433	**21,083**	20,433	**20,770**	20,433

ntegral part of this statement.

( ) Denotes negative figure.

Condensed Consolidated Financial Position

	June 30 1977	June 30 1976
	(Thousands of Dollars)	
PROPERTY AND OTHER ASSETS:		
Property, plant and equipment, at original cost	$2,874,193	$2,605,750
Less—Accumulated depreciation and depletion	934,110	807,488
	1,940,083	1,798,262
Investments	61,017	54,701
Advance payments related to gas supply	234,976	230,490
Current assets	429,937	306,817
Deferred charges	20,300	13,143
	$2,686,313	$2,403,413
CAPITALIZATION AND OTHER LIABILITIES:		
Common stockholders' equity		
Common stock and other paid-in capital	$ 409,649	$ 401,498
Retained earnings ($246,000,000 available for cash dividends pursuant to long-term note agreement restriction)	441,995	358,953
Cumulative preferred stock	130,000	50,000
Long-term debt	955,458	876,416
Total capitalization	1,937,102	1,686,867
Notes payable pending permanent financing	41,962	112,121
Other current liabilities	310,603	286,069
Potential rate refunds	92,810	50,043
Deferred taxes and other credits	303,836	268,313
	$2,686,313	$2,403,413

Condensed Consolidated Funds for Capital Expenditures

	Six Months Ended June 30 1977	Six Months Ended June 30 1976
	(Thousands of Dollars)	
Source of Funds:		
Funds from operations	$ 199,949	$ 185,784
Dividends declared on common stock	(29,522)	(26,971)
Retirement of long-term debt	(51,314)	(21,414)
	119,113	137,399
Sale of common stock	738	—
Sale of cumulative preferred stock	30,000	—
Common stock issued to acquire Associated Freightways (Note 1)	20,349	—
Issuance of long-term debt	—	10,493
Decrease in notes payable pending permanent financing	(22,771)	(111,920)
Other changes in financial position	11,193	82,793
	$ 158,622	$ 118,765
Capital Expenditures:		
Construction	$ 130,227	$ 92,065
Investment in Associated Freightways (Note 1)	20,349	—
Advance payments related to gas supply	8,046	15,590
Investment in HIOS	—	11,110
	$ 158,622	$ 118,765

The notes to the condensed financial statements are an integral part of these statements. ( ) Denotes negative figure.

Notes to the Condensed Financial Statements

1. Acquisition of Associated Freightways

On March 31, 1977, American Natural acquired all the outstanding common stock of Associated Freightways, Inc., a trucking operation serving several midwestern states, in exchange for 588,837 shares of previously unissued American Natural common stock. The condensed consolidated financial statements include Associated on a pooling of interests basis beginning January 1, 1977. The financial statements for prior periods have not been restated due to the immaterial effect on those statements. The book value of Associated at January 1, 1977 of $20,349,000 consisted of net property, plant and equipment of $20,670,000, current and other assets of $18,960,000, long-term debt of $5,263,000 and current and other liabilities of $14,018,000.

If prior periods had been restated, earnings per share, after adjusting for the issuance of additional shares, would not have increased by more than 5¢ per share in any period.

2. Rate Matters

During the periods reflected in the accompanying financial statements, Michigan Consolidated and Michigan Wisconsin increased their rates pursuant to cost of gas adjustment clauses in their tariffs and on November 1, 1975 and 1976 Michigan Wisconsin placed general rate increases into effect subject to approval by the Federal Energy Regulatory Commission (FERC), formerly the Federal Power Commission, and possible refund. Agreement has been reached with the FERC staff and all interested parties on essentially all issues concerning the foregoing general rate increases except the FERC staff proposed that the amount of advance payments which had not been expended by the producers should not be included in rate base. Formal settlement agreements have been filed with the FERC providing for increases in annual revenues of approximately $88,000,000 effective November 1, 1975 and $22,000,000 effective November 1, 1976. Approximately $22,000,000 of additional revenues to November 1, 1976 and $16,000,000 annually thereafter relate to the advance payment issue. In mid-1977 the FERC, in orders affecting advance payments included in rate base by Michigan Wisconsin through October 31, 1975, allowed only that portion of advance payments actually expended by the producers. Michigan Wisconsin is litigating this issue and pending the results of litigation will continue to charge rates, subject to refund, which reflect a return on the excluded advance payments.

Operating revenues collected subject to refund related to the advance payment matter discussed above, the pricing of Michigan Wisconsin's own gas production after October 1975 and the cost of emergency purchases of gas at rates in excess of the applicable nationwide rates included in Michigan Wisconsin's rates from May 1976 through April 1977 have been excluded from income in the accompanying statement of condensed consolidated income and are included in potential rate refunds in the statement of condensed consolidated financial position.

Amounts refundable under the settlement agreements were $27,082,000 at September 30, 1977. Amounts related to the specific unresolved issues were $67,243,000 at September 30, 1977; the amounts applicable to these issues excluded from income in the accompanying financial statements are as follows:

	Periods Ended September 30	
	1977	1976
Nine months	$15,376,000	$26,476,000
Twelve months	24,317,000	37,466,000

Consolidated net income would be increased by approximately 50% of any amounts that might be restored to income as a result of resolution of the unresolved issues.

3. Accounting for Exploration

In connection with gas and oil exploration programs, the System companies follow the full cost accounting policy of capitalizing lease acquisition, exploration and development costs, including nonproductive drilling and delay rentals. These capitalized costs, exclusive of the cost applicable to undeveloped properties pending completion of exploration, are being amortized on a unit of production basis except that if cost were to exceed net realizable value of reserves discovered, the excess would be charged to expense.

The cost of undeveloped gas and oil properties (before any income tax benefit) was $146,000,000 at September 30, 1977 which includes $87,000,000 applicable to Production Company of which $57,000,000 was incurred in the offshore Louisiana and Texas areas since January 1, 1974. The System companies are currently conducting a program to explore offshore and onshore properties.

On July 15, 1977 the Financial Accounting Standards Board (FASB) issued for comments a draft of its proposed accounting standards that would require companies in the business of exploring for and producing oil and gas to follow the "successful efforts" method of accounting instead of the "full cost" method now being used by System companies and by about one-half of the companies in the industry. The "successful efforts" method as proposed by the FASB requires that geological and geophysical costs, delay rentals and exploratory dry hole costs be charged to expense as incurred and undeveloped leasehold costs be written off when there is an indicated loss in value. The "full cost" method allows all such costs to be capitalized and amortized over the life of producing oil and gas wells.

There has been significant opposition to the FASB proposal, but the System cannot predict whether "successful efforts" accounting will be adopted in its proposed or an amended form. If adopted, the proposed standards would be effective for fiscal years beginning after June 15, 1978, and would be applied retroactively by restating financial statements for prior periods. Detailed computations of the effect of the proposed standards on prior years have not been completed, and the System cannot at this time estimate the effect on consolidated retained earnings or earnings for the periods included in the accompanying financial statements. Any reduction in retained earnings is not expected to affect the System's dividend policy and will not violate any indenture or credit agreements. The System is unable to predict the effect of the proposed standards on future earnings as the effect depends on the amount and nature of future expenditures and the drilling success achieved. However, future earnings will benefit from reduced amortization of unsuccessful exploration costs to the extent of the reduction in retained earnings, and cash flow will not be affected by the proposed standards.

In the opinion of management, based upon independent geologists' estimates and results to date, the System's investment in gas and oil properties at September 30, 1977 will be fully recovered.

4. General

There has been no change in the System companies' principal accounting policies which were set forth in the 1976 Annual Report of the Company.

The information furnished, in the opinion of management, reflects all adjustments necessary for a fair statement of the results of the interim periods. However, these unaudited condensed financial statements are subject to resolution of the rate issues and such other adjustments as later information may require. Because of seasonal and other factors, the revenues, expenses and net income for the interim periods should not be construed as representative of revenues, expenses and net income for all or any part of the balance of the current year or succeeding periods.

AMERICAN NATURAL RESOURCES COMPANY

ONE WOODWARD AVENUE, DETROIT, MICHIGAN 48226

3 Period ended September 30, 1977

Interim Report To Stockholders

New Pipeline Planned to Tap Wyoming Reserves

Michigan Wisconsin Pipe Line, which has obtained rights to sizeable natural gas reserves in Wyoming through its own exploration program and gas purchase agreements, is planning to construct a pipeline next year to deliver the gas to market.

The line, which will be built in partnership with Northwest Pipeline Corporation, will cost an estimated $58 million and have an initial delivery capacity of approximately 120 million cubic feet per day. This capacity can be increased to 220 million cubic feet per day at an additional cost of about $10 million. Michigan Wisconsin will utilize 75 percent of the capacity and Northwest, the balance.

The 215 mile, 20-inch pipeline, which is called "WINGS", for Wyoming Interstate Natural Gas System, will be built and operated by Michigan Wisconsin. It will extend from the gas prone Wind River Basin of central Wyoming to a connection with Northwest's existing pipeline in southwestern Wyoming. Equivalent volumes of gas will be delivered to Michigan Wisconsin in Oklahoma through exchange agreements with other pipelines.

The initial source of supply will be the Long Butte Federal unit where Michigan Wisconsin, in partnership with Monsanto Company, discovered gas last summer.

A filing with the Federal Energy Regulatory Commission for approval of the project will be made in early November.

HIGHLIGHTS	Twelve Months Ended September 30 1977	1976	Percent Change
Revenues Millions of dollars	**$1,543**	$1,184	30.3%
Net Income Millions of dollars	**$123.2**	$106.4	15.8
Earnings Per Share On average shares	**$5.88**	$5.21	12.9
Annual Dividend Rate Per Share at end of period	**$2.80**	$2.64	6.1
Sales Billion cubic feet	**853**	871	(2.1)

To The Stockholders

Earnings Increase

Consolidated earnings of the American Natural System for the 12 months ended September 30, 1977, were $123.2 million, compared to $106.4 million for the like period in 1976. Earnings per share on a larger number of shares were $5.88, compared to $5.21 for the prior period.

Earnings for the first nine months of 1977 increased to $93.2 million, from $77 million last year. Earnings per share rose to $4.42 from $3.77.

American Natural again experienced a loss in the third quarter because of the seasonal nature of spaceheating sales and the fact that fixed costs in the period are not correspondingly reduced. The loss in the third quarter was $2.6 million, or 13 cents a share. This compares to a loss of $1.1 million in the third quarter of 1976, which reflected a net credit to earnings of $3.4 million for certain rate adjustments and an offsetting provision for a reserve against our investment in a coal gasification plant.

Dividend Declared

The Board of Directors on September 21 declared a regular quarterly dividend of 70 cents per share on the Company's common stock, payable November 1 to shareholders of record October 15. This is the 291st consecutive quarterly dividend paid by American Natural dating back to 1904.

To The Stockholders *(Continued from Page 1)*

Rate Action

On March 11, 1977, Michigan Consolidated Gas Company filed an application with the Michigan Public Service Commission for new rates designed to increase annual revenues by about $110 million. The staff of the Michigan Commission and certain intervenors have recently recommended that new rates be approved which would produce additional annual revenues for the Company of about $18 million, and the Michigan Attorney General has recommended that the Company rates be reduced by about $14.5 million.

The Company's proposed rate increase is based primarily on increases in its expenses, reduced sales projections and an increased return allowance. While Michigan law directs the Michigan Commission to act on rate applications within nine months after the date of filing, its failure to do so would not permit the Company to put any proposed new rates into effect. Hearings on this application began on May 16, 1977 and are continuing.

On August 29, 1977, the Company filed an application requesting partial and immediate interim rate relief of $65 million effective January 1, 1978. The staff of the Michigan Commission has recommended partial and immediate rate relief of $16 million effective on that date.

The Company will continue to press for timely and effective rate relief, including action on its request for an interim rate order.

Gas Supply Activities

Michigan Wisconsin has moved forward on several projects to bring supplementary supplies of gas into its system from the offshore Gulf of Mexico. The largest project, which would increase the capacity of Michigan Wisconsin's offshore Louisiana system by 160 million cubic feet of gas a day, involves construction of 30 miles of 30-inch pipeline paralleling Michigan Wisconsin's existing system and 13 miles of line extending to two offshore blocks where Michigan Wisconsin has obtained gas reserves from independent producers. Upon approval by the Federal Energy Regulatory Commission (FERC), formerly the Federal Power Commission, the expansion will permit Michigan Wisconsin to purchase an additional 55 million cubic feet of gas a day, transport 65 million a day for other pipelines and provide 40 million of capacity to transport future discoveries in the area. The estimated cost of the project is $40 million.

Michigan Wisconsin has received FERC authority to construct, in conjunction with another pipe line company, 34 miles of offshore line to attach gas reserves in two other offshore Louisiana blocks. Michigan Wisconsin's share of the construction cost will be $3.2 million. This line, together with a connecting line to another block, will enable Michigan Wisconsin to receive 33 million cubic feet of gas a day.

In concert with other pipe line companies, Michigan Wisconsin has also filed three applications with FERC to construct lateral pipelines to connect gas reserves in eight offshore Texas blocks to the new High Island Offshore System (HIOS), which is slated for completion before year end. Michigan Wisconsin's share of the construction costs will be $9.2 million.

Gas From Alaska

President Carter's recommendation to construct the Alcan-Foothills pipeline from Alaska to the lower 48 states via Canada is now awaiting Congressional approval, following the signing of an agreement by the American and Canadian governments in mid-September. As previously announced, American Natural and the other U.S. companies originally participating in the Arctic Gas Project agreed to support the Alcan pipeline (Alaskan section of the line) after Arctic Gas was rejected by the Canadian National Energy Board. The competing El Paso Project was withdrawn as the Congressional hearings began in late September. The House Interior and Commerce Committees have approved the Alcan Project, and the matter is now before the Senate Energy Committee.

New Coal Subsidiary

American Natural recently incorporated a new subsidiary, ANR Coal Development Company, which will develop and sell coal in the eastern states. The Company, in conjunction with North American Coal Corporation, has now acquired rights to over 80 million tons of coal reserves on 14,000 acres in central West Virginia.

An agreement between American Natural and North American calls for the joint development of eastern coal mines. Under the agreement, both companies will share initial costs of acquisition and planning. Mine financing will be the principal responsibility of American Natural while North American will be responsible for the operation of the mines.

American Natural's new coal venture will be headed by John W. Hancock, formerly a Vice President of Michigan Wisconsin, who has been responsible for constructing the High Island Offshore System over the past two years.

Trucking Acquisition

Associated Truck Lines, Inc. of Grand Rapids, an affiliate of the American Natural System, has reached an agreement under which it will acquire the Centralia Cartage Company of Centralia, Illinois, through the exchange of all of Centralia's common stock for 82,500 shares of American Natural common stock. If timely approval is received from the Interstate Commerce Commission and state regulatory authorities, the purchase will be consummated early in 1978.

Southern California Edison Company

1976 Report to Shareholders Third Quarter

To All Shareholders:

EARNINGS, OPERATING RESULTS AND REGULATORY MATTERS

Earnings increased for the third quarter to $1.13 per share from the 90¢ per share in the similar period a year earlier. On a twelve-months-ended basis, earnings were $3.37 per share up from the $3.22 per share of a year ago. Factors contributing to the increased earnings included the rate increase granted in December 1975, an increase in the credit for allowance for funds used during construction, and our continuing emphasis on internal cost control.

These earnings, however, reflect a 33¢ per share downward adjustment during the quarter as a result of implementing the balancing account provision of the new Energy Cost Adjustment Clause (ECAC).

The ECAC procedure, adopted by the California Public Utilities Commission (CPUC) for California electric utilities on April 27, 1976 and recently implemented for the Company, reflects a different concept of determining rate offsets to the energy costs associated with the production of electricity from that used under the former fuel adjustment clause. The new procedure is based upon recorded kilowatt-hour consumption and energy mix for a prior twelve-month period rather than future twelve-month average-year estimates utilized under the former clause.

The balancing account provision included in the new ECAC is designed to account on a monthly basis for differences between revenues and expenses associated with the energy clause. Such differences are to be accumulated and reflected in future semiannual energy clause filings. This balancing account provision should moderate wide fluctuations in earnings which otherwise might occur.

On a related matter, we commented last quarter on our decision to petition to the California Supreme Court for review of a portion of the CPUC decision relating to its allegation that the Company had "overcollected" revenues in conjunction with the prior fuel adjustment clause, amounting to approximately $133 million as of April 30, 1976, calculated as prescribed in the CPUC decision. That appeal was filed on August 4 on the basis, among others, that the Commission's allegation represents unlawful retroactive ratemaking. The petition has not yet been acted upon by the Court.

Even with the increase in earnings, the Company's return on common equity for the twelve-months-ended September 30, 1976 was only 10.6% compared with 12.25% authorized by the CPUC in 1973. This heightens our disappointment that a decision on the balance of the Company's request for a general rate increase was not issued as anticipated during the past quarter. We hope for a decision in the near future.

KILOWATT-HOUR CONSUMPTION

Despite continuing conservation efforts by our customers, kilowatt-hour consumption during the third quarter increased 8.4% over the similar period in 1975 and increased 4.7% on a twelve-months-ended basis. Even with these increases, total consumption is still below those levels recorded during the comparable twelve-month period in 1973. In the third quarter, increases in the major customer classifications were: residential, 7.2%; commercial, 8.5%; industrial, 5.5%; and for all other customer classifications combined, 13.7%.

COMMON STOCK OFFERING AND DIVIDEND REINVESTMENT DISCOUNT

The Company announced on October 14, 1976 its plans to offer five million shares of common stock to the public on November 30. Today the Board of Directors approved a modification to the Dividend Reinvestment Plan which is scheduled to become effective early next year. The modified plan provides for a 5% discount on newly issued shares purchased with reinvested dividends. Additional information on the common stock offering and the modified plan will be mailed to shareholders in mid-November. (In accordance with the requirements of the Securities and Exchange Commission, these offerings will be made only by prospectus.)

J K Horton

October 21, 1976

Jack K. Horton
Chairman of the Board

Southern California Edison Company
Statements of Income

	(Thousands of Dollars)			
	3 Months Ended September 30,		*12 Months Ended September 30,*	
	1976°	*1975*	*1976°*	*1975*
OPERATING REVENUES:				
Sales (Notes 1 and 2)	$456,302	$431,278	$1,745,359	$1,639,350
Other	4,034	3,268	12,972	11,337
Total operating revenues	460,336	434,546	1,758,331	1,650,687
OPERATING EXPENSES:				
Fuel	191,339	193,275	781,736	756,452
Purchased power	18,234	10,466	85,414	39,683
Other operation expenses	53,715	48,222	215,515	204,025
Maintenance	25,073	23,406	96,157	100,485
Provision for depreciation	31,306	31,306	120,456	122,428
Taxes on income	30,092	27,481	75,739	54,726
Property and other taxes	26,389	23,863	99,612	92,433
Total operating expenses	376,148	358,019	1,474,629	1,370,232
OPERATING INCOME	84,188	76,527	283,702	280,455
OTHER INCOME AND INCOME DEDUCTIONS:				
Allowance for funds used during construction	12,840	7,031	42,047	23,551
Other — net	2,783	2,517	14,149	9,216
Total other income and income deductions	15,623	9,548	56,196	32,767
TOTAL INCOME BEFORE INTEREST CHARGES	99,811	86,075	339,898	313,222
INTEREST CHARGES:				
Interest on long-term debt	34,125	31,835	132,306	120,315
Other interest and amortization	628	420	3,460	2,091
Total interest charges	34,753	32,255	135,766	122,406
NET INCOME (NOTE 2)	65,058	53,820	204,132	190,816
DIVIDENDS ON CUMULATIVE PREFERRED AND PREFERENCE STOCK	10,438	10,438	41,751	38,455
EARNINGS AVAILABLE FOR COMMON AND ORIGINAL PREFERRED STOCK	$ 54,620	$ 43,382	$ 162,381	$ 152,361
WEIGHTED AVERAGE SHARES OF COMMON AND ORIGINAL PREFERRED STOCK OUTSTANDING AND COMMON STOCK EQUIVALENTS (000)	48,383	47,965	48,153	47,349
EARNINGS PER SHARE (NOTES 2 AND 3):				
Primary	$1.13	$ .90	$3.37	$3.22
Fully diluted	$1.07	$ .86	$3.22	$3.08
DIVIDENDS DECLARED PER COMMON SHARE	$ .42	$ .42	$1.68	$1.68
EARNINGS PER SHARE (NOTE 3) — Adjusted for the possible effect of the April 27, 1976 CPUC Decision:				
Primary		$ .73	$3.56	$2.93
Fully diluted		$ .70	$3.39	$2.81

See Notes to Unaudited Interim Financial Statements included elsewhere in this report.

° *The amounts reported for 1976 are subject to final review by the Company's independent public accountants.*

(This information is not given in connection with any sale or offer to sell, or purchase or offer to purchase any security.)

Southern California Edison Company
Balance Sheets

ASSETS	(Thousands of Dollars) September 30, 1976*	1975
UTILITY PLANT:		
Utility plant, at original cost less contributions	$4,567,904	$4,396,447
Less — accumulated provision for depreciation	1,227,167	1,128,622
Net utility plant	3,340,737	3,267,825
Construction work in progress	905,059	613,106
Nuclear fuel, at amortized cost	20,910	21,130
Total utility plant	4,266,706	3,902,061
OTHER PROPERTY AND INVESTMENTS	93,480	92,486
CURRENT ASSETS:		
Cash	8,443	8,304
Temporary cash investments	15,991	61,297
Receivables, less reserves for uncollectible accounts	123,506	116,736
Fuel stock, at cost (first-in, first-out)	237,655	322,087
Materials and supplies, at average cost	26,648	28,480
Prepayments and other (taxes, insurance, etc.)	97,051	78,809
Total current assets	509,294	615,713
DEFERRED DEBITS	27,698	26,680
	$4,897,178	$4,636,940
CAPITALIZATION AND LIABILITIES		
SHAREHOLDERS' EQUITY:		
Original preferred stock	$ 4,000	$ 4,000
Cumulative preferred stock	533,755	533,755
Preference stock	74,998	74,998
Common stock, including additional stated capital	398,583	395,709
Total capital stock — stated value	1,011,336	1,008,462
Additional paid-in capital	354,523	350,503
Retained earnings	813,055	731,957
Total shareholders' equity	2,178,914	2,090,922
LONG-TERM DEBT	2,152,079	2,030,672
Total capitalization	4,330,993	4,121,594
CURRENT LIABILITIES:		
Accounts payable	99,910	98,607
Commercial paper payable	40,300	—
Current maturities of long-term debt	—	80,840
Taxes accrued	191,218	157,096
Interest accrued	27,861	27,138
Customer deposits	13,005	11,518
Dividends declared	27,909	27,858
Other	44,621	15,035
Total current liabilities	444,824	418,092
RESERVES AND DEFERRED CREDITS:		
Customer advances and other deferred credits	39,648	35,287
Accumulated deferred income taxes and investment tax credit	49,087	31,973
Reserves for pensions, insurance, etc.	32,626	29,994
Total reserves and deferred credits	121,361	97,254
	$4,897,178	$4,636,940

* *The amounts reported for 1976 are subject to final review by the Company's independent public accountants.*
(This information is not given in connection with any sale or offer to sell, or purchase or offer to purchase any security.)

Southern California Edison Company
Notes to Unaudited Interim Financial Statements

NOTE 1 — Contingencies:

Pursuant to Federal Power Commission (FPC) procedures, the Company increased rates during the years 1973 through 1976 for certain of its resale customers pending final determination of these rate increases by the FPC. Additional revenues of approximately $153,400,000 billed thereunder at September 30, 1976, are subject to refund with interest to the extent that any of the increases are subsequently determined by the FPC to be inappropriate.

NOTE 2 — Energy Cost Adjustment Clause:

Pursuant to California Public Utilities Commission (CPUC) Resolution No. E-1604, adopted October 13, 1976, implementing its Decision No. 85731 issued April 27, 1976, a new Energy Cost Adjustment Clause (ECAC), superseding the Company's former fuel adjustment clause, was included in the Company's filed tariffs. It is estimated that the establishment in the balancing account of an initial balance, pursuant to such resolution based on calculations covering the period from May 1, 1976 to September 30, 1976, had the effect of reducing net income and earnings per share for the third quarter 1976, by $16,094,000 and 33¢, respectively ($4,450,000 and 9¢ of which relate to the period from May 1, 1976 to June 30, 1976).

NOTE 3 — Fuel Adjustment Clause:

The April 27, 1976 CPUC decision, portions of which the Company believes involve unlawful retroactive ratemaking, could possibly affect previously reported earnings per share through April 30, 1976. On August 4, 1976, the Company petitioned the California Supreme Court to review those aspects of the CPUC decision.

The Company's Quarterly Report to the Securities and Exchange Commission on Form 10-Q containing financial statements and a report thereon by Arthur Andersen & Co. is expected to be available to shareholders by mid-November, in limited quantities without charge. If you wish a copy, please write to the Treasurer, Southern California Edison Company, P.O. Box 800, Rosemead, California 91770.

Coast and the southern California Outer Continental Shelf. In this regard, it is significant that federal lands possess much of the remaining potential estimated—50 percent of the oil and gas, 40 percent of the coal, 50 percent of the uranium, 80 percent of the oil shale and 60 percent of the geothermal energy. If the nation is to use its natural resources wisely, policies should foster multiple uses that are compatible with each other and with the environmental needs of the area.

All regions share in the national economic well-being, and in the future this well-being will hinge in part on whether adequate energy supplies are available from all domestic sources.

The Exxon outlook for improvement in U.S. energy self-sufficiency rests on the assumption that the American people will not abandon their environmental goals. It does assume that in some cases they will proceed on a more realistic timetable. For example, extension of the deadline for achieving secondary air quality standards (those not crucial in terms of human health) from the 1975-77 period to 1980 will allow greater use of coal, rather than imported oil, in utility and industrial applications.

Improvement also depends on expediting the approval process for new projects. Santa Barbara and Alaska's North Slope production, if available last winter, could have offset much of the oil loss resulting from the embargo. Delays have also contributed to staggering increases in costs which ultimately will be borne by consumers. For example, the estimates for the trans-Alaska pipeline have escalated from less than $1 billion in 1968 to nearly $6 billion now.

We can, in time, lessen our dependence on imported energy without an intolerable economic slowdown. And we can do it while protecting the environment and the quality of life.

1974 Financial and Operating Results

Estimated consolidated earnings for the fourth quarter of 1974 were $860 million, or $3.84 per share, on revenues of $12,566 million. This compares with earnings of $787 million, or $3.51 per share, on revenues of $8,419 million for the last quarter of 1973. The earnings increase was 9.3 percent. The fourth-quarter results reflect several unusual items which increased earnings by a net $82 million.

For the year 1974, consolidated earnings were estimated at $3,140 million, or $14.03 per share, on total revenues of $45,840 million. This is an increase of 28.5 percent from 1973 earnings of $2,443 million, or $10.90 per share. Total revenues in 1973 were $28,508 million.

Total 1974 earnings from oil and gas operations were $2,640 million, up 14.8 percent from 1973. These earnings were 2.4 cents per gallon of sales in 1974, up from 1.9 cents per gallon in 1973. Fourth-quarter oil and gas earnings were $704 million in 1974, down from $725 million in the 1973 fourth quarter.

The consolidated results represented a return on assets of 11.3 percent compared with 10.5 percent in 1973 and a return on shareholders' equity of 21.3 percent, up from 18.8 percent in 1973.

Results such as these will help provide the funds required for development of new energy supplies. Because of inflation, plus the fact that most of the easy-to-find, cheaper sources of oil have already been developed, the amount of funds needed to develop new sources is accelerating at a rapid pace. The ability of the industry to develop new supplies will depend in large part on its success in internal generation of the large capital requirements.

Income and other taxes, excluding excise taxes, rose to $12,297 million, an increase of $3,987 million, or 48 percent over 1973. Of this total, income taxes amounted to $7,867 million bringing the Corporation's worldwide income tax rate to 71.5 percent. In the U.S., provision for income taxes amounted to $636 million for an effective income tax rate of 32.5 percent on U.S. income.

Chemical earnings of $460 million in 1974 were up $258 million from 1973. Worldwide chemical operations benefited from good plant operations, strong demand for chemical products and rising prices throughout most of the year, although some weakness in demand and prices developed in the closing months.

In the United States, earnings from petroleum and natural gas operations in 1974 were $1,027 million, up 23.7 percent from $830 million in 1973. The effect of higher prices for domestic crude oil and natural gas more than offset the effect of lower petroleum product sales volumes and margins. Return on total assets in the U.S. was 14.0 percent compared with 12.5 percent in 1973. Capital and exploration expenditures for petroleum and natural gas operations in the U.S. totalled $1,240 million, up 42 percent from $871 million in 1973.

Elsewhere in the Western Hemisphere, earnings declined to $435 million for a return on assets of 10.1 percent, compared with $482 million and a 13.4 percent return in 1973. The decline was due to lower earnings in Venezuela, largely the result of an October 1, 1974 increase in the statutory income tax rate which was made retroactive to the first of the year. Partially offsetting the decline in Venezuela was an increase in Canadian earnings, notwithstanding provisions for retroactive tax increases in the latter country also.

Such retroactive tax increases are disturbing, since the Corporation has no way of knowing what the final costs will be at the time crude and product sales are made.

Oil and gas earnings in the Eastern Hemisphere were $1,178 million compared with $988 million in 1973. However, return on petroleum investments in the Eastern Hemisphere of 11.1 percent in 1974 remained essentially level with 1973 because assets employed rose by 21 percent. In the fourth quarter of 1974, earnings declined to $317 million from $342 million in the 1973 fourth quarter.

Although the governments' share of crude oil production in certain Middle East countries rose to 60 percent on January 1, 1974, Exxon continued to lift and sell the bulk of the governments' oil. In determination of Exxon's 1974 earnings the costs to Exxon of such purchases of government oil were estimated, generally at 93 percent of posted prices. It is believed that the final costs, when determined, will not differ materially from these estimates.

Worldwide capital and exploration expenditures totaled $3,610 million, an increase of $700 million from 1973. The total includes $1,860 million for finding and developing oil, gas and other new energy supplies, of which $830 million was spent in the United States. The 1974 total is indicative of the trend toward a still higher level of capital expenditures anticipated in future years as work progresses on the trans-Alaska pipeline, Alaskan North Slope and North Sea crude oil development and other major projects.

Dividend Is $1.25 Per Share

The first-quarter dividend of $1.25 a share is payable on March 10 to shareholders of record at the close of business on February 11. This compares with a dividend payment of $1.10 paid in the first quarter of 1974. Dividend payments for 1974 totaled $5.00 per share.

Theater In America

Exxon is presenting a series of television shows called "Theater In America" on the Public Broadcasting System Network. Each week, in collaboration with the country's foremost theater companies, Theater In America brings you classics, contemporary plays by America's new playwrights, performances by some of the theater's finest performers and original productions from cities throughout the U.S.

Financial and operating data for the first three, six and nine months of the year are available about six weeks prior to the dividend payment date. Shareholders wishing this information or having comments or questions about the Corporation's affairs should write to R. E. Anderson, Secretary, Exxon Corporation, 1251 Avenue of the Americas, New York, New York 10020.

To avoid delay in handling such matters as stock transfer, dividend disbursement or change of address, please write directly to Morgan Guaranty Trust Company, Agent for Exxon Corporation, Post Office Box 7600, Church Street Station, New York, New York 10249.

Financial Data

(millions of dollars)	Fourth Quarter 1974	Fourth Quarter 1973	Total Year 1974 Estimate	Total Year 1973 Actual
Revenue:				
Sales and other operating revenue	$12,305	$8,260	$45,000	$28,022
Dividends, interest and other revenue	261	159	840	486
Total revenue	12,566	8,419	45,840	28,508
Costs and other deductions:				
Crude oil and product purchases	5,144	2,064	18,397	7,484
Operating expenses:				
Exploration expenses: (including dry holes)	111	69	359	255
Selling, general and administrative expenses	662	600	2,419	2,277
Depreciation and depletion	363	306	1,227	1,136
Other operating expenses	1,273	1,278	4,432	3,887
Income and other taxes**	4,004	3,182	15,326	10,608
Interest expenses	134	74	394	296
Income applicable to minority interests	15	59	146	122
Total deductions	11,706	7,632	42,700	26,065
Net income	$ 860	$ 787	$ 3,140	$ 2,443
Percent of total revenue	6.8	9.3	6.8	8.6
Net income per share	$ 3.84	$ 3.51	$ 14.03	$ 10.90
Average number of shares (000's)			223,770	224,089
Capital and Exploration expenditures	1,173	1,156	3,610	2,910
Exploration and Development expenditures	564	569	1,860	1,316*
**Detail of income and other taxes:				
Income taxes	2,006	1,240	7,867	3,752
Excise taxes	843	678	3,029	2,298
Other taxes and duties	1,155	1,264	4,430	4,558
Total taxes	4,004	3,182	15,326	10,608
Percent of total revenue	31.9	37.8	33.4	37.2

Operating Data

(thousands of barrels a day)	Fourth Quarter 1974	Fourth Quarter 1973	Total Year 1974 Estimate	Total Year 1973 Actual
Gross production of crude oil and natural gas liquids, including offtake under special arrangements	6,266	6,376	6,367	6,718
Refinery runs	5,189	5,680	5,186	5,761
Petroleum product sales	5,667	6,433	5,501	6,178
Natural gas sales (billions of cubic feet a day)	10.1	10.3	9.8	9.8
Chemical product sales, including sales and transfers to petroleum affiliates (millions of dollars)	889	534	3,307	1,852

*Restated for comparability

Distribution of Earnings and Assets

(millions of dollars)	Earnings 1974	Earnings 1973	Year-End Total Assets Employed 1974	Year-End Total Assets Employed 1973
Petroleum and natural gas operations:				
United States	$ 1,027	$ 830	$ 7,839	$ 6,849
Other Western Hemisphere	435	482	4,750	3,849
Eastern Hemisphere	1,178	988	11,635	9,616
Chemical operations:				
United States	146	66	688	574
Foreign	314	136	1,163	874
Other	40	(59)	4,397	3,317
Consolidated Totals	$ 3,140	$2,443	$30,472	$25,079

EXXON NEWS

Exxon Corporation
March 1975

NO EASY WAY TO ENERGY INDEPENDENCE

The U.S. still remains vulnerable to interruptions of oil imports. Imports are about six and a half million barrels of oil and products a day —well over a third of our oil needs, and almost one-fifth of total U.S. energy demand. There is general agreement that the U.S. should move vigorously in the direction of energy self-sufficiency. Total self-sufficiency is beyond the nation's reach in the foreseeable future, but progress in that direction is not. The following is what Exxon's planners see as a realistic outlook for improvement.

The outlook envisions a nation moving deliberately in balanced pursuit of its energy, environmental and economic goals. It assumes that oil, gas, coal, uranium and oil shale on federal lands will be made available at a rate consistent with practical development. But it does not assume crash development programs that would disregard environmental consequences.

It also assumes some gradual increase in energy prices as the result of inflation. But it does not assume increases as sudden and extreme as those of the past year. Finally, it assumes that energy demand growth will be slowed in response to higher costs and calls for conservation. But it does not assume drastic, mandatory conservation measures such as gasoline rationing. Based on these assumptions, oil imports would increase through the 1970's and level off at 10 million barrels a day by 1980. During the 1980's dependence on imported oil and gas could begin to decline—from almost 25 percent of the nation's total energy needs in 1980 to less than 20 percent by 1990.

There have been scenarios for more rapid improvement. Some of them envision mandatory slowdowns in demand growth so severe that they could produce unacceptable levels of unemployment and economic distress. In other cases analysts have been unduly optimistic about the oil and gas potential of areas not yet explored. The fact is that even the declining share of dependence on imports of the Exxon outlook cannot be achieved easily. And it will not be accomplished if the nation approaches its energy problem as a multiple-choice question—to be answered by choosing one or even a few solutions from a long list of alternatives.

Conservation, for example, is not *the* answer. Neither is nuclear power. Nor is oil from Alaska, shale oil from Colorado or coal from Wyoming. We will curb the growing dependence on imports only if this list is expanded, and we then check the final answer—the one that reads, "All of the above." If the outlook is to be realized, the solution must include an economically tolerable reduction in the annual rate of growth in energy consumption. We foresee a drop from the 4.2 percent average for 1960-73 to about 3 percent through 1990.

Slowing the growth of energy demand is particularly important in reducing the gap between U.S. energy supply and demand over the next few years. But in the longer term, it is only part of the solution. We also must develop our energy resources expeditiously.

The nation will need coal, oil shale and uranium from the West, as well as coal from Illinois and Appalachia. It will need oil and gas not only from the Gulf of Mexico and Alaska's North Slope—but also from all of the potential areas of the Outer Continental Shelf—including the Gulf of Alaska and Bering Sea, the Atlantic

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Tenneco Inc

Tenneco

interim report to stockholders—1st quarter 1977

1977 1st quarter rep

Tenneco Inc
P.O. BOX 2511 HOUSTON, TEXAS 77001

Tenneco News

Scott Cites Growth, Employees At Annual Stockholder Meeting

Wilton E. Scott, Tenneco board chairman and president, reported on the affairs of the Company at the annual meeting on April 29. His remarks follow:

I would like to take a few minutes to report on your Company's prospects for continued growth in 1977. I will also comment on some of our activities since our last report to you, which was our 1976 Annual Report to the stockholders.

I'll begin by saying I have a long-term stockholder's interest in the well-being of this Company, and I identify with other stockholders who share that interest. I am sure that includes most of you here today. Our 1976 Annual Report, as you probably already know, detailed your Company's progress last year and I will not repeat those figures.

I would like to call attention, however, to some of our major achievements. First, 1976 was another record earnings year, as has been every year in the 70's. Since 1970, in every year we have reached new highs for revenues, net income, earnings per share and cash flows. Last year, revenues reached $6.4 billion, a gain of 14% over 1975. Net income was up 12%. Both primary and fully diluted earnings per share grew, and assets now are valued well above $7 billion.

We achieved a major goal of management last year when each of our eight operating divisions recorded an increase in its earnings individually over the previous year.

More important to you, we again raised the dividend on the common stock from the annual rate of $1.76 to $1.88 per share. This is the fifth year in a row that we have been able to increase your dividends. So far this decade, we have raised dividends from the $1.32 in 1970 to the $1.88 figure now effective. This represents an increase of 42% in these six years—a record that puts our increase in yield for our common shareholders among the very top of major corporations in America. Yet we paid out only 42% of our earnings last year—two percentage points greater than the average payout of the 50 largest industrials. Obviously, your increase in yield is coming from the secure growth of your Company.

I am pleased to report today that this outstanding growth pattern is continuing into 1977. Because our annual meeting is a little later than in previous years, I am able to announce at this time our first quarter results.

Again, revenues and net income have reached new records. Operating revenues for the first quarter were $1.8 billion, a gain of 14% from the same period of last year and an all-time record for a quarter. Net income rose 16% to $103 million. Fully diluted earnings per share increased to $1.05 from 91 cents, an increase of 15% over last year's first quarter.

This growth is based on a solid foundation. We are strengthening our corporate structure, and that gives us optimism for the future. There are several good reasons for my confidence in our ability to continue our growth pattern.

First is our broad-based diversification and the individual growth patterns in each of our eight major businesses. The Tenneco style of diversification gives management a great deal of flexibility in capital redeployment to maximize growth within our divisions. Our companies are financially successful. They operate independently, most are of reasonable size in comparison with their competitors, and all are aggressively seeking new business opportunities. We are convinced there is room for considerable expansion in each of our businesses.

Second, because your Company is in the strongest financial position in its history, management can provide capital investment funds for well-developed growth plans within the divisions. This, in turn, generates enthusiasm and momentum for our operational personnel.

And this brings me to the third and probably most important reason for optimism—the skills, performance, enthusiasm and pride of our 82,000 employees. This is a subject that is difficult to discuss in the brief time available. Suffice to say that Tenneco has attracted one of the finest groups of employees of any sizable company in the country.

Last year, as I said, we broke all records for earnings for our stockholders. We broke another record in 1976 when for the first time in our history, we paid our employees total remunerations of more than $1 billion. That figure, too, represents growth of a great organization.

We have achieved corporate success because of the dedicated work of a talented group of people. To attract and keep skilled people, we must provide competitive compensation, including salaries, wages and benefits. That's what we've done and that's what we plan to continue to do. I said competitive—not excessive—compensation. We meet standards of monetary compensation, but we expect and receive above-standard performance and we compensate for that, too. We do it by seeking to create a harmonious working atmosphere where every employee is an individual and afforded equal opportunity to achieve his or her maximum productivity. Toward that end, we have initiated and given major priority to programs of Performance Planning and Evaluation, to incentive plans and to a policy of promotions based solely upon merit.

As we look ahead, we're all interested in how these management programs will affect actual earnings. I won't make predictions, because we are in registration. At best that would be speculation and subject to change without notice. What I can tell you, something that's not subject to change, is that so long as we as a Company are allowed to compete on an equal basis with those who produce the world's goods and services, this organization will perform on a better than average basis.

We will not use government regulation as an excuse for substandard performance. So long as regulations do not discriminate against us as a Company, we expect to excel.

When I say excel, I mean in making a profit. We still believe that is the object of our being. I am speaking of tough, competitive profits. Last year our record earnings amounted to six cents on each sales dollar. From those six cents came your dividends and most of our reinvestment capital.

That is the principle of the competitive American system, and I think that I speak for the employees of Tenneco in saying that we like it the way it is and wouldn't trade it for any other system in the world.

1st Quarter Report

TO THE OWNERS OF TENNECO INC.:

Your Company set first quarter records for consolidated operating revenues, net income and earnings per share during the three-month period which ended on March 31, 1977.

In comparison with the first quarter of 1976, operating revenues were 14% higher, net income increased by 16% and fully diluted earnings per share were up 15%. Primary earnings per share rose 13%.

All of our major components had operating revenue increases, but earnings results were mixed. On balance, the income gains far outweighed the reductions, demonstrating an advantage of Tenneco's diversified operations.

Net income was $103.1 million for the 1977 quarter, compared with $88.8 million for the similar period of 1976.

On a fully diluted basis, earnings per common share were $1.05 for 1977, up from 91 cents a share in the 1976 quarter.

Primary earnings per share, after provision for preferred and preference stock dividends, were $1.14, based on an average of 86,453,860 common shares outstanding during the 1977 first quarter. This contrasts with $1.01 in 1976, when there were 5,366,887 fewer average shares outstanding.

Consolidated operating revenues rose to $1.8 billion this year, compared with $1.6 billion in the 1976 first quarter.

Analysis of Results

Three of our eight major businesses achieved significantly greater earnings than in the 1976 first quarter—oil, natural gas pipelines, and construction and farm equipment.

The profit improvement for Tenneco Oil came primarily from increased production of natural gas and higher prices for natural gas and crude oil and condensate.

A higher rate of return reported by Tennessee Gas Pipeline during the first quarter of 1977 provided greater income for our natural gas pipeline business.

J I Case had improved earnings from domestic construction equipment sales, overcoming lower earnings from domestic farm equipment and international operations.

Two of Tenneco's businesses—shipbuilding and agriculture and land management—showed minor improvements, but for all practical purposes were essentially even with the 1976 quarter.

The operations with income reductions for the quarter were chemicals, packaging and automotive components.

Higher material and operating costs affected profit margins at Tenneco Chemicals. Additionally, equity losses from Petro-Tex Chemical Corporation, a domestic affiliate, were only partially offset by higher equity income from a foreign affiliate, Albright & Wilson, Ltd.

Packaging Corporation earnings suffered from increased costs in paperboard and containerboard operations, not recoverable through pricing because of a general weakness in the industry.

A sluggish performance in the domestic replacement market for automotive components curtailed earnings at Walker Manufacturing.

Recent Developments

In February, Tenneco filed a registration statement with the Securities and Exchange Commission relating to the proposed exchange of Tenneco common shares for at least 80% of the common stock of Monroe Auto Equipment Company. The Federal Trade Commission is opposing the acquisition, and the proposal, therefore, is still pending.

Another proposal which is also still pending is Tenneco's plan to acquire 40% ownership of Poclain, S.A., a French construction machinery firm, through the purchase of newly issued shares. The French government approved the contemplated transaction in March.

Also in March, Tenneco and Midwestern Gas Transmission Company reached an agreement in principle which provides for Tenneco to acquire the 16% of the Midwestern common shares it does not presently own on the basis of .75 of a share of Tenneco common stock for each publicly owned share of Midwestern. The Midwesten shareholders will vote on the proposal at their annual meeting May 31.

Recent financing included the sale in April of $175,000,000 of 8⅜% debentures due 2002. The proceeds from the sale are being used to prepay certain foreign long-term borrowings and for general corporate purposes.

Newport News Shipbuilding has signed a letter of intent which could lead to the construction of up to three nuclear-powered oil tankers for Globtik Tankers U.S.A., at a currently estimated base price of $325,000,000 per vessel. The letter agreement anticipates the negotiation and signing of a formal construction agreement prior to December 31, 1977.

The first step of a proposed plan for developing the agricultural potential of approximately 775,000 acres in the Democratic Republic of Sudan was taken in March with the signing of a letter of intent between Tenneco and the Sudanese government. The plan envisions a 15-year program which would also include the development of regional electric power and transportation facilities, communications systems, water and wastewater systems and community facilities. It is proposed that the Sudanese government create a new Sudanese corporation which would employ Tenneco to manage, implement and oper-

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COVER–

Recent photo of Tenneco Oil Company crude oil refinery at Chalmette, La., near New Orleans. Expansion now in progress will increase the refinery's capacity to 120,000 barrels of oil per day.

But excelling under this system—in fact, even surviving under this system—means competing. Competing means doing a better job—producing a better product or service—at no greater cost. That's a tough assignment at Tenneco, because our diversification puts us head-to-head against the best companies from many different industries. In one way or another, we compete against almost every outfit on the Fortune 500 list.

To remain competitive we must protect ourselves against unfair application of laws or regulations in this country or any other country in which we operate. We are not fearful of regulation, but we are vulnerable to capricious application of regulations, self-serving pressure groups who would use our efforts for their own betterment, and misrepresentations of our purpose by those opposed to the system.

Interest in governmental decisions now centers on President Carter's proposed energy program. Because our Company is heavily involved in so many facets of energy, we are vitally concerned about that program. We are involved in exploration, production, transportation, marketing, refining and importation of crude oil and its products; exploration, production, transporting and, hopefully, importation of natural gas; manufacture and sale of petrochemicals and fertilizers from natural gas; exploration for and research into conversion of coal; nuclear development and utilization; pollution and noise abatement for the automobile; and the manufacture of engines for farm and industrial equipment. I doubt that there is another company in America so *broadly* affected by the energy problem. We are studying the proposed program carefully and will not hesitate to express our views.

I can assure you, however, that the positions we take will first reflect what we think is best for the nation, and then what is best for our own special interest. Without question, our country will undergo tremendous change between now and the end of this century. This change will be mandated by the necessary development of new energy sources and the depletion of our conventional sources. A national effort will be required to achieve this change without a loss in everyone's standard of living. It follows, therefore, that the people of this country, through their elected representatives, are not going to permit any one company or industry or region to achieve unfair advantage or to suffer undue hardship.

What I'm saying is that while I think the energy program will be debated at great length, I'm confident the end result will be decisions that serve the national interest. If that's the case, we as a Company will have no need for concern. We'll abide by the new regulations, whatever they are, and we'll continue to compete and adjust and succeed.

Thank you again for being with us today, and for your support of management.

Tenneco Supports Anti-Foreign Boycott Statement of Principles

The Company supports the Joint Statement of Principles, dated as of March 2, 1977, regarding foreign boycott legislation arrived at by representatives of The Business Roundtable and the Anti-Defamation League of B'nai B'rith, which include the following:

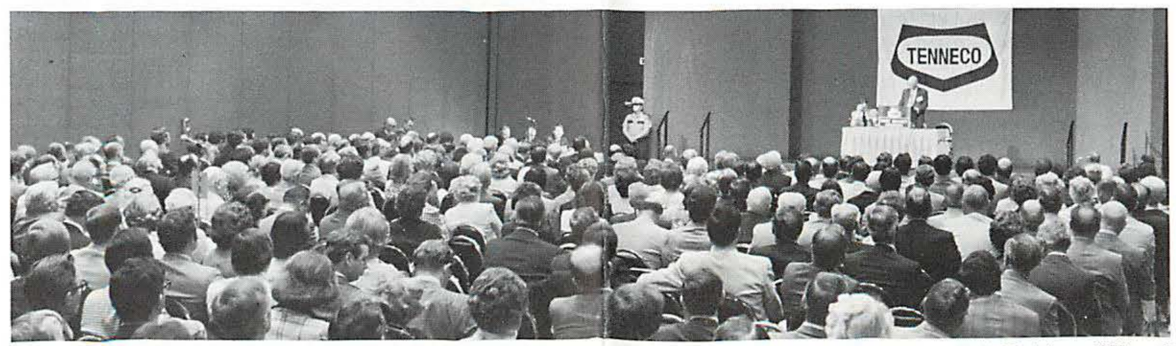
(1) No U.S. person may discriminate against a U.S. individual on the basis of that individual's race, religion, sex, or ethnic or national origin in order to comply with, further or support a foreign boycott.

(2) No U.S. person may furnish information with regard to or reflective of a U.S. individual's race, religion, sex, ethnic or national origin, or presence or absence on a blacklist for the use of a foreign country, its nationals, or residents in order to comply with, further or support a foreign boycott.

(3) No U.S. person may refrain from doing business with or in a foreign country, or with its nationals or residents pursuant to an agreement with another foreign country, its nationals or residents in order to comply with, further or support a foreign boycott.

(4) No U.S. person may refrain from doing business with any other U.S. person pursuant to an agreement with a foreign country, its nationals or residents in order to comply with, further or support a foreign boycott.

The Company's policies with regard to foreign boycotts are in conformity with the above principles. Moreover, although it is the Company's policy to comply with the laws or regulations of each foreign country with which it does business, including those dealing with import and shipping document requirements of such country, regarding country of origin, name of carrier, route of shipment and name of supplier, the Company will not furnish information in response to such requirements which is stated in negative, blacklisting or similar exclusionary terms.



Largest crowd in Company's history attended the annual meeting of stockholders in Houston on April 29. Here, Wilton E. Scott, board chairman and president, addresses the meeting.

ate the project. The negotiation of contracts and various governmental approvals will be required before the project can move forward.

Directors are Reelected

The 12-member Tenneco board of directors was reelected by a decisive majority of the Company's stockholders at the annual meeting on April 29.

Additionally, a majority voted with management and turned down all three of the shareholder proposals submitted for consideration at the meeting.

The resolution concerning the publication of political contributions received 3.15% of the total vote and was rejected by a vote of 67,885,339 shares to 2,211,096 shares.

The proposal for the adoption of a new policy on political contributions received 5.22% of the total, with 66,429,495 shares voting against it and 3,660,734 shares for it.

Only 2.07% of the total vote was received by the resolution proposing a special report on the small independent farmer, with 68,632,056 shares in opposition and 1,450,053 shares in support.

On April 1, Joseph J. DeSalvo joined the Company as vice president with worldwide responsibility for tax administration. DeSalvo, 44, has had more than 17 years' experience in administrative and legal tax matters.

Summary

Our first quarter results were particularly strong considering the adverse winter conditions which curtailed some of the Company's manufacturing operations.

The fact that Tenneco is in registration with the Securities and Exchange Commission, in connection with the Monroe Automotive and Midwestern Gas proposals, precludes any specific forecast of Tenneco's performance for the months to come. However, based on the first quarter, we view the outlook for the remainder of the year as excellent.

Very truly yours,

Wilton E. Scott
Chairman of the Board and President

Tenneco's J I Case Company and its divisions market broad range of construction and farm machinery, as illus trated by this lineup of utilitarian products.

Consolidated Statements of Income

	Three Months Ended March 31, 1977	Three Months Ended March 31, 1976
	(Millions Except Per Share Amounts)	
:NUES:		
erating revenues—		
)il and gas production, refining, marketing	$ 437.7	$ 419.9
latural gas pipelines	487.2	365.1
construction and farm equipment	342.4	302.4
\utomotive components	102.0	90.4
ackaging	114.9	109.7
hemicals	117.1	108.6
ihipbuilding	189.5	158.2
\griculture, land management	36.7	36.5
nvestments	1.9	3.0
ntergroup sales	(51.4)	(29.7)
	$1,778.0	$1,564.1
ier income	19.7	21.6
	$1,797.7	$1,585.7
RATING EXPENSES:		
st of sales and operating expenses	$1,307.6	$1,164.2
ling, general and administrative expenses	143.0	129.9
oreciation, depletion and amortization	98.5	83.6
	$1,549.1	$1,377.7
ME before interest, federal income taxes and minority ckholders' interest	$ 248.6	$ 208.0
REST, FEDERAL INCOME TAXES AND MINORITY OCKHOLDERS' INTEREST:		
nterest expense	$ 56.7	$ 58.3
nterest capitalized	(1.6)	(5.0)
ederal income taxes—		
Current before investment tax credit	104.2	46.2
Investment tax credit on the flow-through method	(9.7)	(3.2)
Deferred	(5.1)	21.5
linority stockholders' interest	1.0	1.4
	$ 145.5	$ 119.2
NCOME	$ 103.1	$ 88.8
ERRED AND PREFERENCE STOCK DIVIDENDS	4.9	6.5
NCOME TO COMMON STOCK	$ 98.2	$ 82.3
IINGS PER SHARE OF COMMON STOCK:		
rage shares outstanding	$ 1.14	$ 1.01
ly diluted, assuming conversion or exercise if all applicable securities	$ 1.05	$ .91

Condensed Consolidated Balance Sheets

	March 31, 1977	March 31, 1976
	(Millions)	
ASSETS:		
Cash and temporary cash investments	$ 190.6	$ 93.7
Other current assets	2,057.1	1,808.3
Investments and other assets	778.5	783.2
Plant, property and equipment, net of accumulated reserves	4,220.6	3,989.9
	$7,246.8	$6,675.1
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities	$1,619.4	$1,339.3
Long-term debt, net of current maturities	2,320.5	2,348.2
Deferred income from production payments	111.8	156.9
Deferred federal income taxes	347.0	283.4
Minority stockholders' interest in subsidiaries	37.5	46.3
Deferred credits and other liabilities	93.7	50.9
Stockholders' equity—		
Preferred, second preferred and preference stock	247.4	297.0
Common stock	439.7	408.9
Premium on capital stock and other capital surplus	692.5	626.0
Retained earnings	1,369.7	1,150.6
Less—parent company stock held by a subsidiary, at cost	(32.4)	(32.4)
	$2,716.9	$2,450.1
	$7,246.8	$6,675.1

Condensed Consolidated Changes in Financial Position

	Three Months Ended March 31, 1977	Three Months Ended March 31, 1976
	(Millions)	
SOURCE OF FUNDS:		
Net income	$ 103.1	$ 88.8
Depreciation, depletion, amorization, deferred federal income taxes and other items not affecting working capital	108.4	88.7
Total funds provided from operations	$ 211.5	$ 177.5
Long-term debt incurred	14.3	141.2
Investments and other assets	11.4	3.1
Disposal of properties and all other	33.8	4.9
	$ 271.0	$ 326.7
USE OF FUNDS:		
Capital expenditures for plant, property and equipment	$ 90.6	$ 112.8
Net assets purchased in acquisitions	6.8	—
Reduction of debt and other long-term obligations	31.8	89.4
Dividends	45.8	42.3
Other	8.7	9.2
Changes in working capital	87.3	73.0
	$ 271.0	$ 326.7

Excerpts from a letter sent to the White House

"As background, we operate forty-eight plants in various parts of the United States which produce products ranging from basic materials, like pulp, chemicals, and crude vegetable oils, to complex consumer products, like toilet soaps, detergents, and disposable diapers. We have been engaged in a specific energy conservation program ever since the Arab oil embargo. Our program has been highly successful, and we believe this success is due in major part to the fact that we have had maximum flexibility in pursuing the optimum operation for each plant and each process within a plant. Our actions have not been restricted nor our human resources dissipated through compliance with burdensome regulation, which almost invariably becomes rigid, or with the compilation of voluminous reports which do not contribute to the ultimate goal.

"During the very early stages of the program, special and sometimes awkward organizational and reporting structures were required because energy was priced at artificially low levels, and many worthwhile energy savings projects could not in fact be justified on economic grounds. As fuel prices began to rise under market conditions that were more nearly free, the problems of managing an energy conservation program were greatly simplified and the program became more efficient and more effective. Experience suggests that even greater pricing freedom for fuels could stimulate greater ingenuity in the use of alternate fuels and in fuel conservation. It is difficult to get an organization thinking creatively and with fabled Yankee ingenuity to try to find a way to substitute a more expensive fuel for an artificially cheaper fuel like natural gas. It is easy to get everyone in an organization working on ideas to reduce use of expensive fuel or to substitute cheaper fuels for more expensive ones.

"Our results have been measured on the basis of total energy usage per unit of product produced. Using this measurement and using 1972 as a base year, we achieved a 12% reduction in 1974, a 15% reduction in 1975, and an 18.8% reduction in 1976.

"These figures substantially understate the actual achievement, however. We are constantly searching for ways to use waste materials as fuel, and over the years we have found ways to burn residue from our distillation processes, coffee grounds from our production of instant coffee, spent process liquors, bark and 'fines' from our pulp plants, and other waste materials as fuel. Currently about 29% of our total fuel needs are supplied by such waste materials.

"Next month we will bring on line at our Foley, Florida, pulp mill a new large boiler which burns primarily the bark from trees used in the pulping process. This boiler represents a capital investment of about $7,000,000, but this boiler alone will replace about 6% of the total purchased energy used by all of our plants throughout the United States. At the same time, the burning of this material will eliminate the use of energy to haul it off for disposal in landfill.

"Major reductions in energy use have come from such things as insulation of pipes and tanks. In our Company, insulation of hundreds of tanks and miles of piping has already generated savings of over $1,000,000 per year. We have changed the basic process for deodorizing vegetable oils from a batch process to a continuous process, and are saving over $1,000,000 per year. A glycerine purification process is being changed from steam distillation to a fixed bed catalyst process, and will generate savings of over $100,000 per year.

"As fuel prices continue to rise and availability becomes more uncertain, normal economic pressure is generating more and more ingenuity in energy saving programs. We think the examples cited above illustrate that the free market system is working quite effectively to serve the national interest by encouraging maximum conservation efforts. The current voluntary conservation program works well because conservation is in each company's self-interest."

The Procter & Gamble Company
P.O. Box 599 Cincinnati, Ohio 45201

Printed in U.S.A. 038-9437/5/77

A Message to Shareholders...

Progress through voluntary energy conservation

May 13, 1977

To Our Shareholders

The energy problems which face our country and the world are complex. The problems themselves and the government programs developed to cope with the problems will have direct and important effects on the future of the Company's business.

Within any proposed solution, we believe that intensive and effective efforts aimed at conservation of energy both by business and by individual consumers must be a major element. We believe that your Company's voluntary energy conservation program has been working well.

The enclosed information was sent to the White House on March 14, 1977, for consideration in the development of a federal energy policy. It emphasizes the progress that can be made in saving energy and underscores the fact that voluntarism seems to work best when free market pricing is allowed to play its role.

Edward G. Harness

Chairman of the Board

Condensed Balance Sheet

March 31, 1977
(Unaudited)

ASSETS	(In thousands)
Utility Plant:	
Utility plant	$4,720,215
Less accumulated depreciation	1,286,068
	3,434,147
Construction work in progress	1,031,797
Nuclear fuel — net	21,622
	4,487,566
Other Property & Investments	98,972
Current Assets:	
Cash	8,299
Receivables — net	164,851
Fuel stock	182,976
Materials and supplies	25,677
Energy cost adjustments	32,106
Prepayments and other	30,828
	444,737
Deferred Debits	32,867
	$5,064,142

CAPITALIZATION & LIABILITIES	
Capitalization:	
Capital stock	$1,117,887
Additional paid-in capital	428,095
Earnings reinvested	866,231
Long-term debt	2,151,642
	4,563,855
Current Liabilities:	
Accounts payable	133,725
Commercial paper payable	49,910
Taxes accrued	84,002
Interest accrued	27,867
Customer deposits	13,290
Dividends declared	34,419
Other	32,174
	375,387
Reserves & Deferred Credits	124,900
	$5,064,142

Summary of Earnings

(Unaudited)

(In thousands, except per share data)	3 Months Ended March 31, 1977	3 Months Ended March 31, 1976	12 Months Ended March 31, 1977	12 Months Ended March 31, 1976
Operating Revenues (See note)	$ 527,281	$ 438,849	$1,905,216	$1,692,257
Operating Expenses:				
Energy costs	271,507	231,784	943,169	835,608
Other operation	57,042	51,610	229,079	203,061
Maintenance	31,312	23,696	120,804	92,058
Provision for depreciation	33,285	30,819	127,270	120,424
Taxes on income	22,637	11,257	65,235	66,992
Property and other taxes	26,791	24,466	104,450	94,209
	442,574	373,632	1,590,007	1,412,352
Operating Income	84,707	65,217	315,209	279,905
Other Income — net	4,880	5,084	16,215	12,589
Allowance for Funds Used During Construction	13,929	9,733	51,805	31,120
Interest Charges	(34,757)	(33,116)	(139,665)	(129,939)
Net Income	68,759	46,918	243,564	193,675
Cumulative Preferred & Preference Dividends	11,022	10,438	42,335	40,754
Earnings Available for Common & Original Preferred Stock	$ 57,737	$ 36,480	$ 201,229	$ 152,921
Weighted Average Number of Shares	53,723	48,037	50,005	47,987
Earnings per Share (See note):				
Primary	$1.07	$ .76	$4.02	$3.19
Fully diluted	$1.02	$ .73	$3.82	$3.05
Dividends Declared per Common Share	$ .50	$ .42	$1.76	$1.68
Earnings per Share (See note):				
Adjusted for the possible effect of an April 27, 1976 CPUC decision:				
Primary	$1.07	$ .91	$4.04	$3.00
Fully diluted	$1.02	$ .87	$3.83	$2.88

Note: The California Supreme Court has under consideration the Company's appeal of certain aspects of an April 27, 1976 California Public Utilities Commission (CPUC) decision pertaining to the CPUC allegation that in conjunction with the prior fuel adjustment clause the Company had overcollected approximately $133 million of revenues as of April 30, 1976. If the CPUC position were to be sustained by the Court, the adverse effect of such a decision could affect earnings per share reported for certain periods prior to May 1976.

A copy of the Company's Quarterly Report (Form 10-Q) to the Securities and Exchange Commission is available upon request to the Treasurer, Southern California Edison Company, P.O. Box 800, Rosemead, Calif. 91770.

1977 First Quarter Report to Shareholders

Southern California Edison Company

Common Stock Quarterly Dividend Increased 19% Effective For The April 30 Payment

To Our 180,000 Shareholders:

DIVIDEND INCREASED

We are pleased to report that on March 17 the Board of Directors declared a 19% increase in the common stock quarterly dividend from 42 cents per share to 50 cents, effective for the April 30 dividend payment to shareholders of record on April 5. This payment marks the 269th consecutive quarterly cash dividend paid by the Company since 1910.

We are also pleased to note that shareholder participation in the Company's Dividend Reinvestment and Stock Purchase Plan has increased substantially since a 5% discount on the reinvestment of dividends was implemented at the first of the year.

EARNINGS UP

Earnings per share, shown in detail on the reverse side, were:

	1977	1976
Three months ended March 31	$1.07	$ .76
Twelve months ended March 31	$4.02	$3.19

The higher recorded earnings in both periods reflect an increase in the non-cash credit for allowance for funds used during construction. Also, because the Energy Cost Adjustment Clause (ECAC), which includes a form of deferred accounting, was not in effect during the first quarter of 1976 when fuel costs exceeded fuel-related revenues, recorded results for the first quarter of 1977 show a greater increase over the prior period than would otherwise be the case.

ENERGY CLAUSE FILING

Under the ECAC procedure, the Company filed with the California Public Utilities Commission on April 1 to increase customer bills by an amount equivalent to approximately $50 million over the next six months. This increase is necessary to offset rising energy costs associated with: (1) increased usage of fuel oil primarily resulting from reductions in available purchased power and hydro-generation caused by drought conditions in California and the Pacific Northwest, (2) the January 1 Organization of Petroleum Exporting Countries' fuel oil price increase, and (3) our further conversion to more costly but cleaner-burning lower sulfur fuel oil. The filing is proposed to become effective May 1.

During 1977, the cost of fuel and purchased power is projected to approximate $1.2 billion as compared to $903 million in 1976. However, through the operation of the ECAC procedure, although cash flow is affected, variations in energy costs should not significantly affect recorded earnings.

KILOWATT-HOUR CONSUMPTION

Kilowatt-hour consumption for the first quarter increased 13%, primarily reflecting sales to other utility systems more affected by the State's drought. For the twelve-months-ended March 31, kilowatt-hour consumption was up 7.1%, with increases in the major customer classifications recorded as follows: residential 3.3%; commercial 7.4%; industrial 5.2%; and all other customer classifications combined, which include sales to other utility systems, 14.4%.

ANNUAL MEETING

The 81st Annual Meeting of Shareholders was held today. We appreciate the responsiveness and interest of our shareholders who returned their proxies, which represented 78% of the votes eligible to be cast at the meeting. Among the actions taken were the election of the nominees to the Board of Directors listed in the Proxy Statement; ratification of the appointment of Arthur Andersen & Co. to conduct the annual examination of the Company's financial statements; and approval of an amendment of the Company's Articles of Incorporation to increase the authorized number of shares of the existing class of cumulative preferred stock ($25 par value) from 12 million to 24 million shares.

J K Horton

JACK K. HORTON
Chairman of the Board

April 21, 1977

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Company's Dividend Reinvestment and Stock Purchase Plan allows common stock shareholders to reinvest their dividends in new shares of common stock at a 5% discount from an average market price established on the dividend payment date. Participants may also make optional cash payments of up to $3,000 per quarter to purchase additional shares at 100% of such average market price.

Further information regarding the Plan, along with an authorization form and a prospectus by which the offering is made, may be obtained by completing the information requested below and returning it to:

Southern California Edison Company
Office of the Secretary
P.O. Box 800, Rosemead, CA 91770

Please cut along this line

Please print your name(s) below exactly as shown on your stock certificate(s).

Name

Street Address

City State Zip Code

FOR OFFICE USE ONLY

NAME CHECK

REFERENCE NUMBER

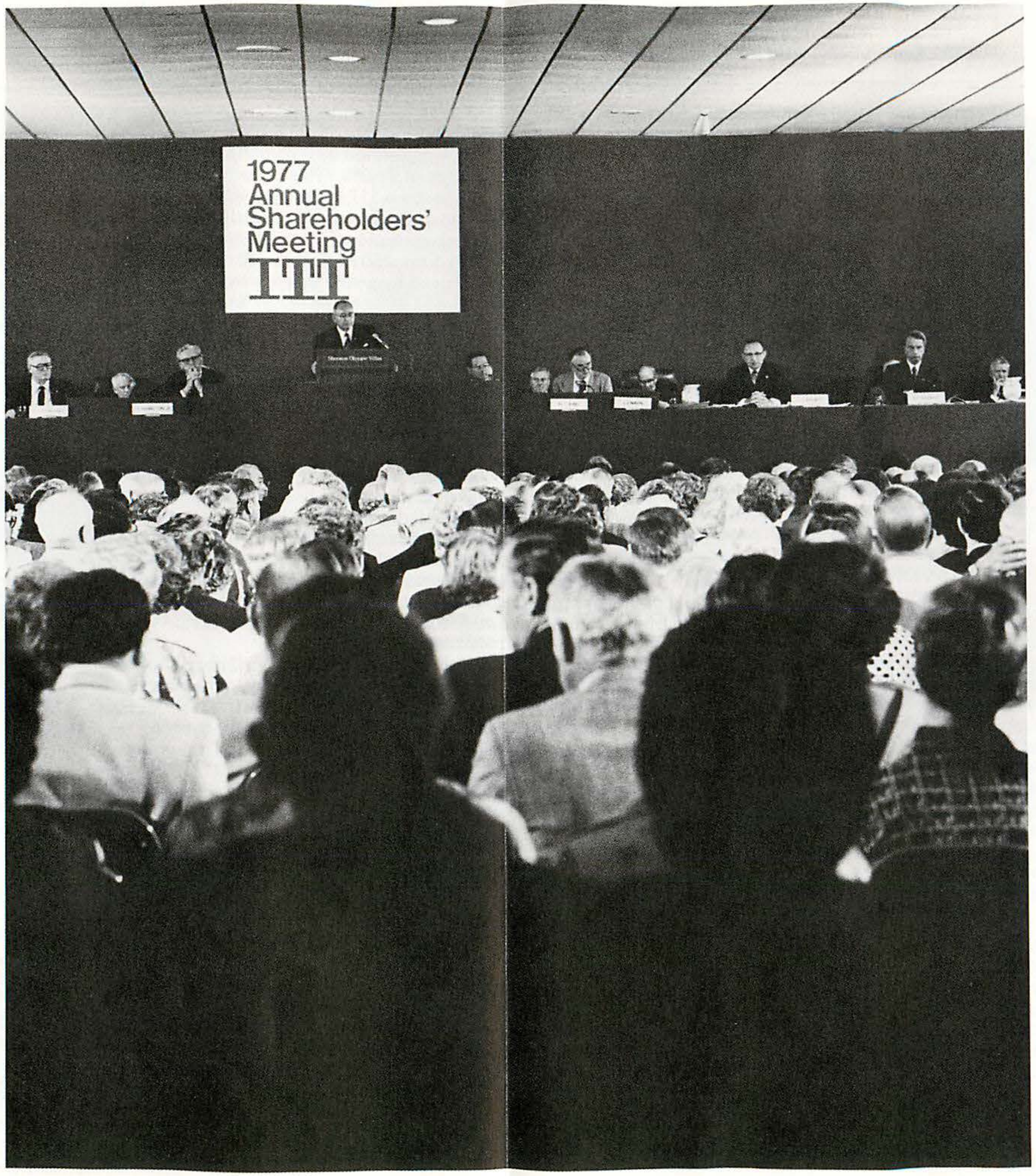
SEC 165-A

International Telephone and Telegraph Corporation
320 Park Avenue
New York, New York 10022

Bulk Rate
U.S. Postage
PAID
New York, N.Y.
Permit No. 6367

A Report of the 1977 Annual Shareholders' Meeting

ITT



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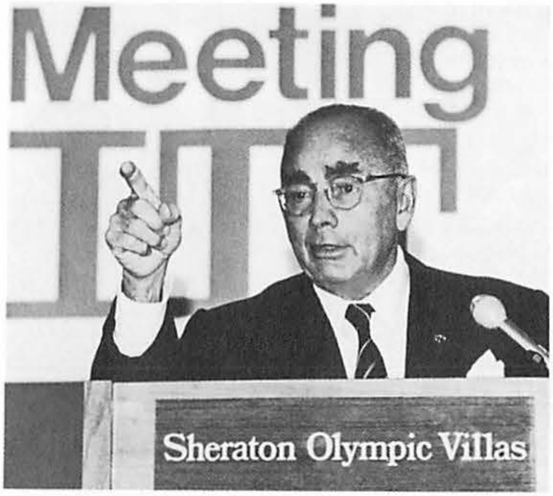


Ladies and gentlemen, it is a pleasure to be here in Orlando, the "citrus capital" of the United States, for ITT's 57th Annual Meeting of Shareholders.

Our being here this morning is part of our policy of bringing our meetings to interested shareholders around the country. Your being here this morning is evidence of the sizable group of shareholders in the Southeast who hold our stock. This is one of the largest turnouts we've had.

ITT's representation here and throughout Florida is rather sizable. Our activities are carried on by 32 divisions and subsidiaries across the state, with sales and revenues last year of almost $300 million. They employ almost 5,000 Floridians, and have an annual payroll of some $70 million. Importantly, we are growing in Florida probably at a faster rate than the national economy, and we are encouraged by our present and our future as we see it in the Sunshine State.

For example, the hotel which we are meeting in here today is one of eight Sheraton franchise locations in the greater Orlando area. Orlando is also the insurance capital of the Southeast, and so it is not surprising that our Hartford Insurance subsidiary has a major office here. These are just a few examples of our interest and our growing presence here.

Now I would like to report on the progress of our company. Last year, at our Annual Meeting in Phoenix, we were still in the recent recession, the most severe since 1933. Our stock was selling at about $27. Our earnings for the year 1975 were $3.20 a share, and everywhere corporate earnings were depressed. It was difficult at that time to see the values that resided in equities, including our own stock.

Today, I'm glad to report that the hard work we did during that recession has been rewarded, and is increasingly visible with the approach of normal conditions. So, today we have good news.

But first, let me go back to 1959. I would like to sum up the results of the 18 years of progress since then, and where that places us today.

First and most important in my mind is the fact that in 1977 we expect to pay over a quarter-of-a-billion dollars in dividends. Now, this is cash. Nothing speaks more highly of my confidence in the future, nor of my satisfaction in rewarding our stockholders for their readiness to invest in our company and to stay with it.

We reached this point of disbursing a quarter-of-a-billion dollars in cash dividends by increasing our dividends for each of the last 13 years. And I'm confident that we can extend increases for many years into the future.

This $250 million milestone in dividends is even more significant when you realize that in *Fortune* magazine's list of the 500 largest corporations in the United States—the "*Fortune* 500"—there are only about 15 companies that will pay a quarter-of-a-billion dollars in dividends in 1977. Your company is now one of them, up from $15 million paid only 18 years ago. Moreover, our rate of growth in dividends is the highest of any of these companies. So I'm gratified that we have truly not forgotten our shareholders.

Also importantly, as a result of the acquisition program carried on even while our earnings were building to support this large sum, these dividends are now backed by the fact that over 60% of our earnings come from North America, up from 15% only 18 years ago. To put it differently, dividends are more than covered now by our domestic earnings alone.

There are other significant and positive facts to report.

Despite the efforts toward establishing these domestic earnings through acquisitions and providing the cash and investment for entering new businesses, because of our long-term financial planning our financial position has now matured and is the strongest it has been in over 10 years.

Even though we increased our sales and financial revenues in the past two years by some $800 million, we actually, at the same time, reduced our borrowings by some $400 million. As a result, our surplus and stockholders' equity reached a new high on December 31, 1976, of $4.5 billion, or $33.03 per share, and our debt-equity ratio is now better than 40/60, which gives us a respectable, solid "A" credit rating—the best it's been in 10 years.

Turning to our earnings for the first quarter of this year, they are $142 million, or $1.10 per share, up from 96¢ per share, or an increase of 14.6% compared to the first quarter of last year.

These are the highest first quarter, per share earnings in the history of our company. It is our expectation that the results for the rest of this year will likewise exceed 1976 and also our previous peak in 1973, and once again set a new record performance for our corporation— our 15th out of the last 18 years.

For the year 1976 just closed, our sales and financial revenues of over $14.5 billion were the highest on record. And our earnings of $489 million, or $3.95 a share, were 94% of our all-time high of $4.17 a share achieved in 1973. We had substantial improvement in our Hartford Insurance Company in reducing underwriting losses, and also gains by our major European operations in industrial, consumer, and automotive products.

In our traditional telecommunications business, earnings declined slightly, in part reflecting the policies of the principal governments in Europe trying to bring inflation under control. Our natural resources group showed marked gains, but these were reduced by startup costs of our new Quebec mill.

Losses occasioned by the conversion values of world currencies, which were severe last year, have been absorbed in these 1976 reported earnings. As we move into 1977, it would appear that currency will be a more favorable factor, as foreign inflation rates are brought under better control by government efforts. This trend reinforces my confident belief in our expectations for 1977.

President Lyman C. Hamilton, Jr. (left) discusses company-produced consumer products with shareholders prior to Annual Meeting.

Now, looking at the broad aspects of our future, it would appear that the need to provide greater security for our dividends—and the need that this imposed upon us to increase the proportion of our earnings generated domestically—is largely behind us. Our future growth will be, therefore, as it has been for the past six years, almost 90% from within. During that period since 1970, our internal growth of sales and financial revenues has averaged 10% a year, or an internal growth of over $1 billion a year. This means that when we speak of future internal growth, we speak of significant size; in fact, about equivalent to adding each year a company larger than the 200th on the "*Fortune* 500," and all from our own internal growth and effort.

We do, however, intend to make foothold acquisitions of relatively moderate size in areas of future promise for the company, and to make others to round out positions we have already achieved.

The joining of Carbon Industries, an excellent coal producer, to the ITT System, announced in February this year, is a good example. Coal, of which the United States fortunately has an abundant supply, economically usable for hundreds of years, must become one of the mainstays of our future energy sources. The value of this was reconfirmed only recently by the President's address on energy.

We feel that, with our capital and technology, we can make a substantial contribution to meeting our country's future energy needs and, at the same time, increasing the prospects for our company's own future growth.

With a few exceptions, our acquisitions—now more than six years under our management—have turned out to be excellent investments, and have continued to grow in line with our expectations.

More importantly, though, they have placed us in a broad market position which offers us many choices from which to grow in the future. Thus our future has an additional security because of our wide diversification in many growing market and product areas worldwide. This offers a continuous stream of new opportunities for the company to advance under almost any set of conditions. And, through the application of our research and development—which is now running about half-a-billion dollars a year—together with the maturing of our marketing and management strengths, we are able to take advantage of the best of these opportunities.

In addition to this internal growth, we are also continuing to streamline and upgrade the total quality of our operations by what I will call significant "dis-acquisitions," where this seems to be the more appropriate alternative.

We have already, in this respect, divested companies worth $1 billion, partly under our consent decree, and have companies worth approximately half-a-billion dollars to be considered for further disposal if, from experience, we find they will not meet our test of providing adequate future opportunities.

In short, we have continued our growth, secured our future by diversifying into new and growing markets, strengthened our financial structure, and streamlined our operations. And, we have built our dividend policy to a payout that is now one of the largest in the United States. Thus, we have put in place the main building blocks for a strong and significant stream of earnings for the future.

Turning now to the "social earnings" of the company, if I may use that phrase, I can again speak well of the company's performance.

The first and most important contribution of any company is to provide needed and useful products, goods and services at a fair price. In this process, jobs are created—in our company almost 400,000 of them—and it is our effort to make them stable jobs. This is an important social contribution.

Moreover, we were able to maintain some 98% of these jobs through the two-year recession. This was due to our management planning. Our products were competitive and advanced. As a result, these jobs were able to be sustained. By the test of world competition, we proved to be effective, and our products proved to meet real needs. So these jobs turned out to be real jobs, jobs that our employees could count on.

In the 18 years since 1959, our output, measured in annual sales per employee, has gone from $5,800 to $39,000, or seven times higher. This is perhaps a simple measure of the planning that sustained these jobs.

Turning now to our host countries worldwide, and including the United States, we have contributed in the year just past more than $1.5 billion to export trade, thereby creating jobs, contributing to the stability of those economies, and providing our host countries with needed balance-of-payments strength.

In addition, there were other social contributions we have made as a company, indicative of our sincere interest in these areas.

One example is our continued exchange of graduate students from and to the various areas of the world, which we fund and carry on through an international fellowship program, now in its fifth year, for the purpose of increasing international understanding. This remains one of the most significant programs in size and purpose sponsored by any company in the world.

In addition, there is our continued support of medical, educational, and cultural areas and youth programs, which has been maintained and even increased.

Chairman Harold S. Geneen looks over Raggedy Ann books with appropriately-costumed youngsters.

Another noteworthy area is cur growing interest in sound and wholesome children's programs. First is our program, "Big Blue Marble," which will continue this year not only in the United States but internationally, and which recently received its fourteenth major international award for excellence in children's television. Secondly, in a similar vein, are the children's stories from our Bobbs-Merrill publishing company, which were adapted into a movie on Raggedy Ann—a wholesome, family movie. This picture has received high critical praise for its quality and content and will be a delight to children for many years to come.

These and other activities of social contribution are detailed in our Annual Report for 1976, and I think you can be proud of your company's progress in this respect.

It has been fashionable for some years for large corporations to speak of these social contributions with perhaps more emphasis on them than on the earnings or dividends of their shareholders.

I would like to depart from this mode for a moment this morning and say a few things about the position of our shareholders—in fact, of all shareholders—and, as you will see, for a significant purpose.

First, in my view, they get neither the credit they deserve nor the cash. Let me explain.

As you heard this morning, we have made, on your behalf, a goodly contribution to social programs. In addition, we have made important contributions in jobs and trade to all our host countries.

We have made our earnings and our social contributions by filling product needs for consumers. But what have we done for our stockholders, whose capital we risk to accomplish all of this?

The key word is risk. Our stockholders hold no preferred position against all other interests in our company. In fact, the loans, payables, pensions, accrued wages and, of course, taxes take preference over our shareholders. Their investment ranks at the bottom, and is truly at residual risk. Yet, as I have pointed out again in the 1976 Annual Report, out of every ITT sales dollar, the stockholder gets a little more than one cent.

At the same time, out of that same one dollar of sales, 30¢ is expended for our employees' compensation, about $4.5 billion worth. An even greater amount, 58¢, went for the work of other companies' employees—making a total of 88¢ out of every sales dollar being spent to support jobs, directly and indirectly.

Of the remaining 12¢, nine cents or $1.3 billion was paid out by us in taxes to support government.

Now this leaves three cents out of the sales dollar. Two cents of that is necessary for reinvestment in the business, to keep it from getting rusty, to keep it working efficiently and to offset the continuous inflation and escalating costs that go on annually. And finally, there is only one cent—I repeat, one cent—which remains for our stockholder as his return from an ITT sales dollar.

Moreover, the average for all industry paid to their stockholders is not much different. So this is a common condition. In short, the stockholder over recent years has received considerably less for assuming this risk than a savings bank return.

This condition exists despite the fact that the industrial strength of the United States which supports our standard of living—still the highest in the world—is based upon the willingness of ordinary people to pool their savings in confidence, and to put them at risk, in order to attack the larger problems of productivity that can only be met by pooled capital.

The man or woman who takes this risk is the stockholder. And, in this respect, the stockholder fills a vital role in our economic progress and in the improvement of our living standards.

Today, besides the individual owner, there are the pension funds, savings plans, mutual funds, and the investments of unions—all of which represent large groups of people who through their savings, directly and indirectly, have become stockholders.

Today there are some 106 million such American stockholders, one-half the U.S. population and 10 million more than the entire working force of this nation. We are truly a nation of stockholders.

Yet, with the situation developing today, there will soon be tremendous new needs for capital—capital to meet the new events that are overtaking us, the energy shortages and other developments that will require, once again, the pooling of billions of dollars of stockholders' investment if we are to continue this growth and this standard of living.

The first of these needs, of course, is still to grow in order to absorb the growing work population. The second, and this is new, is the need at the same time to find the energy to continue this growth from entirely new and costly sources.

Two weeks ago, *Time* magazine published an essay which vividly protrayed a world of 1997. Some of you may have read it. It pictured a world in which the population had continued to grow even as its energy sources ran out, and all unfortunately without planning.

It pictured a world in which the automobile had disappeared; a world in which buildings were being systematically demolished in order to add their precious metals to a resource bank; a world in which heat, food and fuel were

ITT food products attract attention of shareholders of all ages.

meager and doled out only for necessities, such as to railroads to move coal, and for farm machinery to provide a minimum of food supplies. Even some of this had to be bartered for a necessary trickle of oil.

According to the report, though, the atmosphere, free from automobile exhaust, was "very clear." Also, in this world of some 5.5 billion people, conditions were desperately bad in the underdeveloped countries, with grave shortages of food and resulting shocking conditions.

Now perhaps this is an unnecessarily grim picture. It's certainly a picture of conditions we never contemplated in our lifetime. But, without planning, it is possible.

President Carter's statement on energy, no matter how we may feel about the details, is perhaps the necessary start of planning to prevent such a picture from becoming a reality. He refers to a study that shows the world running at a 7-million-barrel-a-day oil deficit by 1985—just eight years from now. So perhaps it could be closer than we think.

But this example, imaginative as it may be, shows the real problem: the necessity to grow as well as the need to do this in the face of dwindling supplies of coal and low-cost energy.

This will be a tremendously costly switch, and the question must be raised: can any society cover the cost of expensive energy and at the same time continue to improve its standard of living?

The lesson of the *Time* essay is that we must do both.

Take a simple example of what this will involve. For every 1% growth in the gross national product of our nation, we need an additional 1% supply of fuel. This ratio is surprisingly constant. We are used to a growth rate in our gross national product of 4% to 6% a year. We need to continue to grow this much just to absorb the millions of new people entering our job force. In the United States alone, some 2 million new people a year must find jobs, if we are to preserve our society and to make our accustomed improvement in standards of living.

Now, with this period ahead of looming, costly energy shortages, we face the necessity of raising not only billions of dollars for investment but also billions of dollars to cover added fuel costs. This will surely be enough to fuel high inflation pressures, unless we can count on doing the job from private savings—this to avoid the inflation of more government spending, and because these investments must now be even more efficient than in the past.

So here we are back to the stockholder, whose risk investments in the past have supported the growth of our economy because his investments were efficient, were purposeful, and were not politically hampered. The proof of this is all around us. Therefore, the stockholder will be best able to do this job—if it can be done at all, and done without reaching significant new levels of inflation in the future.

By contrast, the long history of government investment and operation, whether in railroads or post offices or many other activities worldwide, for the most part has historically failed to set any shining marks for efficiency. With accelerating costs of many kinds, particularly of energy, and the additional capital that will now be required to continue our growth and improve our living standards, this will have to be, beyond any doubt, the most efficient program we have ever undertaken.

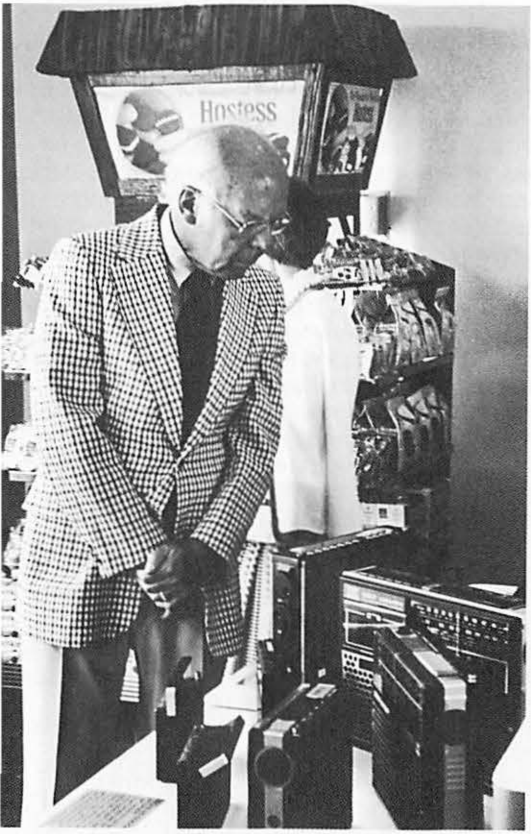
This is, finally, where we will need our stockholders who will be willing to invest at risk.

You know, in a much broader sense, for the past century United States industry has led in the development not only of our country, but of the entire world. The entrepreneurial spirit, the high productivity and the risk-taking of U.S. investors have indirectly dramatically improved the standards of living of billions of people worldwide through our leadership and corresponding trade. We often forget the worldwide contributions that Americans have made in this respect.

Recently, an editor of *The Economist*, the English journalist Norman Macrae, highlighted this historic fact. He expressed a fear that the United States is now allowing these same factors—the entrepreneurial spirit, the high productivity, and the willingness to reward risk—to dissipate.

He called this "the new American dilemma." His key question is: "Will America continue to believe in economic growth?" And he states: "Half the world will remain hungry if it does not."

So the job ahead of us may not be limited to just our own problems, in the tight-knit world in which we now live. Realistically, we are going to need tremendous amounts of private capital to do this job.



nother shareholder tunes in to ITT-manufactured ıdio sets on exhibit.

Now, if I may, in the face of these thoughts nd these needs, let me take you back to that arely-more-than one cent out of every sales ollar that is the incentive to our stockholder— ıe stockholder who puts up the risk capital and 'ho, for taking this risk, has received less than ıe 5% return he could get from a secure, overnment-guaranteed savings account. That ; why we hear talk of capital shortages.

I think it is time to begin to worry about our :ockholder, and for once to see that he gets ɔme of the justice long overdue him, and which eretofore has been reserved for the concerns f unions, of welfare, of bureaucracy and other laimants—particularly since he is earning it for all of them. He can do much to constructively solve these problems for the future.

And the stockholder's deserved recognition should be extended to those companies that his support makes possible, companies whose efficient performance will be needed to do this job.

What can we do to rebalance the fairness of these equities of stockholders? First and foremost on the list is the tax burden the stockholder bears. Not only are his company's earnings taxed before he sees his dividends, they are then taxed again and at the highest individual rate.

A holder of a loan pays only one tax on his interest; the holder of a savings account pays one tax—and these are not at a high risk. The stockholder, whose investment is at risk, pays double and at the highest rate.

This double taxation on dividends, therefore, should be remedied by allowing the individual stockholder credit for the tax already paid by his corporation. This alone would provide a tremendous lift for the stockholder and for the formation of capital, and is equally merited when compared with tax-free bonds, or any other privileged investment involving far less risk.

The United States, by the way, is one of the few industrialized countries in the world that have not already taken some remedial action to equalize the burden of taxation on the stockholder. And, even within the United States itself, he is the only individual who is taxed twice on his earnings.

Then, equally important to solve this problem, government and business—stockholders' businesses—must work better together. Solutions can be found for all our pressing problems, for the benefit of all. Harassment and bureaucratic decision must be viewed once more from the standpoint of the necessity to get things going, rather than to argue about details.

Nothing is perfect, including business and government. But the willingness to improve is inherent in private business because, if it does not improve in a competitive environment, it fails.

This is why I have put so much emphasis today on the need for efficient growth, and on the proven performance of private enterprise, and on the great bulwark of risk-taking stockholders who have always supported it. But it must start with the future, providing a more adequate incentive to "risk stockholders," to make possible these necessary solutions.

Now, as I stand at the close of 18 years as your chief executive, I can say that I am proud of the performance of our company.

We have, in this period of time, done a job which will be an outstanding foundation for the future. We have accomplished the greatest growth of dividends of any of the largest dividend-payout companies and have made the greatest shift in the security of those dividends to domestically-supported income from the riskier areas of the world. In the same time frame, we have built a substantial financial base, a substantial product and market base, and an outstanding management. All of this should continue to grow indefinitely into the future.

That is the job done and, I must say, it's never been dull.

I am concerned, though, that the facts of our business environment, regardless of how well we may have performed, have made it difficult in my opinion to adequately reward our stockholders. Hence my comments today, sinc[e] recognition of this fact has long been on my mind. I, in turn, have appreciated your loyalty and support.

Finally, I would like to say a word on our management. None of this would have been possible were it not for the fine management organization that has been built up—within the capabilities of which the future of our company lies, and in which my own full confidence lies.

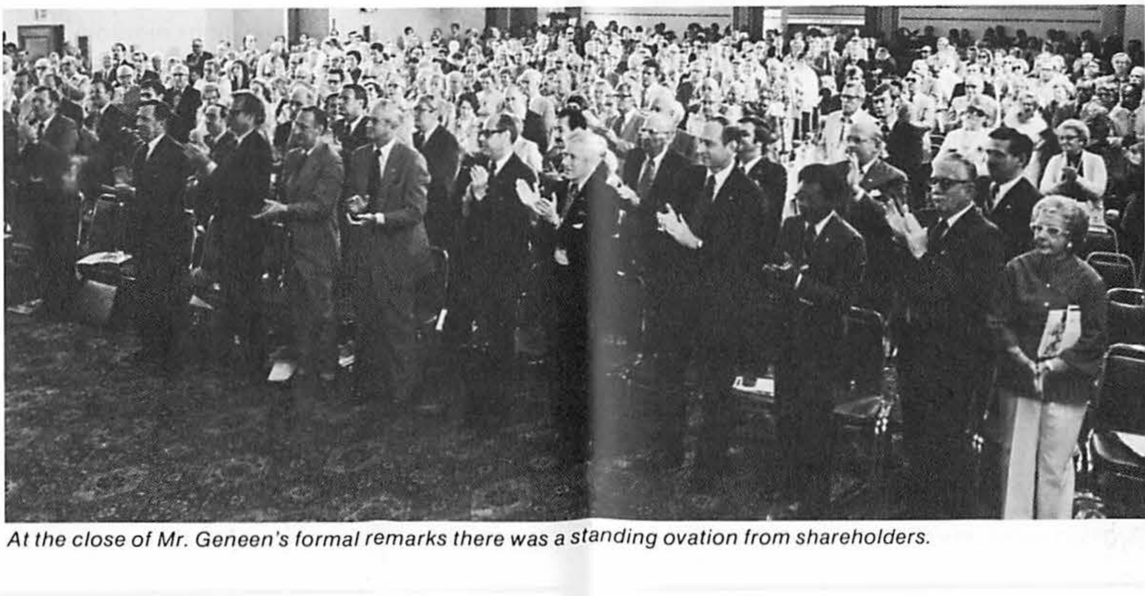
They're young, but experienced and tested. The performance of this company over the last 18 years would have been a test for any company or any management. I think they have met this test magnificently.

You may place great confidence in their futur[e] exercise of these responsibilities.

In particular, I have every confidence in Mr. Lyman Hamilton, who will take over the reins as chief executive on next January 1, and in the entire management support he will receive, including my own.

I appreciate this opportunity to thank the shareholders for their support during this period, and I look with great satisfaction and confidence on what the company is doing and will continue to accomplish in the future.

Thank you.



At the close of Mr. Geneen's formal remarks there was a standing ovation from shareholders.

)iscussion

n addition to specific proposals voted on by hareholders, a number of other subjects were liscussed during the general question and nswer period following Mr. Geneen's address. 'opics ranged from executive compensation nd internal and external auditing practices to TT's socially responsive role in South Africa.

The Rev. Michael Crosby, OFM Cap., of Ailwaukee, asked if John McCone's being an TT director and a consultant for the CIA epresented a conflict of interest. Mr. Geneen eplied that Mr. McCone was no longer a onsultant to the CIA.

Rev. Michael Crosby, Milwaukee

Ms. Laura Healey, of Winter Garden, Florida, nquired whether or not the Board was onsidering qualified women and members of ninority groups as directors. Mr. Geneen eplied that ITT "does not select directors, or ny employees or officers, on the basis of sex, ace, age, religion or national origin. We pick hem on the basis of their ability to contribute to he corporation's needs." He assured hareholders that the company is "actively onsidering" this matter.

In response to an inquiry from Sister Barbara enkins, representing the Sisters of Charity of 3t. Elizabeth, Convent Station, New Jersey, on ow the directors voted on stockholder propos- ls 9 and 10, the chairman reported that the 3oard had voted unanimously against both.

Sister Barbara Jenkins, Convent Station, N.J.

During the discussion period, Lewis D. Gilbert, of New York, asked how The Hartford as a major owner of common stocks through its investment portfolio had cast its votes on management and shareholder proposals. Herbert P. Schoen, chairman and chief executive of The Hartford and an ITT director, responded that "The Hartford has voted against four management proposals this year," and assured Mr. Gilbert that shareholder proposals will also continue to receive careful consideration.

Mr. Gilbert raised two questions regarding audit policies as they relate to identifying sensitive payments and contributions. Brian Peoples, a partner of Arthur Andersen, indicated that his firm's audit procedures were "very thorough," and that "the firm's policy would absolutely prohibit participation by it in any sort of a conduit for improper payments. We audit substantially all of ITT's reporting units, and it is probably one of the most thorough audit scopes of any large corporation."

On internal audit policies, Herbert C. Knortz, ITT executive vice president and comptroller, replied that the Board's written policy statement had been distributed throughout the worldwide ITT System, including the entire financial organization of some 23,000 employees, and it calls for strict adherence to sound business practices consistent with the highest business, legal and ethical considerations. He added that

"ITT's disciplined, sophisticated internal audit group expends about 800,000 hours a year" in internal audit investigations. Together with 400,000 audit hours conducted by the Arthur Andersen staff, Mr. Knortz asserted, this "approach to financial control throughout the world gives us good assurance and certainly demonstrates our intent to ensure that only authorized expenditures will be made."

Mr. Geneen added that the special report on this subject in the Annual Report for 1975 reflected the results of a thorough review made at the Board's request, conducted by outside legal counsel as well as company attorneys. He noted that "out of $50 billion worth of business, only some $64,000 in political contributions were found, $60,000 of which were perfectly legal contributions in places where they were made. Another $3.8 million was of a nature not necessarily illegal but of the type we would not do today ... since we have reaffirmed our policies and disseminated them widely."

Timothy Smith, director of the Interfaith Center on Corporate Responsibility based in New York, noted that he thought "the policy of ITT prohibiting political contributions overseas is an excellent one that other companies should be urged to follow." In reference to Chile, he asked if the auditors had identified the $350,000 sum on the books which Mr. Geneen mentioned at the 1976 annual meeting.

Timothy Smith, New York

Rev. A. Stephen Ginn, Jacksonville, Florida

Howard Aibel, ITT senior vice president and general counsel, replied: "The transactions were recorded in the books, and were readily identifiable when we secured additional information. They had not been brought to our attention earlier because of scant documentatio[n]

In response to the introduction of proposals 9 and 10 jointly by Rev. Crosby and Rev. A. Stephen Ginn, of Jacksonville, Florida, representing the Christian Church (Disciples of Christ), Mr. Geneen stated that much of the rationale underlying the proposals was based on "pure hearsay." He stated that "there are appropriate agencies of the government that are reviewing these matters, and that's the proper place to decide them." He reaffirmed his comment made at the annual meeting in 1976 th[at] "there was absolutely nothing illegal performed by the company under either Chilean law or U.S. law," and that the question of disclosure was adequately covered at the 1976 annual meeting. Noting that this subject has been brought up at annual meetings for several years in a row, he said that ITT had also made the facts available in its 1976 Post-Meeting Report, and had previousl[y] mailed to stockholders at their request the origin[al] report of the U.S. Senate Foreign Relations Subcommittee on Multinational Corporations.

Sister Ann Mrugala of the Dominican Sisters, of Adrian, Michigan, asked if there were any pending lawsuits related to ITT's activities in Chile. Mr. Aibel informed her that, as described

Southern California Edison Company

2244 Walnut Grove Avenue

Rosemead, California 91770

Report of Annual Shareholders' Meeting and First Quarter 1972

April 20, 1972

Power Plant Ecology

Southern California Edison Company

This Report of the Annual Meeting of Shareholders and First Quarter has been prepared for the information of the Company's Shareholders and is not intended to induce, or to be used in connection with, any sale or purchase of securities. Under no circumstances is this report or any part of its contents to be considered a prospectus, or as an offer to sell, or the solicitation of an offer to buy, any securities.

Summary of Proceedings

The 76th Annual Meeting of Shareholders was convened by Mr. Jack K. Horton, Chairman of the Board and Chief Executive Officer, at 10:00 a.m., April 20, 1972, in the Edison Building, Rosemead. Approximately 375 persons were present.

Summary of Business Transactions

The nominees listed in the proxy statement were elected to the Board of Directors. The amendments to the Articles of Incorporation were adopted, and the appointment of Arthur Andersen & Co. to conduct the annual examination of the Company's financial statements was ratified.

Mr. Horton acknowledged the presence of members of the Company-sponsored chapters of Junior Achievement.

President's Report

MR. McDANIEL: Thank you, Mr. Chairman. Good morning, ladies and gentlemen.

Today, I would like to bring you up to date on recent events which I believe will have a bearing on the future of Southern California Edison. I will assume you have already read the Annual Report mailed in early March. If you wish an additional copy, it will be available at the exit as you leave, as will copies of the recently published 1971 Financial and Statistical Report.

Environmental Pressures

At the outset I would like to comment on the growing energy crisis in the United States. Although I am reluctant to belabor the point to which we devoted so much attention in our Annual Report, I believe I must emphasize the fact that because of the combination of environmental overkill and declining fuel resources we are confronted with a serious situation.

The disastrous consequences resulting from the nationwide strike of British coal miners illustrated the tragedy that can befall an industrialized nation when it is deprived of electric power. That crisis served to focus increased attention on this country's fuel problems and upon the need for a well-reasoned balance between the needs for adequate energy and the need to preserve the environment.

However, despite the growing recognition of the importance of energy to our economy, and the growing awareness of the importance of ample electrical energy for the recycling, clean-up and purification necessary to control our environment, the Company continues to face opposition to proposed siting of new power generation or transmission facilities. Such difficulties inevitably produce delays, which just as inevitably increase the potential for power shortages or the necessity to ration available power.

Our planned expansion at Huntington Beach has been postponed as a result of a decision of the California Supreme Court which upheld the jurisdiction of the Orange County Air Pollution Control District to deny the issuance of a construction permit. The matter is now being considered by the Orange County Superior Court.

We have also encountered delays of up to 18 months for our proposed addition of two nuclear units at San Onofre.

Increasingly we hear references to the development of geothermal resources as providing a virtually limitless source of pollution-free power. Unfortunately, we have not found this to be true. Although we are continuing our exploration efforts, drilling to date in areas which were designated as "known geothermal sources" has not produced commercial quantities of steam. In addition, and somewhat ironically, even these exploration efforts encountered opposition from other environmental groups.

While continuing various research activities directed toward controlling the emissions from our conventional fossil fuel generating stations, we continue to believe that the most viable source of generation for the decades of the seventies and the eighties is nuclear power. There are no products of combustion released to the atmosphere by nuclear generation, and our experiences at our San Onofre Nuclear Station coupled with the results of our continuous monitoring activity have shown no significant changes in the air, sea or land surrounding the plant. Our operation has been demonstrated to have been safe and free from any measurable radiation emission, and yet there is opposition to the expansion of the plant.

People's Lobby Initiative

We are in a period of time when our lead times for construction have been over-extended and our reserve capacity alone is not adequate to provide for growth in electrical demand. Further delays in authorization of construction must be minimized.

Accordingly, we are particularly concerned over Proposition 9 on the California ballot this June.

This proposal, more commonly known as the People's Lobby Initiative or the Clean Environment Act, professes to help clean up the environment. Its threat lies in the fact that it may be taken at face value. It is, however, an ill-conceived approach that could lead to greater destruction, rather than improvement, of our environment.

Among other proposals, the proposition would ban construction of nuclear power plants for five years. By prohibiting the generation of clean nuclear energy it would force greater reliance on fossil fuel fired plants which would increase air pollution, even assuming such plants could be sited and built and the necessary low sulphur fuels could be obtained. Further provisions establish procedures which could curtail or shut down existing fossil fuel generating plants for extended periods of time. Passage of Proposition 9 clearly could move us one giant step closer to an energy crisis.

Other provisions relating to limitations on diesel fuel for trucks, trains and buses, and the banning of a long list of pesticides, could virtually bring the economy of California to a halt. Despite full agreement with the goal of controlling pollution, the proposals of Proposition 9 must be viewed as an environmental overkill which could have a devastating effect not only on our industry, but on transportation, on agriculture, on construction, and ultimately on every individual resident in California.

Fuel Costs and Supply

As this controversy for plant siting continues, world-wide shortages of, and competition for, relatively clean fossil fuels are forcing prices up, especially for low sulphur oil. It is becoming more and more difficult to get enough clean fuel to meet the stringent air pollution control standards for our conventional steam plants, even at the constantly escalating prices demanded for this commodity. For example, in January of 1970, our fuel oil cost $2.22 per barrel; it cost $3.61 in the same month of 1971, and $4.29 per barrel this last January. A price of approximately $5.25 is forecast for the end of this year, about two and one-half times the January, 1970, price.

To put these and other fuel costs in perspective, our total fuel bill amounts to over one-half million dollars per day, and represents about 22 percent of the costs covered by the rates customers pay for their electrical energy. Because of the developing nationwide natural gas shortage, the volume of less expensive gas fuel to our Company has declined substantially, and we are an interruptible customer of the local gas company. While natural gas represented nearly 80 percent of the fuel used in Edison's fossil-fired generating stations in Southern California in 1970, this figure declined to 64 percent last year and is expected to slip to 58 percent this year—and drop to below 25 percent by 1975.

Fuel Adjustment Clause

Recognizing that fuel is a major expense and largely uncontrollable, the Company on November 5, 1971, applied to the California Public Utilities Commission for authority to include a fuel adjustment clause in our retail rate schedules.

Such a clause would permit periodic increases or decreases of electric rates to reflect the upward or downward fluctuations in the cost of fossil fuel.

On March 22, the Commission granted approval both for a fuel adjustment clause and for a $14.3 million initial annual increase. The initial increase is scheduled to become effective May 1 and is expected to provide added revenues in 1972 estimated at $9 million.

Under the fuel adjustment clause, proceedings for rate revisions are triggered whenever fossil fuel costs change one thousandth of a cent per kilowatt hour which at current sales levels approximates a change of $460,000 in revenues to the Company. The increases or decreases, however, will not be automatic and cannot be applied more often than every three months. Edison must furnish details in support of any rate change request to the Commission staff for review prior to the ultimate decision by the Commission itself. Price adjustments of this character are believed to be within the price commission guidelines for utilities since they will clearly be "cost justified" and would not "reflect inflationary expectations."

First Quarter Earnings

Let me turn to a discussion of our first quarter earnings. The fuel situation which I have described has been primarily responsible for the drop in earnings for last year and the first quarter of 1972, although increased interest costs and lowered allowance for funds during construction were also factors. During the first three months of this year, primary earnings were 48¢ per share on a greater number of shares outstanding compared with 62¢ in 1971. Total operating revenues were $224.6 million, up 20.0 percent compared to those during the comparable period of 1971, reflecting in part the general rate increase authorized last June by the California Public Utilities Commission.

On a twelve-months ended, March-to-March basis, primary earnings per share declined from $2.62 to $2.32 on a greater number of shares outstanding. This compares with the $2.46 reported at year-end 1971. Total kilowatt hour sales during the first quarter of this year increased 8.8 percent over the year-ago period. Of the major categories, residential sales increased 6.2 percent, commercial sales improved 9.2 percent, and sales to industrial customers were up only 2.0 percent.

While, as a matter of policy, we do not forecast earnings for the year, we are concerned about published earnings estimates by others which we have observed ranging up to $2.90

per share for 1972. We believe earnings of this magnitude simply are not attainable this year. However, we are hopeful that, with the benefits derived from the fuel adjustment clause and stringent internal economies, the decline in earnings will be reversed in 1972.

Additional Rate Case Matters and Cost Controls

In another rate case matter, Company earnings in 1972 will receive the full, though somewhat modest, effect of last November's Federal Power Commission action authorizing increased resale customer rates by about $4.0 million annually, although the monies collected are subject to a final determination by the F.P.C. as to whether, or to what extent, such monies must be refunded to resale customers.

Although the downward pressure on earnings will be somewhat alleviated by the fuel adjustment clause and resale rate increase, they are not sufficient of themselves to permit the Company to earn an adequate rate of return. For this year, 1972, rate of return is expected to be significantly below 7.9 percent, which the California Commission authorized last June using a projected 1972 level of sales, expenses and rate base. An increase is essential if we are to be able to attract the capital required for our continuing expansion program. Therefore, the Company contemplates filing for additional rate relief during the third quarter of this year.

However, we are not relying on rate relief alone to overcome the decline in earnings. While major cost elements such as fuel and cost of money are largely uncontrollable, we are undertaking major cost control programs throughout the Company with particular emphasis placed upon manpower requirements.

We are also undertaking major revisions of our computer-based accounting information systems to improve the quality of the cost control data provided to our supervisory personnel.

Employment Practices

While on the subject of manpower, I would like to review the Company's employment activities. We have long had a policy of non-discrimination in matters of race, color, creed, age or sex as related to our employment or personnel practices. In recent years we have instituted numerous action programs to increase the emphasis on the hiring, training and promotion of members of minority races.

Since 1964, these programs have resulted in an increase of 1,037 in the total number of minority employees. In December of 1968, the Company employed 622 members of minority groups, which represented slightly more than 5½ percent of the work force. Three years later, by December of 1971, the Company had 1,324 minority employees which represented over 10 percent of the work force. During this three-year period when the net Company work force increased by 15.2 percent, the net minority work force increased by 113 percent. In 1971, 29 percent of all new employees hired were from minority groups. This represents 512 minority persons of a total of 1,751 persons hired during 1971. This percentage is even greater for the twelve months ended March 31, 1972.

Although we believe we have made excellent progress in these areas in recent years, we are currently again revising upward our affirmative action goals with a view of increasing the number of minority and female employees at all job levels within the Company.

To meet these goals, and concurrently to maintain the high standards of performance which we have traditionally expected and received from our employees, will require major effort on the part of all Company managers.

To this end we have strengthened many existing programs and devised new programs which will enhance our ability to recruit qualified minority and female personnel in a restricted labor market. Concurrently we are concentrating on reducing turnover among minority and female employees, for whom turnover rates are presently significantly in excess of our average employee turnover. Additionally, various programs have been instituted and will be expanded to accelerate the training and development of both minority employees and women so they may be promoted or advanced to higher levels of responsibility.

Construction and Financing

I would like now to turn briefly to the areas of construction and financing. In spite of the delays to which I previously referred in siting of some major generating facilities, construction expenditures continue, including substation beautification and aesthetic improvements as well as other large capital projects.

Additional plans for construction include a proposed new generating station at Fry Mountain in the Mojave Desert area which could become operational by 1976 or 1977 if regulatory approvals are obtained promptly. Several smaller combined-cycle units are also planned to be located at two existing sites. These units are designed to exhaust the waste heat from gas turbine generators into waste heat boilers which will then produce steam for conventional steam turbine generators.

For the future, that is, the 1980's, we are searching for additional nuclear plant sites in the eastern California desert. Studies relating to the availability of land and water are currently underway.

Financing will be sought this year with a preferred stock issue scheduled for public offering on May 3, followed later in the year with a debt issue. We do not expect to have a common stock issue this year.

Incidentally, as you know, the dividend rate on common stock was increased in January from $1.50 to the new annual rate of $1.56 per share, an increase of 4 percent, which is within the Administration's guidelines relating to dividend increases.

Major Company Goals

In closing, I would like to assure you that the management of this Company is keenly aware of its responsibilities both to customers and to shareholders. We have two major goals which I believe are common throughout the electric utility industry. First, we must convince the public of the need for a compatible balance between the continued demand for electric energy and environmental considerations. The generation of electricity without adverse environmental impact is a desirable goal but it must be attained in an orderly manner, and without disruption of the economy.

Secondly, we must take whatever steps are required to improve and to maintain the quality of our earnings. Necessary rate relief must be obtained, as required and on a timely basis, if we are successfully to finance needed expansion, including the significant, but non-revenue producing, investment required for environmental preservation.

Assuming we can gain such understanding, both on the part of the public and the regulatory authorities, we have great confidence in the ability of our organization to meet these goals.

Thank you.

Summary of Certain Questions and Answers at the Meeting

SHAREHOLDER: How much are the directors' fees? Have they been increased since 1967 when I last asked this question? And what has been the attendance at monthly meetings?

MR. HORTON: With respect to the fees, my recollection is that they have been increased once during that period. Outside directors, who are not officers of the Company, receive an allowance of $150 per month. They receive that whether they attend a meeting or not. If they attend a meeting, they receive an additional fee of $200.

As for attendance, out of 14 meetings held in 1971, the average attendance was 79 percent, which is the highest percentage of attendance we have had during the past five years. I think if you will note the caliber of men that are on this Board of Directors, it's a high batting average.

SHAREHOLDER: Some banks are providing stockholders with plans to have their dividends reinvested in more stock. Do you have plans to do this?

MR. HORTON: We have no such plans at the moment. It is a matter that we have investigated from time to time, and we will be glad to consider it again.

SHAREHOLDER: Does the Company sell electricity to San Diego Gas & Electric Company?

MR. HORTON: We do not as such. We have contracts with both San Diego and Pacific Gas & Electric Company that arise out of our joint membership in what is known as the California Power Pool. On an emergency basis, we will sell and exchange power with each of those companies. And, of course, we share generation with San Diego at our jointly owned San Onofre Nuclear Generating Station, but power delivered to San Diego is their share of production from that plant, and not a sale.

SHAREHOLDER: I would like to thank you personally for taking care of my question last year dealing with the lack of information in the 1970 Annual Report regarding the number of shareholders. I have been advised that you will now report the number of shareholders both in the Annual Report and the Financial and Statistical Report, and I thank you for listening.

SHAREHOLDER: I think the comments made by Mr. Horton and Mr. McDaniel in the Annual Report, Pages 1 to 10, are excellent. It was an excellent dissertation on the environment, and I think every adult in Southern California should read the last three paragraphs. However, I think Southern California Edison may be trying to appease the environmentalists too much. I think we should say to the environmentalists, "If we go back to wood stoves, kerosene lamps, coal oil lamps, and candles, what can be done about pollution then?"

SHAREHOLDER: I would like to know the difference in fuel cost for nuclear generation compared to the $5 per barrel to be paid for fuel oil in the near future. Is nuclear fuel going up as much as fuel oil?

MR. HORTON: The fuel component in nuclear generation is much less than in our conventional plants, particularly where we have to burn this $5 oil. The problem is that we haven't been able to build as much nuclear capacity as we would like. We must serve the load with our existing plants, and so we are forced to burn whatever fuel is available which meets the requirements of the air pollution control districts — and that means more low sulphur oil.

We are going to emphasize nuclear plants to the extent that we can from here on out and fewer oil-and-gas fueled plants.

SHAREHOLDER: Does the Company fund any amount for research and development programs for advanced methods in generation and distribution of its power?

MR. HORTON: Yes, we are engaged in a rather broad research program. We have greatly expanded our research commitments this year and have budgeted something near $15 million as compared to $4 million which was spent last year. Support is being given to researching alternative methods of generation including magnetohydrodynamics, the nuclear breeder reactor, geothermal steam exploration, as well as the electric car, and the undergrounding of high voltage transmission lines. Along with three utilities in Arizona, we are also engaged in a long-range research project with respect to solar power generation.

In regard to the research on distribution, that is done jointly with others in our industry through the Electric Research Council, which is a national research agency to which we contribute. They are constantly approving projects of this kind and many others, looking toward the future.

SHAREHOLDER: I have been asked by people who are environmentalists, "If your nuclear plant is so safe, why is it so difficult to get insurance?"

MR. HORTON: The answer to that question is probably twofold: In the first place, the nuclear power industry more or less started from scratch approximately ten years ago. Insurance companies had no experience with the evaluation of risks in this new field, and until such experience is established insurance companies always proceed with caution.

As far as public liability is concerned, that started out at our nuclear station in the amount of $82 million and it is now up to $95 million of coverage. These are coverages that we were able to obtain in the private industry field. Under the Atomic Energy Commission Indemnity Agreement with respect to liability coverage, another $465 million is available which provides a total of $560 million.

As to property coverage, we originally started out with $82 million of insurance on our nuclear station, and that has now been raised to $90 million as of April of this year. And I would add that within the last year, because of our concern about the extent of property coverage and rates, many of the utility companies in the country, including ours, have taken a leadership position in establishing our own nuclear insurance company based in Bermuda. We are hopeful that we will be able, through that mechanism, to obtain greater coverage for ourselves at lesser cost.

SHAREHOLDER: I didn't see any reference in the Annual Report to your High Sierra Camp which you have developed. Would you comment on this?

MR. HORTON: Our camp in the High Sierra has not only been very successfully received by those who have been using it the past few years, but you may be interested to know that we have plans underway to enlarge those recreation facilities which are available to the general public at a very reasonable rate.

I think that it is probably one of the best received programs of that kind that the Company has developed over the years, and we are delighted with it.

SHAREHOLDER: As a shareholder in Nevada Power, as well as Southern California Edison, and as a person who has a sister and brother-in-law who live in Riviera, Arizona, I want to tell you that the people who live nearby are getting restless about the Mohave generating plant.

MR. HORTON: We recognize that we have had difficulties at Mohave, and we know something about the attitude of the residents over there because our people running the plant live there. When we built that plant, it was designed to meet the strongest restrictions and specifications with respect to air pollution control that were then in existence. The equipment now takes out in excess of 98% of the emissions that would otherwise end up in the atmosphere.

We negotiated with the Department of the Interior, which was then the agency that had sole jurisdiction over this matter, and agreed to put in the most modern pollution control equipment that was then technologically available, in the form of electrostatic precipitators. Subsequently, after the plant was under construction and virtually complete, Clark County in Nevada adopted its own pollution control district and established very stringent requirements.

The present status is that we are operating under a variance granted in February of this year by the Clark County District Board of Health. The variance will terminate in June of this year, at which time it will require a renewal; but the hearing board has been working very closely with us — and I think in a very cooperative way — and has indicated that on proper application, we may have the variance extended through December of this year.

In the meantime, the Company will submit a compliance plan to the Board later this year. We are undertaking all kinds of tests and research in that plant in an effort to reduce emissions. But I have to tell you that I visited it within the last month or so—we took members of the California Public Utilities Commission over there to look at it—and I don't know what the people there are complaining about, if that was a typical day. I am sure there are days that are worse, but at that time there was really no significant output of emissions that should be troublesome to anyone.

I think what we are really caught up in here is a tendency to overreaction by the environmentalists. Of course, any plant of this kind has great visibility because of its size—there is nothing else around it—and we recognize that we have problems. I am sure we are going to be able to work them out.

SHAREHOLDER: The emission doesn't seem too great to me, that's true; but I notice you say in your Annual Report that there are bugs in the plant. Is it going to be profitable eventually?

MR. HORTON: It has not been as profitable to date as we had hoped, and the reason is that the plant is fairly new. We are going through what we call a "de-bugging" process. We have not had the load factor on the plant that was projected and, thus, we have had to substitute other generation resources to meet the load that we would normally supply from that plant which has a very low fuel cost. We have had to replace Mohave's generation with that using high-priced low sulphur oil, and it probably cost us $20 million last year. These things are being worked out, and we have made great strides in improving the capacity factor of that plant this year, month after month. Our top people are giving it almost daily attention; and I can tell you that I am personally interested in that problem. It is getting the attention that it deserves, and we are going to get that plant onto a profitable basis.

SHAREHOLDER: I am a retired employee of the Company, and a stockholder since 1924. As Mr. McDaniel has said, there has been an astronomical rise in the cost of fuel oil and other fossil fuels. Lately in the news, there was a report that the oil companies are asking the Price Board for a raise in the prices of all of their products. I am wondering if the Company is actively interested in this.

MR. HORTON: We have examined that carefully, and where we have grounds for protest, we would exercise them. Our problem is that in order to be assured of a long-term supply of oil, we have made long-term contracts. Most of the increases in the cost of oil have been due to increases imposed by foreign countries in which the international oil companies operate.

In our case, we are concerned with Indonesia. In our contract, in order to obtain a long-term supply, we had to agree: (1) to start out with a basic price in the range of $2 and (2) that whenever the foreign country increased its royalty or "tax take," as they call it, it had to be passed on to us by contract. That was a risk that the oil companies weren't willing to take; and I can understand that. Conversely, it is a risk we had to take in order to be assured of a supply.

So, for that reason, thus far we have had no basis for protest before the Price Board for the kind of product we buy.

SHAREHOLDER: My husband and I have been stockholders since 1950. Several times over the period, common stock has been issued and we were the last to know. Now, you say there isn't going to be any issued at the present time but preferred stock will be issued. The stockholders are the last ones to know that the stock is available unless they have an alert stock broker who will notify them, which doesn't always happen. Should that be?

MR. HORTON: We are notifying all of our shareholders by letter of our preferred stock offering, as we did with our most recent preferred stock offering in 1970, partially because I received a very thoughtful letter from a shareholder after one of our prior issues saying he would like to have bought some, but he didn't know about it in time.

It may be that we ought to do the same the next time we have a common stock offering. We will give your comment serious consideration.

There being no further comments or questions by the attending shareholders, the meeting was adjourned.

Comparative Earnings Statement *(First Quarter* and 12 Months Ended)

(In Thousands of Dollars)

	3 Months Ended Mar. 31 1972	3 Months Ended Mar. 31 1971	12 Months Ended Mar. 31 1972	12 Months Ended Mar. 31 1971
OPERATING REVENUES:				
Residential	$89,992	$ 75,361	$319,664	$275,883
Agricultural	2,942	2,251	20,238	18,819
Commercial	54,866	45,841	211,543	182,838
Industrial	42,380	36,640	165,420	149,087
Public authorities	22,696	18,449	79,674	68,070
Sales for resale	9,669	6,765	35,137	28,726
Other	2,034	1,873	8,157	6,803
Total operating revenues — electric	224,579	187,180	839,833	730,226
OPERATING EXPENSES AND TAXES:				
Fuel	58,360	35,863	187,387	133,649
Purchased and interchange power	4,960	7,035	26,016	19,409
Other operation	40,608	33,103	149,749	132,886
Total operation	103,928	76,001	363,152	285,944
Maintenance	16,355	13,274	63,073	56,149
Provision for depreciation	25,754	22,959	97,194	88,387
Taxes —				
Federal and state income	8,565	8,336	38,770	33,069
Other (principally property)	22,553	21,964	85,164	82,709
Total operating expenses and taxes — electric	177,155	142,534	647,353	546,258
OPERATING INCOME — ELECTRIC	47,424	44,646	192,480	183,968
Allowance for funds used during construction	898	5,031	11,725	17,487
Other — net	313	779	3,579	3,084
Total income before interest charges	48,635	50,456	207,784	204,539
Interest charges	22,322	19,869	84,761	78,152
NET INCOME	26,313	30,587	123,023	126,387
Dividends on cumulative preferred and preference stock	5,387	5,387	21,547	19,134
Balance	20,926	25,200	101,476	107,253
Dividends on common and participating original preferred stock	17,146	15,361	67,258	61,445
Earnings retained for use in business	$ 3,780	$ 9,839	$ 34,218	$ 45,808
Common and original preferred shares outstanding — weighted average basis	43,964,833	40,962,950	43,733,930	40,962,950
Earned per share on common and participating original preferred stock —				
Primary (based on weighted average shares outstanding)	$ .48	$ .62	$2.32	$2.62
Fully diluted (assuming conversion of convertible securities)	$ .47	$ .59	$2.25	$2.52

(This information is not given in connection with any sale or offer to sell, or purchase or offer to purchase any security.)